

ing — and, yes, even offending — modern-day sensibilities.

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books in REVIEW

THOMAS STORCK

MAN OBJECTIFIED IN THE RISKY WORLD OF COMMERCE

Freaks of Fortune: The Emerging World of Capitalism and Risk in America. By Jonathan Levy. *Harvard University Press.* 414 pages. \$35.

Freaks of Fortune is a book about the quantification and financialization of risk in nineteenth-century America. It focuses on such diverse topics as the spread of the idea that one can arrive at a more or less

Thomas Storck has written widely on Catholic social teaching, Catholic culture, and related topics. His most recent book is *Christendom and the West: Essays on Culture, Society and History*.

exact monetary estimate of risk; the origins of precise actuarial calculations of life expectancy; the Freedman's Bank, an institution established for ex-slaves after the Civil War; the farm-mortgage crisis in the last third of the century; the rise and fall of fraternal societies as alternatives to life-insurance companies; the controversy over futures trading; and the emergence of giant corporations toward the end of the century, and the efforts of some who were connected with them to mitigate the risks inherent in the economic uncertainties of capitalism. Although most of these topics might seem arcane, they have considerable bearing on questions that affect society, both now and into the future.

Risk is, of course, insepa-

rable from human life. Accidents happen, and the metaphor of the wheel of fortune is an old one. But attempts to quantify and thus put a price tag on risk were restricted for centuries to the specialized field of maritime insurance, in which sea voyages had been insured since the Middle Ages. The spread of insurance outside of this narrow sphere was one of the momentous, if largely forgotten, trends of the nineteenth century.

The increasing use of insurance outside of maritime trade was emblematic of a shift in Western society from being a *status* society to becoming a *contract* society. A passage from Hilaire Belloc's *The Crisis of Civilization* (1937) helps elucidate the distinction: "First of all, what is 'status'? The meaning of the word is

'standing.' The status of a man is his established condition. In our original Christian society — that society which reached its flower in the Middle Ages — status was omnipresent.... A man's position was known, the duties and burdens attaching to it were known, as also the advantages, and they were in a large measure fixed; for the spiritual force and motive underlying the whole business was an appetite for security.... Status arose from the strong, instinctive demand of a Catholic society for stable social relations between men, and, what was more important, for a stable sufficiency of livelihood attaching to the great mass of families in the community. With the loss of religion, status has almost wholly disappeared today, and nowhere more than in the most advanced communities."

Status, of course, can become burdensome, even unjust, as in the extreme case of slavery. But it need be neither unjust nor particularly oppressive, and even in its chief time of flourishing it often allowed room for a determined individual to seek a new social situation while granting to most men the security necessary both to provide such measure of happiness as can be hoped for in this world and, most importantly, go about saving our souls.

The opposite of status is contract, a situation in which nothing is stable or certain, except what can be tied down by some contractual relation, some free agreement (in theory) between two or more parties. In the case of contractual relations, there are no stable or customary rights and duties, only those rights and duties that are specified. A work-

er, for example, cannot expect a living wage as a matter of right based on his status as a worker or even as a human being, but only such a wage as he can negotiate with his employer.

Across most of the Western world in the eighteenth and nineteenth centuries, society was changing from a status base to a contract base. Levy cites an 1800 Pennsylvania case in which the owners of a ship were required to pay the wages of an entire voyage to the heirs of a sailor who had died before the voyage's end. As a harbinger of the dawning of the age of personal assumption of risk, an 1842 decision by the Massachusetts Supreme Court denied a railway worker compensation for an accident caused by another worker's negligence. The court ruled that each individual worker was responsible for "the risks and perils incident to his situation." The railway corporation was not a community with shared goals and reciprocal rights and duties; from now on, it was essentially every man for himself.

The personal assumption of risk has what Levy calls an upside and a downside. In a status society, a person is protected from much of the downside of risk, but his ability to pursue the upside is limited and often hindered. If someone is determined to pursue opportunities, he must often relinquish his protected place in the status hierarchy. He must risk the downside in order to chase the upside.

In nineteenth-century America, this new "freedom to starve" found varying responses among different groups of people. Some were movements of resistance:

In the first half of the century, there was a conscious effort among New England farmers to promote farming and land ownership as a secure protection against the vagaries of markets and the recurring "panics" of the commercial economy. Later, fraternal organizations attempted to offer life and accident insurance on principles fundamentally different from those used by commercial insurance companies. But even those partakers in the speculative, risk-taking economy — those who were vigorously chasing the upside — became aware of the need to protect themselves. Hence the increasing use of all forms of insurance.

