



Gratia Eruitionis

Azusa Pacific University | Honors Program

Volume One

*Rushdie and the
Real: Migrancy and
the Hyper-Real in
The Satanic Verses*

Tamara Moellenberg

*Incomes and
Compensation in
the American
Labor Market*

Tyler Stover

*Non-Profit or
Non-Conscience:
The Tragic Divide of
American Enterprise*

Luke Spink



AZUSA PACIFIC
UNIVERSITY

Gratia Eruditionis

Azusa Pacific University

Honors Program

Volume I, 2009

It is a pleasure to present to you a collection of three award-winning essays. Included here are the top three winners of the first Azusa Pacific University Honors Paper Competition on the occasion of the 17th annual Common Day of Learning. Inspired by a similar competition she experienced as an undergraduate student, Dr. Jennifer Walsh, our director of the one-day all-campus conference we call Common Day of Learning, created this opportunity for Honors students to pursue a small monetary prize and recognition for their hard work. I am thankful to her for her leadership in this area; this journal is a testimony to her commitment to encourage emerging scholars to publish their work.

Founded by Dr. Carole Lambert and now directed by Dr. Vicky Bowden, Azusa Pacific University's Honors Program has challenged and cultivated scholars for more than 17 years. With this publication, we hope to share with a wider audience some of the remarkable scholarship at this institution.

These three undergraduate authors were chosen by a faculty review committee from a pool of excellent papers. They have distinguished themselves in their fields through their studies, resulting in the presentation of this research and writing. I wholeheartedly congratulate Ms. Tamara Moellenberg, Mr. Tyler Stover, and Mr. Luke Spink on this accomplishment.

I hope that you find these readings insightful and thought provoking. We commend our promising scholars and thank the dedicated Honors faculty for their part in the educational process.

Diane J. Guido, Ph.D.
Vice Provost for Undergraduate Programs

Foreward

The strength of any great university is reflected in the academic achievements of its undergraduate students. Too often, however, the scholarly talents and abilities of our students remain hidden in the classroom, known only to the faculty who teach them. The purpose of this journal is to reveal what faculty members at APU have known for some time: the abilities of our students are great, and because of this, our university is strong.

It is important to note that this project could not have been realized without the support of Dr. Vicky Bowden, Honors Program director, and Dr. Diane Guido, Vice Provost for Undergraduate Programs. Special thanks are also owed to the faculty members who supported, reviewed, and selected student paper submissions. These include: Dr. Bruce Baloian, Department of Biblical Studies; Dr. Joseph Bentz, Department of English; Professor Michael Bruner, Undergraduate Theology; Dr. Roger Conover, School of Business and Management; Dr. Mark Eaton, Department of English; Dr. David Esselstrom, Department of English; Dr. Stephanie Juillerat, Associate Dean for the School of Behavioral and Applied Sciences; Dr. Gary Lemaster, Vice President for People and Organizational Development; Dr. Dennis Okholm, Department of Theology and Philosophy; Dr. Sheryl O'Sullivan, Department of English; Dr. Alan Oda, Department of Undergraduate Psychology; Dr. Steven Wentland, College of Liberal Arts and Sciences; and Dr. William Yarchin, Department of Biblical Studies.

Jennifer E. Walsh, Ph.D.
Faculty Director
Common Day of Learning - 2009

**Rushdie and the Real:
Migrancy and the Hyper-Real in
*The Satanic Verses***

Tamara Moellenberg[†]

[†]Tamara Moellenberg is a senior English and Philosophy double major. She would like to thank Dr. Chris Noble for his patience and guidance through the extensive brainstorming, drafting, and editing of this paper. His wisdom and instruction is highly valued and appreciated. She would also like to thank her fellow students and the many outstanding professors in the APU English Department for their support.

Abstract

I propose that Rushdie's *Satanic Verses* offers a depiction of the postmodern age as characterized by what media theorist Jean Baudrillard describes as the "precession of simulacra" in which the "real and its concept" collapse into the hyper-real. In this way, Rushdie's novel illustrates both the condition of western civilization awash in a proliferation of signs and pining for a return to a referential "real" while also depicting the experience of immigrants and colonized cultures under western influence. If Rushdie's novel is a tale chronicling the struggles and contradictions of post-colonial identity, it is also the story of the way this identity is achieved according to the simulacral images of the West—of the efficacy of the global exportation of the hyper-real—as well as how this exportation may ultimately prove injurious to those who receive it.

In the two decades following its composition in 1988, Salman Rushdie's *The Satanic Verses* has proved capable of nearly as many metamorphoses in the hands of its critics as its shape-shifting main characters, Saladin Chamcha and Gibreel Farishta. Discussed as a valorization of globalization, as a lament for national identity, and, most famously, as a blasphemous work satirizing Islamic orthodoxy, it seems that disparate readings of the novel follow only according to the reading communities encountering it, whether that be post-colonial theorists, Indian immigrants to England or faithful followers of Islam. Rushdie's work has thus been ghettoed to these critical perspectives alone or examined only in light of the controversy of the "Rushdie affair" it generated. I propose that Rushdie's *Satanic Verses* offers in addition to these well-covered grounds a depiction of the postmodern age as characterized by what media theorist Jean Baudrillard describes as the "precession of simulacra" in which the "real and its concept" collapse into the hyper-real. In this way, Rushdie's novel illustrates both the condition of western civilization awash in a proliferation of signs and pining for a return to a referential "real" while also depicting the experience of immigrants and colonized cultures under western influence. If Rushdie's novel is a tale chronicling the struggles and contradictions of post-colonial identity, it is also the story of the way this identity is achieved according to the simulacral images of the West—of the efficacy of the global exportation of the hyper-real—as well as how this exportation may ultimately prove injurious to those who receive it.

In *Simulation and Simulacra*, Jean Baudrillard writes of the replacement of the real with the hyper-real in the postmodern age of western culture:

The real is produced from miniaturized cells, matrices, and memory banks, models of control—and it can be reproduced an indefinite number of times from these. It no longer needs to be rational, because it no longer measures itself against either an ideal or negative instance. It is no longer anything operational. In fact it is no longer really the real, because no imaginary envelops it anymore. It is a hyper-real, produced from a radiating synthesis of combinatory models in a hyperspace without atmosphere. (Baudrillard 2)

In the age of images, advertising, virtual realities, movies, and TV, Baudrillard notes the "production of the real" from a variety of sources or "matrices." Not only can the "real" be reproduced, but there are no longer concerns of representation, or measurement against an "ideal." Visual media do not represent reality, but produce it through simulation in such a way that it is impossible to transcend the simulation and identify a standard of measure. (Who, for instance, can point to the "real" behind the popular TV show "the O.C.?") The distinction between what is real and simulated collapses because the process of production encodes the image of the real while "representing" it. Furthermore, it becomes impossible to speak of the imaginary over against this produced real. (Again, where are the imaginary elements of the "O.C.?" One begins to feel that "imaginary" is an insufficient description.) The very inadequacy of descriptions such as "imaginary" when faced with postmodern production of the "real" denotes the true loss of the real: "it is no longer really the real" (Baudrillard 2).

Not only are these hyper-real productions experienced by subjects in a postmodern, western society in the relationship of producer and consumer, but they also produce the social order and nature of the subjects of this society by affecting how individual identity is constructed. As the Online Stanford Encyclopedia of Philosophy article on Baudrillard reads,

[For Baudrillard] postmodern societies are organized around *simulation* and the play of images and signs, denoting a situation in which codes models and signs are the organizing forms of a new social order where simulations rules. In the society of simulation, identities are constructed by the appropriation of images, and codes and models determine how

individuals perceive themselves and relate to other people. (Stanford Encyclopedia of Philosophy 11)

The Satanic Verses, Rushdie's novel about the competing identities of post-colonial immigrants, portrays just this "new social order where simulations rule" and how the construction of identities among subjects influenced by postmodern culture is facilitated by the appropriation of images. In a situation where the hyper-real is successfully produced and exported, the "precession of simulacra and simulation" for the subject is achieved; images precede experience and the construction of the subject. Furthermore, according to Baudrillard's theory, when productions of the 'real' are produced and reproduced in this way, the process of distinguishing between them and the real becomes impossible. Meaning has no ground. In Rushdie's novel, this loss of meaning is experienced as situation of weightlessness and the subjects of the hyper-real condition pine with nostalgia for the return of the real, the loss of which ultimately, as in the experience of Gibreel Farishta, leads to madness.

Our Mongrel Selves

In his essay "In Good Faith," Rushdie says of his novel, "*The Satanic Verses* celebrates hybridity, impurity, intermingling, the transformation that comes of new and unexpected combinations of human beings, cultures, ideas, politics, movies, songs. . . It is a love song to our mongrel selves" (*Imaginary Homelands* 394). Critics taking Rushdie at his word—Gayatri Spivak, Peter Kalliney and Gillian Gane among others—thus focus on the postcolonial issues presented in the novel through the experience of the characters Saladin Chamcha and Gibreel Farishta, both of whom pass through a series of metamorphoses, including a periodic transformation into the images of a devil and angel respectively. Gillian Gane, for instance, discusses Saladin Chamcha's transformation into and from the image of a devil complete with foul breath, horns, and cloven hooves, in terms of "unitary identity" vs. "hybridity and multiplicity" in her essay "Migrancy, The Cosmopolitan Intellectual, and The Global City in *The Satanic Verses*" (Gillian 28, 32.) Rushdie, Gane suggests, employs Chamcha's devilment as a metaphor for the assimilated or "hybrid" identities of migrants and his restoration as longing for a return to a nativist or "pure" form of identity: "The novel's surreal metamorphoses into devil and angel are metaphors of migrant identity—compressed, dramatized analogues of

how migrants can change" (Gane 30).

Gane notes that Chamcha's devilment is metaphor for "how migrants can change," but does little to reveal in what way. While the hybridity vs. essence debate tells us something of contemporary postcolonial debates on identity and transnationalism, it does little to explore the way in which Chamcha's transformation and return are achieved and how this might suggest further interpretations of Rushdie's novel. In what way has western culture influenced the identities of its immigrants, and by what means? The answer to such questions requires moving beyond a discussion of the diversity of identities in a global era to an examination of the factors responsible for their construction. While Gane and others may be satisfied with a discussion of the "thatness" of Chamcha's devilment, which serves as a metaphor for his cultural assimilation, I propose an analysis of the "how" as a way of revealing Rushdie's acknowledgment of the role of hyper-real images and signs, i.e. simulacra, in constructing identity.

Chamcha's metamorphosis into a devil serves as a metaphor of his "translation" into (and detranslation from) a "goodandproper Englishman" (*Satanic Verses* 43), or at very least, the evil of his willingness towards such translation. In the novel, Chamcha is born in India under the name of "Salahuddin Chamchawala" but "by his thirteenth year" has already begun his transformation into the anglicized Saladin Chamcha. He grows "impatient" of the Bombay of "dust, vulgarity, policemen in shorts, transvestites, movie fanzines," longing for foreign cities of "poise and moderation," among whom London prefigures premiere. The young Chamcha even spells it over and over in his play "*Ellowen Deeowen London*" (*Satanic Verses* 37). When he is finally given the opportunity to attend school in the land of his dreams and play, he does his best to assimilate, donning "Van Heusen shirts with detachable semi-stiff collars," laying "beneath mountains of wool" on cold English nights, and finding "masks that [his school] fellows would recognize, paleface masks, clown masks" (*Satanic Verses* 42, 43). Finally, in his adult years, he lives in a "five-story mansion in Notting Hill" (59), married to a thoroughly English woman, Pamela Lovelace, and works as an actor and voice-artist on radio and TV.

This transformation is surrounded by, and largely achieved through images of simulacra. Pamela says of Chamcha's Anglicization, "Him and his Royal Family, you wouldn't believe. Cricket, the Houses of Parliament, the Queen. The place never stopped being a picture postcard to him. You couldn't get him to look at what was really real" (*Satanic Verses* 175). For

Chamcha, however, these images and the England they represent are indistinguishable—the iconic and actual are blurred—and by embracing them, for example, by marrying Pamela (she laments, “I was bloody Britannia. Warm beer, mince pies, common-sense and me”), Chamcha considers himself embracing all of England and what it means to be English. Chamcha’s understanding of British identity according to simulacral and stereotypical images is additionally apparent during his abuse at the hands of “British” immigration officers: “‘This isn’t England,’ he thought, not for the first or last time. ‘How could it be, after all; where in all that moderate and common-sensical land was there room for such a police van in whose interior such events as these might plausibly transpire?’” (158). As Peter Kalliney recognizes, “the situation seems so implausible because these coarse working class officers do not represent England to him” (Kalliney 69). Awash in images of what it means to be “English,” including, for instance, postcards and icons, images function as the “real” for Chamcha. This is also evident when he fails to identify the Sufyan sisters, Anakita and Mishal, who are born in England to immigrant parents, as British: “But they weren’t *really* British, he wanted to tell them, not really, not in anyway he could recognize” (*Satanic Verses* 259), that is, not according to any images of “Britishness” Chamcha acknowledges.

The dilemma facing Chamcha, and so also Rushdie’s readers, is the issue of how national identity is constructed, and a distinction is drawn between being born in Britain and being identified as “British,” though this same distinction also applies to India and the issue of national identity as a whole. It forms a central question of the novel: What does it mean to “be” “British,” “Indian,” “American” and so on? Chamcha’s confusion on the matter—such as his inability to admit Mishal and Anakita as truly “British”—illuminates an increasing phenomenon in the globalizing, postmodern world: the nation of one’s birth no longer directly entails the nature of one’s national identity. Rather, this identity is constructed in so far as certain criteria are achieved, and these criteria depend upon signs and images, i.e. simulations and simulacra, for their definition.

Images of simulacra and the question of identity are further linked and explored in Chamcha’s profession as an actor and voice-over artist, particularly with his “big break” on the British television series *The Aliens*. The scenario of the show concerns Maxim and Momma Alien and their quest to become “television personalities,” and what makes “the show a hit,” we are told, is “its use of the latest computer-generated imagery”:

The backgrounds were all simulated: spaceship, other-world landscapes, intergalactic game-show studios; and the actors, too, were processed through machines, obliged to spend four hours every day being buried under the latest in prosthetic make-up which—once the video-computers had gone to work—made them look just like simulations, too (*Satanic Verses* 63).

Chamcha plays the part of Maxim Alien, and there are many layers of simulacra at work here, as even is directly suggested in the passage by the frequent use of the word “simulation.” Considering the novel’s preoccupation with the immigrant condition, the title of the *The Aliens* may be seen as a metaphor for immigrants themselves, and with Chamcha in the title role, a “real” immigrant plays a simulated one “buried under the latest in prosthetic make-up.” This coincidence provides a direct illustration of simulacra, and the real and imaginary are indistinguishable—who is the “real” alien? This is paralleled by the scenario of the show itself in which real actors aspiring to be television personalities—Chamcha and his fellow star—play imaginary aspiring television personalities. The images refract disorientingly, and contrary to what may be first assumed, we see that Chamcha has not just put on a “mask” or somehow “betrayed” his true identity, as the passage first seems to suggest, but that this “mask” and himself enter the realm of the hyper-real—the imaginary and real are one, the same.