But insurance itself — apart from the specialized form of maritime insurance — was a controversial matter. Traditionally it had been seen as immoral: "Up through the eighteenth century...in continental Europe," Levy informs us, "life insurance on free men was illegal. In 1783, the great French insurance treatise writer Emerigon wrote, "The life of man is not an object of commerce, and it is odious that his death should form matter of mercantile speculation." Even in the Anglo-Protestant world there was opposition to the idea of life insurance; some saw it as conflicting with trust in God's providence. Levy sees the increasing acceptance of life insurance as incident to the emerging notion of "self-ownership," a concept which provides the foundation for the idea of a contract society and which, in our time, has been extended to matters such as marriage and childbearing. Contemporary feminists who proclaim

the “right” to their own bodies (my body, myself) are echoing the nineteenth-century speculators who prized the newly discovered right to ownership of self.

In the midst of the financial speculation of nineteenth-century America stood the institution of slavery. More than one defender of slavery, such as George Fitzhugh of Virginia, explicitly criticized the capitalist industrial society of the North as exploitative of workers, and defended slavery as a benevolent, paternal institution in which slaves and their masters formed a social and economic community for the benefit of both. The stability of the South was contrasted with the economic insecurity of the North. But with the end of the Civil War, slaves were released both from their servile bondage and from whatever care their owners had previously exercised on their behalf. At first, many of the former slaves “wanted the lands they had labored upon as slaves. ‘Gib us our own land and we take care ourselves,’ a South Carolina freedman told one white northern journalist.” This might have been accomplished by means of expropriation of plantation lands with reimbursement to the former owners from the proceeds of cash crops grown on the land, now divided into small farms. And, one may note in passing, had something like this occurred, it might have conferred a social stability upon American society productive of considerable benefits, the lack of which we are still suffering.

But this did not happen, and about the only structures established for former slaves were the Freedmen’s Bureau and the Freedman’s Bank. Levy discusses

how ex-slaves were counseled to work hard and save, in the hope of being able to buy their own land. And a remarkable number did just that. By 1873, only eight years after the end of the war, the bank “had received a staggering \$50 million from nearly 100,000 depositors.” But the bank fell afoul of the economic turbulence of the post-war era and closed in 1874, unable to pay its depositors. One of the reasons the bank failed was that some of its directors and officers (mostly former New England abolitionists) engaged in financial speculation with its funds, hoping thereby to gain enough to pay high dividends to depositors.

While many of the former slaves wanted land chiefly for subsistence agriculture as a hedge against the risks of their newfound freedom, and less so for growing cotton or other crops for the market, some of the New England abolitionists had a different idea. Certain Northerners “wanted the black free laborer to produce as much cotton as possible for industrializing New England textile mills,” and in turn the former slaves would purchase wheat and other necessary staples grown elsewhere. Here we see two contrasting visions of personal freedom: one that locates it in the complex interactions of a contract society, and another that harks back to notions of status but without the injustices of actual slavery. The pre-war plantation, as a largely self-sufficient economic unit, had grown consumption crops as well as cotton for sale, and during economic downturns had increased acreage in wheat and corn and reduced that devoted to cotton. Both the

antebellum plantation economy and the instinctive desires of the newly freed blacks were for something “more communal, more subsistence-oriented, and less commercial than other American variants.” On the other hand, it seemed obvious to some of the Northerners that the former slaves, as freemen, should join in the growing contract economy of risk, an economy in which there was considerable room for gain, but also for loss — less security and more opportunity.

Levy also looks into the Western farm-mortgage crisis, the phenomenon of fraternal societies, the origins of futures trading, and the emergence of giant corporations and their relations with economic risks. In each of these cases, he sketches ways in which the enduring conflict between different ways of dealing with risk occupied the American consciousness. The 1862 Homestead Act offered the opportunity for free land, “millions of acres for settlement in clean rectangular 170-acre quarters.” If a farmer managed to obtain a good tract of land with sufficient water and was reasonably industrious, he could make a go of it. But for one reason or another, many farmers in the decades after the Civil War took out mortgages on their farms — mortgages that often led to financial ruin. In some cases it was to address a family emergency, but other times it was the naked desire to purchase additional acreage that drove farmers to mortgage their land. Indeed, the fact that 1880 saw the publication of B.C. Keeler’s book *Where to Go to Become Rich* indicates some of the feelings and trends

of the time. St. Paul's warning that "those who desire to be rich fall in temptation, into a snare, into many senseless and hurtful desires that plunge men into ruin and destruction" (1 Tim. 6:9) was, as usual, ignored.