Chamcha’s following and fantastical metamorphosis into a devil, a classic stereotype of subcontinentals—“an image white society has rejected for so long” (*Satanic Verses* 286)—may thus be read as a metaphor chronicling another instance in which the precession of simulacra shapes identity. After his maltreatment at the hands of immigration officers, Chamcha awakes in a hospital completely transformed and is additionally surprised to learn that he shares the place with creatures in a similar condition, encountering a wolf, a manticore, holidaymakers from Senegal who have been metamorphized into snakes and a woman whose skin has turned to glass. When the manticore implies that the transformations are the doings of someone in power at the British hospital, Chamcha asks “How do they do it?” The manticore replies, “The describe us . . . That’s all. They have the power of description, and we succumb to the pictures they construct” (*Satanic Verses* 168). Chamcha’s transformation, then, speaks precisely to the

power of images in constituting identity, and that which formerly existed only in the imagination and simulated stereotypes in the minds of British citizens is produced as the hyper-real. Not only that, but if we accept the text's suggestion that Chamcha's transformation is also indicative of a personal crisis of character, then again, the "real," Chamcha's actual personal evil, and the simulated, his satanic image, are constituted as one—it is the hyper-real incarnate.

But Chamcha is not allowed to inhabit this identity for long. Hiding out in the Shandaar Café in Brickhall, he suddenly becomes filled with rage at his condition and its contrast to that of Gibreel Farishta, who has been transformed into an angel. In his consuming anger, Chamcha destroys the room in which he is housed and falls into a stupor, only to awake "humanized . . . by the fearsome concentration of his hate" (*Satanic Verses* 294). Not only is Chamcha returned to his human form over the course of the novel, but in the very end he returns to his native country, and, concomitantly, it seems, to his Indian identity, not to mention a sizeable inheritance and renewed love affair. But, as critics have noted, something about this ending seems forced. Peter Kalliney criticizes the tendency of the novel to "treat race as an international condition, a problem that can be resolved by a return to Bombay and reconciliation with his father and the country of his birth" (Kalliney 52). Shailja Sharma offers biographical motivations for the ending, noting in "Salman Rushdie: The Ambivalence of Migrancy" that "In an interview, Rushdie once suggested that he was thinking of returning to India before the Ayatollah's fatwa put paid to any such plans" (Sharma 613). Is the ending of the novel, then, simply Rushdie writing himself a happy ending, a relief from diaspora? Not necessarily, but at the very least, there seems "an element of impossible wish-fulfillment in this happy ending" (Gane 37).

It is this element of wish-fulfillment that expresses the novel's abiding nostalgia for the real in an age of the hyper-real, of simulacral transformations and preceding images. This nostalgia seeks satisfaction and realization in Chamcha's ultimate return to India and "his return to *Salahuddin*" instead of the anglicized (via simulacra) "Saladin." "About time," Zeeny says when he tells her of his reclaimed name, "Now you can stop acting at last" (*Satanic Verses* 534). "Yes," Salahuddin thinks in response, "this looked like the start of a real phase, in which the world would be solid and real" (*Satanic Verses* 534). The reclamation of the national identity of the place of his birth is thus intricately linked with Chamcha's (later Salahuddin

Chamchawala's) notion of the world as solid and real. It also notes the way in which the question of origins in the novel, though perhaps related to Gane's notion of essences, is at heart a question of the "real." As Gayatri Spivak suggests, Chamcha's scenario is that of a "British-citizen-escaping-the-angel-of-god-by-demonic-metamorphosis-and-returning-home-for-a-wished-for-entry-into-the-real" (Spivak 226). Notice, though, that it is only "wished-for," and Spivak so also suggests the impossible optimism of the concluding sequence.

While Chamcha's return at the very end of the novel urges the reader to accept a re-"entry-into-the-real," the language of the novel elsewhere implies otherwise, developing the issue in terms not of actualization, but desire or nostalgia. Consider this passage giving account of the differences between Chamcha and Gibreel:

Well, then—are we coming closer to it? Should we even say that these are two fundamentally different types of self? Might we not agree that Gibreel, for all his stage-name and performances; and in spite of born-again slogans, new beginnings, metamorphoses;—had wished to remain, to a large degree, continuous—that is, joined to and arising from his past . . . where as Saladin Chamcha is a creature of selected discontinuities, a *willing reinvention*; his *preferred* revolt against history being what makes him, in our chosen idiom, "false"? And might we then not go on to say that it is this falsity—call this "evil"—and that this is the truth, the door, that was opened in him by his fall?—While Gibreel, to follow the logic of our established terminology, is to be considered "good" by virtue of *wishing to remain*, for all his vicissitudes, at bottom, an untranslated man. (Italics mine, *Satanic Verses* 427)

The surface binary of the passage is as follows: Gibreel is transformed into an angel as an "untranslated man" and Chamcha, adversely, is a devil according to his "willing reinvention" as a good and proper Englishman, his willing assimilation. The passage thus appears to suggest that Gibreel should be praised for somehow achieving a purity of identity.

But to assign praise or blame for attainable actions is to ignore the specific diction of the passage, which is the language not of actualization but desire. While the plot of the novel suggests the possibility of an actual return to origins when Chamcha returns to India, the language of this passage valorizes not Gibreel's actual "untranslation" but his *desire*, his *wish*,

to remain so. Indeed, it in fact admits Gibreel's actual multiplicity of identities—his many “stage-names and performances . . . born-again slogans, new beginnings, metamorphoses” (*Satanic Verses* 427). It must also be remembered that Gibreel undergoes a transformation in the novel as well as Chamcha, changing into “the simulacrum of an angel as surely as [Chamcha] was the Devil's mirror-self” (*Satanic Verses* 294). In his dream sequences, Gibreel becomes nothing less ‘real’ than the actual archangel himself. Chamcha, on the other hand, is criticized not for his transformation or translation as such, but for simply being “willing,” implying the crime of concession to the inevitable, a lack of resistance. The language of the passage endorses neither possibility nor realization, but nostalgia. It suggests the impossibility of living untranslated in the postmodern age—the impossibility of escaping the constituting productions of western simulacra—but nevertheless exalts and expresses the *desire* to do so.

Gibreel Farishta, the “Loss of God,” and the Peril of the Hyper-Real

While the story of Saladin Chamcha in Rushdie's *The Satanic Verses* ends hopefully with the satisfaction of nostalgia and a regaining of the real, the tale of Gibreel Farishta paints a much darker picture that questions not only the possibility of such a return but also the possibility of hope itself in a hyper-real society. Whereas Rushdie allows Chamcha some escape from the disorienting influence of simulacra, Gibreel's entrenchment in the hyper-real is a descent into despair facilitated by a “weightless” godlessness, lack of reference, and profound anxiety that drive him to ultimate madness, murder, and self-destruction. The drama of Gibreel Farishta's romance with western culture and its simulacral chorus can only be cast as a tragedy.

From the very beginning of the novel, Gibreel is closely related to questions of simulacra as a film actor in popular Indian “theologicals,” representing “to hundreds of millions of believers in that country in which, to this day, the human population outnumbers the divine by less than three to one, the most acceptable, and most instantly recognizable, face of the Supreme” (*Satanic Verses* 16). But even in Bollywood, that thriving younger sister of the western cinema machine, the distinction between representation and fact becomes elusive, and, “For many of his fans, the boundary separating the performer and his roles had long ago

ceased to exist” (*Satanic Verses* 16–17). That is, the boundary between the gods themselves and Gibreel's representation of them has “ceased to exist” so that, in a way, Gibreel is the gods he portrays. He is not only thus surrounded by simulacra, but functions as simulacra for his audience.

Gibreel's profession as a screen actor powerfully prefigures the growing importance of simulacra for his character over the course of the novel, which is further developed by his disorienting dreams and relationship with Alleluia Cone (a western victim of simulacra so unbalanced as to seek for Truth among the empty spaces of mountain summits). The beginnings of these two influences occur simultaneously when Gibreel turns his back on God after recovering from a life-threatening illness and commits an act of blasphemy by stuffing his face with “the pork sausages from Wilshire and the cured York hams and the rashers of bacon from god-knowswhere” (*Satanic Verses* 29). Standing in the hotel lobby next to the dining room where Gibreel gorges himself is Alleluia, who later draws Gibreel to England and the postmodern West, and in their first exchange, Gibreel shouts at her while “spewing sausage fragments from the corners of his mouth” (*Satanic Verses*, 30). It is also directly following this same event that, as Gibreel tells Chamcha, “the dreams had begun”: “In these visions he was always present not as himself but as his namesake, and I don't mean interpreting a role, Spoono, I am him, he is me, I am the bloody archangel Gibreel himself, large as bloody life” (*Satanic Verses* 83). With these dreams, Gibreel becomes unable to distinguish between his sleeping state and his waking self—the boundary between the real and the imaginary collapses, flinging him into a perpetual state of simulacra, of the hyper-real.

Gibreel's dreams and Alleluia, as will be explored later, are two main sources of simulacra's destructive power that lead ultimately to Gibreel's downfall, and both are triggered by his rejection of God, a fact which is symbolically prefigured by their concomitance with his pork-eating act of blasphemy. Gibreel, a man who represents the image of the divine to millions of people, who *becomes* the gods for these people, decides that God does not exist. Before the elements of simulacra in Gibreel's life are further explored, it is necessary to first give account of Gibreel's godlessness and the way in which it begins Gibreel's journey into the hyper-real. Baudrillard's theory both gives account of the motivation for Gibreel's rejection of God and its simulacral consequences.

In *Simulacra and Simulation*, Jean Baudrillard traces the relationship

between the existence of God and the preservation of the “real”:

All Western faith and good faith became engaged in this wager on representation: that a sign could refer to the depth of meaning, that a sign could be exchanged for meaning and that something could guarantee this exchange—God of course. But what if God himself can be simulated, that is to say be reduced to the signs that constitute faith? Then the whole situation becomes weightless, it is no longer itself anything but a gigantic simulacrum. (Baudrillard 6)

By this reasoning, then, if God exists, there is a measure of assurance between a referent and its representation, i.e. God himself who “could guarantee the exchange.” A problem arises, however, in that God may also be represented in images and icons. Certainly, this is nowhere more apparent than in a country such as India overflowing with icons of Hindu gods or more obvious to the actor who portrays these gods in movie theologicals, who has himself become the very simulacrum of God.

According to Baudrillard’s theory, the representational possibilities of the divine then serves to undermine it, particularly as the divine takes the form of the omnipotent God of Islam and Christianity. As Baudrillard notes, “But what becomes of the divinity when it reveals itself in icons, when it is multiplied in simulacra? Does it remain the *supreme power* that is simply incarnated in images as a visible theology?” (Italics mine, Baudrillard 4). Hardly; rather, as the fans of Gibreel’s theologicals attest, for subjects bombarded by an excess of images of the divine, sooner or later these images become indistinguishable from the divine itself. “This is precisely what was feared by Iconoclasts,” Baudrillard writes, “that deep down God never existed, that only the simulacrum even existed” (Baudrillard 4). And if “God never existed,” then there is nothing to insure the exchange between sign and meaning, the whole system “becomes weightless,” a “gigantic simulacrum” (Baudrillard 4).

Gibreel’s experience of perpetual simulacra as facilitated by his relationship with Alleluia Cone and his disorienting waking-dreams chronicles the effects of how the “gigantic simulacrum” resulting from the loss of God leads to a situation of madness and despair. A self-identified secularist, in the essay “In God We Trust” from *Imaginary Homelands*, Rushdie speculates, “perhaps I write, in part, to fill up that emptied God-chamber with other dreams” (*Imaginary Homelands* 377); in the following essay,

“In Good Faith,” he claims that the “first purpose” of Gibreel’s dream sequences is “not to vilify or ‘disprove’ Islam, but to portray a soul in crisis, to show how the loss of God can destroy a man’s life” (*Imaginary Homelands*, 377, 399). Gibreel’s state of crisis upon the loss of God is told in the novel in terms of weightlessness, as in the weightlessness of a system or representation without reference, and rejection of God “destroys his life” by inciting a series of simulacral dreams—by creating a state of the hyper-real—that ultimately drives him to self-destruction.

A condition of weightlessness is alluded to throughout the novel, including, for instance, the rootlessness experienced by migrants. Not only does the story itself begin with Chamcha and Gibreel literally falling through the air and then somehow floating through it, but the novel’s epitaph from Defoe’s *The History of the Devil* also alludes to a predominating atmosphere of air:

Satan, being thus confined to a vagabond, wandering, unsettled condition, is without any certain abode; for though he has, in consequence of his angelic nature, a kind of empire in the liquid waste or air, yet this is certainly part of his punishment, that he is . . . without any fixed place, or space, allowed him to rest the sole of his foot upon.

Certainly this epitaph may be also related to themes of migrancy, but as we have seen in the case of Chamcha, questions of migrant identity are also questions of simulacra, weightlessness being a symptom of them both. Furthermore, as Gillian Gane notes, “The element of this novel is air” (Gane 19), and this is woven with feelings of weightlessness or rootlessness. Take, instance, the narrator’s (Satan’s) early statement that “when you throw everything up in the air anything becomes possible” (*Satanic Verses* 5), which is proved by Chamcha and Gibreel’s fall through “cloudforms” and the atmosphere initiating their transformations.

This sense of weightlessness is given clearer expression both in the character and dialogue of Alleluia Cone, Gibreel’s lover who he first encounters on the night of his pig eating. A Canadian by birth, Alleluia’s very physical appearance suggests a certain ethereality with “her hair so fair” that it is “almost white” and her skin “the color and translucency of mountain ice” (*Satanic Verses* 30). Alleluia, a product of western society, instantly influences the God-emptied Gibreel, and her levitating effect on him is evidenced by the note he leaves behind in India when he follows

her to England: “*We are creatures of air, Our roots in dreams And clouds, reborn In flight. Goodbye*” (*Satanic Verses* 13). A world-famous mountain climber, Alleluia is ever in quest of lofty heights, of air-thinned atmospheres and cloud-filled vistas in a life-journey that is surprisingly metaphysical, as she rather drunkenly explains to Gibreel:

. . . information got abolished sometime in the twentieth century, can't say just when; stands to reason, that's part of the information that got abolsh, abolished. Since then we've been living in a fairy-story. Got me? Everything happens by magic. Us fairies haven't a fucking notion what's going on. So how do we know if it's right or wrong? We don't even know what it is. So what I thought was, you can either break your heart trying to work it all out, or you can go sit on a mountain, because that's where all the truth went, believe it or not, it just upped and ran away from these cities where even the stuff under our feet is all made up, a lie, and it hid up there in the thin, thin air. (*Satanic Verses* 313)

Alleluia's analysis of the abolishment of “information” in the twentieth century is uncannily similar to that of Baudrillard, who writes, “We live in world where there is more and more information and less and less meaning” (*Satanic Verses* 79), and her quest for the real among the hallucination-inducing heights of mountains rings parallel to Baudrillard's description of the hyper-real as “a radiating synthesis of combinatory models in a *hyperspace without atmosphere*” (italics mine, Baudrillard 2). Even Gane notes that the novel's “emphasis on air as an element, associated with a loss of faith in the once solid ground of the earth, echoes the way others have described the change in consciousness that came with modernity and persisted in intensified form into postmodernity” (Gane 21). Alleluia expresses what Baudrillard describes as nostalgia for a time of the real, for a time before life became a “fairy-story” and a matter of “lies”. Her desperate search for “truth hid up there in the thin, thin air” further implies the serious peril of a state, and society, in which the real has ceased to have meaning.