Before the Civil War, farmers in New England had celebrated their way of life as an alternative to the vagaries of the commercial economy. But all that was changing. "Farming is very much like any other business," Levy quotes one Wisconsin farmer as stating

bluntly in 1895. Farmers must "adopt a system that will in the end secure the greatest amount of products at the lowest minimum cost of production." They must employ a "thorough business instinct."

As a result of this attitude — an attitude that was both a cause and a result of the increase in farm mortgages — farmers tended to concentrate on cash crops instead of subsistence farming for their own families' immediate needs, despite the fact

that such monoculture was both harmful to the soil and fostered insects and crop diseases. But with a mortgage to pay, it was understandable. In addition, now that farmers were mostly growing a single crop for sale on the world markets, they were subject to large and unpredictable price fluctuations. A farmer could almost always feed his family with what he grew, but he could not always pay his mortgage and feed his family on what his cash crop could fetch in the world's grain

Life Insurance Then

"We commonly think of insurance and gambling as different responses to risk. Insurance is a way of mitigating risk, while gambling is a way of courting it. Insurance is about prudence; gambling about speculation. But the line between these activities has always been unstable....

"For centuries, life insurance was prohibited in most European counties.... England was an exception. Beginning in the late seventeenth century, shipowners, brokers, and insurance underwriters gathered at Lloyd's coffeehouse in London, the center of marine insurance. Some came to insure the safe return of their ships and cargo. Others came to bet on lives and events in which they had no stake apart from the wager itself. Many people took out 'insurance' on ships they did not own, hoping to profit if a ship was lost at sea. The insurance business commingled with gambling, with the underwriters acting as bookmakers....

"In the eighteenth century, insurance 'policyholders' placed bets on the outcome of elections, the dissolution of parliament...the death or capture of Napoleon, and the life of the queen in the months preceding the Queen's Jubilee....

"One especially grim life insurance wager involved eight hundred German refugees who, in 1765, were brought to England and then abandoned without food or shelter on the outskirts of London. Speculators and underwriters at Lloyd's placed bets on how many of the refugees would die within a week."

And Now

"It has long been common practice for companies to take out insurance on the lives of their CEOs and top executives, to offset the significant cost of replacing them if they die.... But buying insurance on the lives of rank-and-file workers is relatively new. Such insurance is known in the business as 'janitors insurance' or 'dead peasants insurance.' Until recently, it was illegal in most states.... But during the 1980s, the insurance industry successfully lobbied most state legislatures to relax insurance laws....

"By the 1990s, major companies were investing millions in corporate-owned life insurance (COLI) policies, creating what amounted to a multibillion-dollar death futures industry....

"By the early 2000s, COLI policies covered the lives of millions of workers and accounted for 25 to 30 percent of all life insurance sales....

"A Walmart spokesman acknowledged that the company held life insurance policies on hundreds of thousands of its employees — not only on assistant managers but even on maintenance workers....

"It adds up,' the [*Wall Street Journal*] concluded, 'to a little-known story of how life insurance morphed from a safety net for the bereaved into a strategy of corporate finance.'"

— Michael J. Sandel
What Money Can't Buy:
The Moral Limits of Markets
(Farrar, Straus and Giroux, 2012)

markets. A popular poem of the day, "The Tramp's Story" by Will Carleton, began, "Worm or Beetle — drought or tempest — on a farmer's land may fall; / But for first-class ruination, trust a mortgage 'gainst them all." If farming was now "very much like any other business," then in addition to the ordinary perils of pest and weather, all the uncertainties introduced by a competitive economy would fall upon farmers. Many Americans welcomed the opportunities for wealth that these uncertainties offered — so long as they managed to profit by them. But many did not, or at least not fully. One of the ways this suspicion of the uncertainties incident to a contract society manifested itself was in the rise of fraternal societies.

We are familiar today with fraternal societies such as the Knights of Columbus, which offer insurance benefits in a manner similar to any commercial insurance company. But these fraternal societies originally operated in an entirely different way. Actuarial tables of mortality and life expectancy were developed in the middle decades of the nineteenth century, allowing insurance companies to set rates based on the statistical probability of a person's death. But this practice seemed to some too cold-blooded a way of looking at life and death. Beginning in 1868 with the Ancient Order of United Workmen (which had nothing to do with labor organizing), fraternal societies offered members death benefits according to an assessment system. Levy explains: "A 'certificate' in the AOUW was worth \$2,000, which became the typical

fraternal benefit.... When a man joined the AOUW he paid \$1 into a 'beneficiary fund.' Upon a death, each member was 'assessed' another \$1. The assessment was *equal* irrespective of age.... A few other fraternal societies might charge a member who surpassed age fifty an extra assessment or make some attempt to very roughly grade assessments to age. But there was often outright hostility to the actuarial pricing of 'risks' in fraternal ranks during the 1870s and 1880s."