Alleluia not only herself expresses a sense of weightlessness and the danger of the loss of the real, but she initiates both these elements in the life of Gibreel—it is in pursuit of her that Gibreel forsakes his roots and homeland to fly through the air to England, an event which begins his transformation into Gibreel the angel when the plane is hijacked and

blown up. Made weightless by his rejection of God, the spell of Alleluia and her influence in bringing him to the reeling, postmodern West unleashes the destructive power of the hyper-real for Gibreel. Gibreel's life now becomes that of a “gigantic simulacrum” as achieved by his inability to distinguish between his dream-self as the angel Gibreel and his waking-self as the man. Gibreel comes to fear his dreams as much as Alleluia does a world of “fairy tales” and struggles to keep himself awake. He laments to Chamcha, “every time I go to sleep the dream starts up from where it stopped. . . As if somebody just paused the video while I went out of the room. Or, or. As if he's the guy who's awake and this is the bloody nightmare” (*Satanic Verses* 83). In this way, Gibreel's dreams come to function in a manner similar to simulacra since the simulated is indistinguishable from the real—the angel is inseparable from the man—creating a perpetual condition of the hyper-real. The life-like dreams and real-life are perfectly exchangeable, and Gibreel is left without any standard of measure by which to legislate between them.

Over the course of the novel the distinction between Gibreel's dreams and his waking life in fact collapses.¹ He leaves Alleluia and wanders the streets of London, increasingly vulnerable to the fantastic scenarios of his dreams and suffering from apparent schizophrenia. It is thus suggested in the novel that Gibreel's mental health can only be reclaimed by the reconstruction of a “boundary wall between dreams and reality” (*Satanic Verses* 340). When Gibreel shows potential for recovery, his friend and agent, Mr. ‘Whisky’ Sisodia, decides to make films of Gibreel's dream

¹ Gibreel's experience of the hyper-real is such that the novel itself at times seems unable to distinguish between what is real and the imaginary, replacing these instead with what is simulated. For instance, while Gibreel suggests to Chamcha that he only becomes the “bloody archangel” while asleep, after their fall through the heavens the reader is given clues that the waking Gibreel has been transformed into an angel just as Chamcha becomes a devil. A nosy passenger on a train glimpses “a warm golden light that was coming from a point just behind his head,” i.e. a halo, and so proceeds with appropriate gestures of obeisance (*Satanic Verses* 193). As Spivak notes of Rushdie's use of magical realism, “The story begins in a miracle” followed by “a series of supernatural events tamely accommodated into the reasonableness of the everyday” (Spivak 225). Working within the genre of magical realism, Rushdie blurs the supernatural and the everyday in such a way as to preclude distinction. For instance, when Gibreel begins careening around the city of London set on reforming the city by increasing the temperature of the weather, “the moral fuzziness of the English” being “meteorologically induced,” (*Satanic Verses* 357), the reader is later, in a more traditional tone, informed of a heat wave. Rushdie's reader is thus not only presented with Gibreel's disorienting simulacral experience, but invited to participate in it as well.

sequences, “*Gibreel in Jahalia, Gibreel Meets the Imam, Gibreel with the Butterfly Girl*” so that “once those stories were clearly placed in the artificial, fabricated world of the cinema, it ought to become easier for Gibreel to see them as fantasies, too” (*Satanic Verses* 347).

However, rather than enabling a return to the real and a firmer grasp on reality, this decision to transform Gibreel’s dreams into film proves to be just another production of the ‘real’ in an already radiating realm of simulacra. In his first reappearance in the acting part of the angel Gibreel, the wall between the real and the imaginary comes crashing down, never to be reconstructed: “He rehearsed his opening line—*My name is Gibreel Farishta, and I’m back*—and heard it, so to speak, in stereo, because it too belonged in both worlds,” that is, in “this world and another that was also right there visible but unseen” (*Satanic Verses* 351). In this moment, Gibreel’s experience is that of the hyper-real—what is achieved by simulacra in an “operation deterring every real process via its operational double” (Baudrillard 2)—and marks the key turning point in Gibreel’s development, heralding his ultimate breakdown. During the scene of his final suicide, Gibreel has digressed so far that his very thoughts are fractured and partial, and still, through the center of them, rings the confusion, “not myself at all . . . some days are hard . . . how to tell you . . . always one part of me standing outside . . . I am the angel . . . the god damned angel of god” (*Satanic Verses* 544). Not only has Gibreel become a sputtering product of the hyper-real but also its ultimate victim. The loss of God and a western-inspired rootlessness creates a condition in which the virtual is indistinguishable from reality to such a degree that the real is without redemption. In a chilling conclusion, Gibreel’s suicide suggests self-destruction as the only possible relief from this condition.

The novel thus proves skeptical of the earlier nostalgia expressed by Chamcha’s return to India and of the desire to return to a state of the real. Chamcha is allowed to escape the hyper-real by reclaiming his roots, but Gibreel must take his own life to escape its power, which suggests that the hyper-real is, for all practical purposes, inescapable. Not only is Gibreel destroyed by the inexorable power of the hyper-real, but so also is the western Alleluia who helped unleash it. Gibreel, in an Othellian madness, suggests that Alleluia has cheated on him; he slanders her as “whore” and “bitch” and declares, “I knew what they were up to . . . laughing at me . . . in my own home” (*Satanic Verses* 544–545), eventually murdering her. These ideas are planted in his mind by Chamcha, who takes his revenge

on Gibreel by prank phone-calling him using the voices he learned doing radio, reciting “satanic verses” that imply Alleluia’s infidelity. Gayatri Spivak calls this “the only real act of intended, gratuitous, cunning cruelty and persecution represented in the book,” also noting “the absurd discontinuity of the hyper-real. *Etre-pour-la-mort is tre-au-telephone*” (Spivak 227). The hyper-real has not only destroyed its product, Gibreel, but also, through the simulated voices on the telephone, its vessel: Gibreel’s romance with Alleluia, with the West, renders them both subject to hyper-real apocalypse.

The Satanic Verses is a work uneasy with its own conclusions—constructive/destructive, escapable/inexorable, it is only the prevalence of the hyper-real in society that remains unquestioned. Despite Chamcha’s phase of devilment and turn as a ploy of the hyper-real with his phone calls, the ending of his story is hopeful, if perhaps naïve and unconvincing in its reclamation of the real. Yet Gibreel Farishta’s narrative is disturbing in its opposing finish of complete destruction. Rushdie thus provides a probing if ultimately inconclusive examination of the simulacral experience of postmodern society, suggesting through his tale of two migrants of the “post” and “trans” that it is not enough to simply diagnose the “hybrid” or “multi” products of globalization today and consider the theoretical task complete. Rather, Rushdie’s depiction of identity construction through the hyper-real foreshadows both how the implications and outcomes of such construction affect the way we view “home” and the “real” today as well as the way we anticipate the condition of society tomorrow. Such is the discussion that Rushdie’s *Satanic Verses* has begun and which is only likely to be continued by others who acknowledge the question of identity and its construction to be increasingly complex in the present age of globalization and the approaching world-wide hyper-real—in an age of unlimited of internet, advertising, and mass communications—a “gigantic simulacrum.”

References

- Baudrillard, Jean. *Simulacra and Simulation*. Trans. Sheila Faria Glaser. Ann Arbor: The University of Michigan Press, 1994.
- Gane, Gillian. "Migrancy, the Cosmopolitan Intellectual, and the Global City in *The Satanic Verses*." *Modern Fiction Studies* 48.1 (Spring 2002): 18-49.
- Kalliney, Peter. "Globalization, Postcoloniality, and the Problem of Literary Studies in *The Satanic Verses*." *Modern Fiction Studies* 48.1 (Spring 2002): 50-82.
- Kellner, Douglas. "Jean Baudrillard." *The Stanford Encyclopedia of Philosophy*. Ed. Edward N. Zalta. 7 March 2007. Stanford University. 22 Sept. 2008 <<http://plato.stanford.edu/archives/fall2008/entries/baudril-lalrd/>>.
- Rushdie, Salman. *The Satanic Verses*. Middlesex: Viking Penguin, 1989.
- "In God We Trust" *Imaginary Homelands*. Great Britain: Granta Books, 1991.
- "In Good Faith" *Imaginary Homelands*. Great Britain: Granta Books, 1991.
- Sharma, Shailja. "Salman Rushdie: The Ambivalence of Migrancy." *Twentieth Century Literature* 47.4 (Winter 2001): 596-618.
- Spivak, Gayatri Chakravorty. "Reading *The Satanic Verses*." *Outside in the Teaching Machine* New York: Routledge, 1993.

Incomes and Compensation in the American Labor Market

Tyler Stover[†]

[†]Tyler Stover is a senior Business Economics major.

Abstract

The purpose of this paper is to explore the topic of fair and adequate wages as related to labor compensation in the United States. Relevant economic theories are discussed and supported with empirical evidence. Falling real incomes impact the larger economy by reducing consumer spending. Future Productivity increases are threatened by the disparity of past productivity increases and wages. Worker welfare is enhanced by changes to the structure of compensation and improvements in the workplace. The economic analysis is contrasted with moral and ethical views on the proper compensation treatment for workers. Suggestions for improving the fairness and adequacy of workers' wages are provided.

Introduction

According to a CNN Money article (2008) the Pew Charitable Trusts' Economic Mobility Project found that between 1974 and 2004 men in their thirties saw a twelve percent decrease in real income. Inflation adjusted incomes dropped from \$40,210 to \$35,010. Within this date range income hit a low in 1993 of \$32,599. Today it is estimated to be \$34,676. Pew chose to study men in their thirties because this demographic has been a relatively stable group in the workforce. Women have entered the workforce in increasing numbers, and employment for older and younger persons fluctuates with retirement and education trends, respectively. Not only has income adjusted for inflation declined, but output per worker hour has increased at a faster rate than real hourly compensation (McConnell, 2008). As recently as the third quarter of 2008, productivity in most sectors experienced positive percentage point growth from the third quarter of 2007, but real hourly compensation fell in all sectors over the course of the same period (BLS, Dec. 3, 2008). American workers are producing more but making less for their work.

Clearly these trends hint at potential or even realized problems for labor compensation, worker welfare, and general economic health. However, falling real income levels may not be entirely negative. Wages are only one part of potential labor compensation packages. Wages not only reflect productivity and hours worked but work conditions and the cost of working compared to the next best alternative. This then raises the question of whether the wages and salaries taken home by the American

worker are both fair and adequate for a reasonable standard of living. An analysis of wage trends in the interest of assessing fair compensation must take these conditions and opportunity costs into account. Falling real income levels have implications for both macroeconomics and microeconomics. The question of fair and adequate labor compensation is a complex one and will require a broad discussion of economic theory, empirical evidence, historical events and trends, and an ethical discussion to form a complete conclusion.

The Problem of Falling Incomes Two Scenarios

The prospect of a bleaker financial future and falling wealth conflicts with the traditional American economic outlook of better work, better earnings, and better living. William T. Morris (1975) wrote of two different possibilities for the American economic future. In the first scenario both population and production significantly increase, doubling the gross national product in ten years. Output per man hour would double about every 24 years, accounting for about 70 percent of growth in the gross domestic product. Income adjusted for inflation would follow the same trend as productivity. The workforce would expand more than work hours, and combined with increased productivity this would lead to a shortening of the work week. Trade balances would become favorable and unemployment could even drop to 4.5%. Investments in healthcare and other forms of human capital would drive productivity enhancements. Clearly this scenario is the quintessential example of American optimism and faith in hard work, technology, and wealth accumulation.

Unfortunately Morris' other scenario portrayed what might happen if all these forces did not interact so well to create a prosperous, economic-utopian future. Instead, the second scenario shows a frustrating combination of forces that conspire to fundamentally and persistently weaken the economy. In this scenario productivity and output grow slowly or not at all, while foreign production leads to gross domestic product loss through trade deficits. Weakness in productivity, output and foreign trade harm employment and income. Growth in female and minority participation in the workforce along with general population growth increases the market work supply, while falling incomes increase individual work supply through the income effect. Unions attempt to preserve income and job security by

attempting to restrict productivity and work supply. Disenchantment and falling returns reduce investment in research and development and capital accumulation. The capital accumulation, technological progress, and work incentives that do happen do not achieve the desired stimulation to productivity. In short, while economic forces in the first scenario work together to achieve self-enhancing growth, in the second scenario they conflict with each other to frustrate and limit any growth they might achieve on their own. The outcome is essentially living poorer and working harder.

These scenarios demonstrate the disconnect between the optimistic simplicity that is sometimes found in basic economic models and the conflicts and exceptions encountered in the real world. Although the general notion that productivity and wages rise in unison still holds in basic economic theory, this assumption has not played out in the real economy during the last few decades. Fortunately, in the three decades since Morris' work was printed, the second scenario has not fully played out. Unfortunately, neither has the first. Productivity has increased significantly and human capital investment is on the rise, as will be demonstrated later, but the work week has not generally shortened, new entrants and population growth have expanded the workforce, the trade deficit has grown, and as demonstrated in Pew study, real incomes have fallen. While the situation is moderate for now, diminishing income for consumers in the form of labor compensation poses a significant threat to future macro-economic stability and growth.

Income, Savings, Consumer Spending, and Economic Growth

One of the primary drivers for gross domestic product growth is consumer spending, which in turn is driven by consumer income. For every dollar a consumer owns, a certain percentage goes towards taxes, funding government spending. Another fraction of that dollar goes toward savings and investment, funding business expansion. The rest goes towards consumption of goods and services. These three categories along with net exports determine an economy's gross domestic product.

With real incomes on the decline, one would expect consumer spending to also be on the decline. However, the Congressional Budget Office (CBO) (2007) noted that from the mid-to-late 1990s and into the

early-to-mid 2000s consumer spending grew faster than income, at the same time as home prices were growing dramatically. Essentially, consumers were transferring the portion of income that would normally go towards savings into the consumption portion and allowed their increasing home values to save for them. The Congressional Budget Office wrote in the January 2007 report that between the first half of 2000 and the first half of 2006, housing prices rose about 5 percentage points faster than annual inflation, compared to the 1.8 percentage point advantage house price growth held over inflation for the previous 32 years. From the first half of 1999 to the first half of 2006 the savings rate fell from 2.9% to -0.9%. The reduction in savings rate and increase in spending due to rising home prices is called the wealth effect. Expectations can play a role in enhancing and magnifying the wealth effect. If consumers expect higher home values, they will increase consumption and decrease savings in the present, inflating the wealth effect beyond what current prices indicate. Wildly escalating home prices gave rise to unrealistic expectations, fueling overconsumption on borrowed money and little cash savings. This combination of increased spending and borrowing, and decreased incomes and savings created economic "prosperity" that hid the reality of declining incomes and the slowing growth that should have resulted.