This was an attempt to protect members against the new perils of a contract society by establishing a system that repudiated the fundamental principles of that society. Commercial insurance companies also offered life insurance, but they did so based on the very principle of contract: "Unlike the fraternal certificate, life insurance policies were legally enforceable contracts. To Frederick Holmes, actuary of the Metropolitan Insurance Company, the triumph of the insurance principle was part of the broader historical movement from 'status' to 'contract.'"

What doomed the fraternal system of insurance was, in part, the fact that their certificates were not "legally enforceable contracts" — if some members refused to pay their assessment, there was no practical recourse by the deceased's heirs — and, in part, the fact that sometimes benefit payments were impossible, as during an epidemic, after which there might not be enough living members left to pay death benefits for all those who had just died. Courts also began to take a dim view of fraternal societies, and by

the end of the century the fraternal societies themselves were adopting the once-loathed actuarial methods of their commercial rivals.

Levy's last chapter, "The Trust Question," is probably the most interesting in the book. It is built largely around the career of George Perkins Sr. (1862-1920), a high-school dropout, later a vice president of New York Life, a partner in the investment bank of J.P. Morgan and Company, virtual dictator of both U.S. Steel and International Harvester, friend of President Theodore Roosevelt, and manager of Roosevelt's 1912 Progressive Party campaign. Perkins's views were by no means unique for the time. Many prominent men in the business world, in politics, and in other areas had become convinced that the intensely competitive economy that arose during the course of the nineteenth century was too unstable. Their chosen instrument for bringing stability to the capitalist economy was none other than the giant corporation or "trust," as it was then called.

The giant corporation seemed ideal for absorbing risk otherwise borne by individuals. As a Morgan partner, Perkins had arranged the financing for both U.S. Steel and International Harvester, companies that held such commanding market shares that they seemed able to withstand any economic downturn. "The new industrial trusts would insure industrial *society* as a whole. Corporate ownership, not self-ownership, would be the new premise of economic security."

Perkins, who was consciously influenced by European theories and models, made no secret

of his opposition to capitalistic competitive chaos. He even called his program “a form of socialism of the highest, best and most ideal sort,” though as one of the richest and most well-connected capitalists in America he would have been an odd type of socialist, to be sure. Genuine socialists did not trust him, and during Roosevelt’s 1912 presidential campaign, “left-wing Progressives never tired of attempting to remove Perkins from party leadership.”

Yet Perkins was sincere in his belief that the corporation could be a source of economic stability in a capitalist economy. He initiated profit-sharing plans at both U.S. Steel and International Harvester, as well as an Employee Benefits Association at the latter, in which “the corporation contributed out of its own funds for the provision of employee life, accident, sickness, and old-age insurance.” Perkins saw these as “social risks which the wage earner himself was not fully responsible for.” He went so far as to say that the relationship between employer and employee should be one of “co-partnership.”

Perkins, and to a lesser degree Theodore Roosevelt, embodied one theory of how to humanize capitalism in the face of its transformation from an economy characterized by small shops and farms to its domination by gigantic trusts. Perkins rallied business support for a new cabinet agency, the Department of Commerce and Labor, which Roosevelt sponsored in 1903. This agency contained the Bureau of Corporations, and Perkins’s vision was that corporations should receive federal charters and undergo

federal registration. After this, if the bureau “found any corporate policy objectionable it could alter corporate practice.” In return, corporations would receive immunity from prosecution under the Sherman Anti-Trust Act.

Anyone familiar with either the early history of distributism or continental Catholic social theory from *Rerum Novarum* up to World War II will hear echoes here in Perkins’s thinking — but echoes of two different sorts. As distributism matured (see Belloc’s 1936 work *The Restoration of Property*) it came to be understood that a society of small owners was incompatible with competitive chaos. Free competition would simply start the process toward concentrated wealth all over again. Thus, Belloc explicitly supported guilds to orient production and economic activity toward the common good, and likewise saw worker ownership, or even government control, as acceptable alternatives to large entities that could not conveniently be broken up.