The Congressional Budget Office paper concluded with a description of a worst case scenario of falling home prices, current consumption based on unrealistically optimistic expectations for future home values, and a decline in equity withdrawals. In such a scenario, a ten percent reduction in house prices could lead to \$316 billion decrease in consumer spending, representing 2.2% of GDP. Combined with the other two effects listed in the introduction—a fall in construction activity and financial industry losses—this would be enough to tip the economy into a recession. With the bursting of the housing bubble in 2007 and into 2008, consumer spending, and consequently economic growth, was severely compromised. Without support from increasing incomes, growth in consumption was dependent on unsustainable home equity gains and borrowing. When housing prices declined, consumption was reduced in order to offset the loss of equity with cash savings and/or investment. Consumers could no longer depend on their homes to save for them. The fall in home equity was accompanied by a fall in equity-backed lines of credit, further eroding purchasing power. The worst case scenario of falling housing prices, home owners with unrealistic expectations for future prices, and a loss of home

equity-backed credit to support high consumer spending accurately described the bursting of the housing market bubble. Recently the National Bureau of Economic Research declared the U.S. to officially be in a recession which started in December of 2007, eleven months after the publishing of the CBO paper. The link between housing prices, income, savings, and consumer spending in an economy exists both in theory and in empirical evidence.

The discussion of the wealth effect should be tempered by some caveats. *The Economist*, in the August 9th 2008 issue, cited the Federal Reserve's quantity for the wealth effect at 0.0375. That is, for every dollar of increased wealth (current and expected) 3.75 cents goes towards increased spending. However, the article also cautions the wealth effect may be overestimated, as the wealth losses experienced by those "long" on housing are offset by gains by those "short" on housing, leading to a net wealth effect of zero. To clarify, those who are "long" on housing are those who currently own more housing than they will use in their lifetime. Those who are "short" on housing are those who will buy housing or trade up to better housing. The net result is an average person who lives in a house until he or she dies and except for the inheritance left after death is indifferent to his or her home value. A change in prices merely shifts wealth from "shorts" to "longs" or "longs" to "shorts." It does not alter the net amount. The exception, the article states, occurs during housing market bubbles. Landlords (those who are "long" on property) lose the bubble value—the actual price during the bubble period in excess of the price market fundamentals should dictate. Tenants (those who are "short" on property) gain nothing. So the zero net-gain from housing price shifts only applies to the wealth related to market fundamentals. Wealth related to bubble values can be gained and lost. Ultimately, this article argues, a reduction in consumer spending following a drop in home prices comes primarily from losing access to collateral (home equity) backed credit. This is relevant the discussion of falling incomes and consumer spending in that it defines the boost to consumer spending independent of income as spending funded by borrowing, not by a reduction in savings. Likewise, the fall in consumer spending accompanying the fall in home values reflects the amount consumers were spending over and above what their falling incomes would dictate.

While it may have been masked by the equity realized and tapped during the housing boom, the trend of falling real incomes has had an

adverse affect on consumer spending and household savings. Also, because tax revenue is income and sales-based, the government spending and saving portion of the gross domestic product equation is negatively impacted as well. The recession that began in late 2007 is readjusting economic growth to the reality of American families having smaller real incomes than they had in the past. Now that the borrowing and equity savings have dried up a painful correction illustrates the income problem facing the economy.

Productivity and Compensation Productivity Growth Causes

The failure of income to match pace with productivity could be taken to indicate workers are unfairly paid for their effort. It appears to be to confirmation of William T Morris' prediction that the American worker faces a future of "living poorer and working harder." However, while productivity is traditionally measured as total product per worker hour, increasing productivity does not rely entirely on workers putting out more sheer effort for every hour worked.

Forces driving productivity growth can be classified in three groups: labor quality improvement, quantity of capital per worker hour, and increased efficiency of inputs. A study by Dale W. Jorgenson, Mun S. Ho, and Kevin J. Stiroh (2006) found that 53% of productivity growth could be attributed to greater quantity of capital per worker hour. Increased input efficiency accounted for another 33% of productivity growth. The final 14% is attributed to improved labor quantity.

Quantity of capital per worker reflects the tools workers are given to produce their good or service. The term may be misleading, as it not only refers to the number of tools and equipment available to workers, but to their value and effectiveness as well. A construction worker with a bulldozer may be more productive than a worker with a shovel, even though the worker with the bulldozer may exert less effort with the same absolute number of tools as the worker with the shovel.

Increased efficiency of inputs is a broad term that reflects many productivity enhancing factors like improved technology, economies of scale, labor reallocations, and changes in the work and business environment. Combining the right labor type with the right capital can improve productivity by maximizing the worker's special strengths and skills.

Economies of scale also enhance this specialization. Some industries, like manufacturing, have higher productivity than others, like agriculture, so a shift of labor from agriculture to manufacturing improves productivity.

The final category, labor quality, most directly links productivity with the laborer, rather than capital, management, or macroeconomic forces. Worker education and training are positively related with productivity. Other investments in human capital such as health care, nutrition, and living conditions improve the abilities and attitudes of workers. A workforce that is invested in and nurtured is likely to do better work than miserable and neglected workforce.

From this analysis of productivity it is clear that not all productivity increases can be directly attributed to labor. Capital accumulation and technological progress have allowed the same worker to achieve more than he or she would have in decades past. The inventors and owners of capital and technology have claim to enhanced productivity alongside laborers.

Efficiency Wages

Productivity may not result wholly from a laborer's increased exertions, but that does not mean that laborers should not receive increased compensation for better productivity. The concept of efficiency wages calls for higher than market-clearing wages in the interest of retaining workers and encouraging greater productivity. The failure of real-world compensation to reflect this theory may indicate a real problem area in labor compensation.

Nobel Laureate George Akerlof (2005) described efficiency wages in the form of gift giving between employees and a firm. In exchange for premium wages, that is wages higher than they could get if they left their employment with the firm, employees offer productivity above the minimum requirements of the firm. Social gift-giving conventions dictate the givers offer a gift equivalent in value to what they expect to receive back, and the receiver returns a gift of similar value. Applied to economics, the firm should provide a wage premium that reflects the productivity offered by employees in excess of the firm's minimum requirements for continued employment. To support this example Akerlof cited a 1953 study of workers at a utility company in the eastern United States. These workers exceeded the minimum productivity requirements the firm set for their position by an average of fifteen to eighteen percent. The workers were in a position where no promotion or raises were expected, and the

consequence of failing to meet the productivity requirements was merely a rebuke from the supervisor. Akerlof concludes from this study that workers develop social ties that in turn develop social norms for work. The group returned greater than required results on the aggregate, with the expectation that minimum requirements would not be raised to put pressure on the weaker workers. In exchange for this extra productivity, the firm pays a wage that is fair in terms of gift giving.

This concept of efficiency wages based on partial gift exchange brings an interesting sociological/behavioral element into labor economics. At first it appears similar to the principle that labor compensation is tied to output. However, in this case premium wages, called efficiency wages, are not tied directly to output but are instead based on social expectations not unlike an honor system. Workers deliver exemplary results with the expectation of fair value gift in return. Firms give higher than strictly market clearing wages with the expectation that their minimum requirements will be exceeded. Unfortunately, as evidenced by the empirical evidence showing falling incomes in the face of rising productivity, this gift exchange appears to be uneven. Workers are giving more excess productivity than firms are giving in excess wages. This could prove to be a poor strategy for firms looking for employee loyalty and retaining the workers they have invested so heavily in.