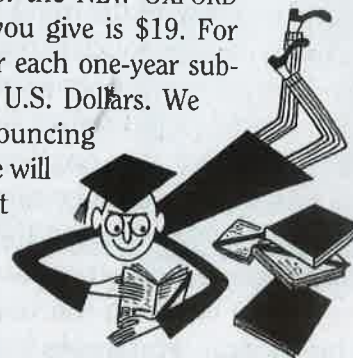
Continental thought, on the other hand, including in passages

from the encyclicals of Pope Pius XI, recommended forthrightly a notion of “co-partnership” not altogether different from what Perkins espoused. Heinrich Pesch, S.J., a German contemporary of Perkins and the foremost Catholic economic theorist of his day, wrote, “It is not freedom but *order* which provides the basis for society.... When the older school of economics erected *free competition into a principle that was valid for all times*, it proceeded on false premises.” One can imagine Perkins heartily agreeing.

While Catholic social thought has continued to teach the insufficiency of free competition as an organizing principle for the economy, in the 1970s the American economy seemed to enter a new period of exactly that ruthless competition which Perkins deplored. But now it was not company against company, but company against its workers, or stockholders against other stockholders. In his epilogue, Levy points out some of the changes that undid what Perkins had achieved: “In 1977 the investment bank Chase Manhat-

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tan had created a series of dummy corporations so that International Harvester — once the home of Perkins's trailblazing 1908 Employee Benefit Association — could absolve itself of \$65 million in pension obligations and an additional \$20 million in promised factory shutdown benefits to its workers. Chase Manhattan's Wall Street competitors — Lehman Brothers — balked at executing the same deal on moral grounds."

Pius XI taught in *Quadragesimo Anno* (1931) that free competition, "though justified and quite useful within certain limits, cannot be an adequate controlling principle in economic affairs. This has been abundantly proved.... It is therefore very necessary that economic affairs be once more subjected to and governed by a true and effective guiding principle." Who is to establish and enforce this "true and effective guiding principle"? In Catholic thought, the state is the ultimate guardian of the temporal common good, but it does not follow that the state is to regulate the economy directly. Thus, English distributists and continental Catholic theorists championed the guilds and occupational groups.

For the Catholic who seeks to make his political and social thinking conform to the mind of the Church, there is much to ponder in Levy's book. We are facing the same kinds of difficulties and crises today that our forebears faced in the nineteenth century. If we are to avoid repeating their mistakes, we must learn not only from history but from the voice of Christ's vicar, who speaks from beyond and above history. ■

BRIEFLY REVIEWED

Making Gay Okay: How Rationalizing Homosexual Behavior is Changing Everything. By Robert R. Reilly. *Ignatius Press.* 250 pages. \$22.95.

Making Gay Okay documents the endless falsehoods, illusions, deceits, and verbal machinations that fuel the drive to prop up homosexuality as a legitimate, desirable lifestyle. Robert Reilly masterfully shows that such a relentless propaganda scheme does have, as his book's subtitle suggests, the widespread and truly erosive effect of "changing everything." He exposes the spurious claim that the promotion of homosexuality takes place in isolation from everything else, and that its growing prevalence will not affect standing institutions — most notably that of marriage — as nothing more than a crowning lie. Reilly observes that "the homosexual movement shares in the larger rationalization of the sexual revolution and is invested in its spread." By its ubiquity, the homosexual movement is doing its part to renew and expand the legacy of moral demolition initially ushered in by the sexual revolution.

Reilly lays a solid foundation for his work by examining the philosophical roots of the present phenomenon. Aristotle's perspective of nature is pertinent:

In presenting the first product of Greek philosophy, he discussed the purpose and order of nature, the simple *telos* of plants and animals. These creatures, however, have no volition, whereas man does. In the end, for all life forms, what is "unnatural" is defined as being against the entity's "goodness," with goodness defined as "the fulfillment of its nature." Pre-Christian Greek culture was pagan, but it hardly exalted or widely accepted homosexuality. Reilly points out that Socrates "loathed sodomy." Ancient Greeks would never have seriously considered the prospect of homosexual "marriage"; they consistently saw marriage as a literal obligation of youth, so as to contribute to society through procreation. Later, the 18th-century French philosopher Jean Jacques Rousseau would invert Aristotle and deny any natural end, or *telos*, to man. We need not catalogue here the many ill effects of *la Révolution*.

Moral relativism abounds in the course of rationalizing homosexual behavior. The assignment of certain words and phrases to describe objects or phenomena becomes purely arbitrary. Reilly cites the simple wisdom of Confucius, who noted, "If names be not correct, language is not in accordance with the truth of things." Discussion or debate now comes down to a linguistic "might makes right" struggle. Reilly points out that ruthless wordsmithing "is what tyrants do."

The goal of the relentless drive to legalize same-sex marriage is "to complete the rational-