The Changing Form of Compensation Worker Preferences

Stagnating or declining incomes may pose a macroeconomic problem, but they do not necessarily signify unfair, inadequate, or undesirable labor and labor compensation conditions for workers. Indeed, wages are only one form of labor compensation, and growing preferences for other forms of compensation could contribute to the decline in real income. That decline in real income does not signify a reduction in compensation. In this perspective, it simply signifies a shift from one form of compensation to another. Wages also do not merely reflect productivity. A certain element of compensation is a premium for unfavorable work conditions. If work conditions become more favorable, that premium shrinks but the worker is no worse off.

Fringe Benefit Growth

Fringe benefits have long been a growing force in compensation packages, both as a percentage of the total package and in real dollar amounts. Rising benefits compensation has a significant impact on worker welfare, labor supply and demand dynamics, and the costs associated with the services covered under fringe benefits. They are, therefore, an important part of the discussion of fair and adequate compensation for modern workers.

The emergence of fringe benefits as significant elements of compensation packages is most noticeable in the decades surrounding World War II. In 1929 fringe benefits represented only about three to four percent of total labor compensation, but this number more than tripled by 1955 to about fifteen percent (McConnell, 2008). The cause of this jump lies at least partly with the wage and price controls instituted during World War II. At that time economists worried that, as during most previous wars, unequal and extreme inflation would impose a burden upon both the people and the government. Goods and services related to war-time production would see severe inflation. Other goods and services would see less severe but still meaningful inflation. Likewise, workers related to war-time production will see dramatic wage increases, while workers related to other production as well as white collar workers see smaller wage increases. Income for owners of rented property and capital, as well as those on fixed incomes does not rise at all. This unequal and severe inflation would entirely disrupt the economy and create new and sudden shifts in income distribution (Summers, 1942). The government's response to avoid this inflation trend was to introduce a series of wage and price caps. However, this element of centralized planning in an otherwise free market allowed for loopholes. While wages were capped, compensation such as health insurance was not. Employers looking for scarce workers could offer benefits as a way to attract labor when wages could not.

Following their rapid rise as a staple of compensation packages, fringe benefits continued to increase throughout the 1900s. From 1955 to 2006 the percentage of fringe benefits as a part of total compensation rose from about fifteen percent to about thirty percent (McConnell, 2008). This doubling of fringe benefits came about much more gradually than the shift in the 1930s through 1950s and would seem to represent a growing preference for benefits rather than a sudden upheaval in the compensation structure. Given that fringe benefits such as health insurance and retirement savings plans are often untaxed, lower costs for employers and higher

take-home value for employees are likely significant driving factors behind this growth. Another contributor to fringe benefit growth is the growth of government employment. According to a 2008 Bureau of Labor Statistics (BLS) report (August 7, 2008) retirement and medical care benefits had higher participation rates among local and state government employees than among private industry employees. Trends also show strong growth in state and local government employment, increasing from under 5 million employees in 1950 to around 20 million in 2005. Taken together, these findings indicate that growth in health and retirement focused fringe benefits is in part driven by growth in government sector employment.

Expanded participation in fringe benefits coverage is likely to result in a number of positive results for workers, employers, and society as a whole. For employees, health insurance is a fairly common offering, as is retirement planning. According to the same BLS report, nearly three quarters of state and local government and private industry workers had access to health care. Two thirds had access to retirement benefits. Medical coverage can beneficially impact a worker's current quality of life, and retirement coverage can assure a decent quality of life even if social security cannot meet the needs of retirees. Benefits often qualify for tax-free status, and these benefits represent a greater take-home value than an equivalent dollar amount in wage income for a worker. Finally, due to economies of scale workers can have access to the services provided through benefits at a lower cost than they could by spending their own money individually.

Employers are also better off by offering fringe benefits instead of higher wages. The greater value to the employees means the employer does not have to offer a larger dollar value for the employees to feel better off, leading to labor cost savings. The greater health and quality of life mentioned previously represents an investment in human capital for the employer. With the attention given to the preference for more benefits by the public, expanded offerings could provide an image boost for a company.

Society as a whole is affected by the shift towards offering more fringe benefits. On one hand, such a shift relieves government programs like social security and medical care programs. The population as a whole has the opportunity to be healthier and more financially secure. Expanded participation in benefits programs means greater revenue for the insurance, financial services, and health industries. Health care and retirement planning represent smart investments that will yield long-term benefits for the economy and society.

Although the expansion of fringe benefits presents many possible positive outcomes, there are some potential negative issues. While fringe benefits encourage investment in health and financial savings, they negatively impact discretionary spending by reducing the amount of wage income a worker receives in a compensation package. Personal spending is not the only thing that is limited. Workers are also limited to the products and services offered through their employer's benefits plans. Also, workers may become too reliant on their savings and insurance being handled by the company and may be unprepared to personally handle those responsibilities if they stop working for a company offering those benefits.

The increasing presence of fringe benefits as part of a total compensation package impacts employees and employers alike. Beneficial human capital investment comes at a lower cost due to favorable government policies and economies of scale. Though substituting benefits for wages may limit the ability of workers to spend freely, this shift represents an improvement in labor compensation.

Workplace Conditions

Improvements in workplace conditions can be seen as reductions in unfavorable characteristics that require a wage premium to compensate the worker for the inconvenience, discomfort, or danger encountered on the job. All else equal, a job that is more dangerous, located in a less desirable location, requires more inconvenient hours, or involves more undesirable duties and responsibilities than another job should command higher wages. Just as the fall in real income in the last few decades does not necessarily reflect a drop in total compensation, it also does not necessarily signify a reduction in the ratio of workers' compensation to the working conditions they are compensated for. If working conditions improve, it follows that the wage premium will be reduced.

Most job characteristics mentioned above do not display market trends that are easily generalized. One area that does show a distinct trend is workplace safety. From 1992 to 2003 nonfatal occupational illnesses and injuries in private industry fell from 8.9 instances per 100 workers to 6.1 incidences per 100 workers (Jacobs, 2003). This fall represents a 31% decrease in workplace-related health and safety problems. This is a remarkably large drop for a period as short as 8 years and demonstrates a clear improvement in working conditions. American workers may be paid

smaller dollar wages for their work, but they also face significantly reduced threats to their lives and health while at work.

Christian Response

A danger in labor economics is the tendency to dehumanize the worker. When dealing with theories and empirical evidence, it is easy to reduce the laborer to a numerical quantity. It is easy to put a dollar value on his or her efforts, to quantify a wage commensurate with the output he or she produces, and reduce his or her work experience to a matter of inputs, outputs, and pay. While this dehumanization may be fine for predicting employment trends, explaining economic growth, calculating gross domestic product, and finding telling correlations, it does not conclusively answer the issue of fair and adequate compensation. The empirics, theories, and histories above give direction to the answer. They help frame the macroeconomic and microeconomic circumstances surrounding the present conditions. But they answer the question in the same way such theories and evidence would answer a question related to capital. A Christian worldview ought to hold humans as fundamentally different than all other economic inputs.

Christians must treat their fellow man with compassion and concern. In Matthew 25:35-36 Jesus describes compassion by saying, "For I was hungry and you gave me something to eat, I was thirsty and you gave me something to drink, I was a stranger and you invited me in, I needed clothes and you clothed me, I was sick and you looked after me, I was in prison and you came to visit me." The Church in Acts followed this model of compassion, as is noted in Acts 2:44-45, "All the believers were together and had everything in common. Selling their possessions and goods, they gave to everyone as he had need." With a commandment to such holistic generosity, charity, and economic unity Christians cannot simply link a person's material well-being to the amount of income he or she is to generate through productivity. To accept inadequate wages even if they are economically justified as market wages is not enough. A person's needs are just as important as a person's work.

While a person's well-being should not be tied exclusively to productivity, it should also not be entirely divorced from productivity. There are many proverbs commanding hard work and promising appropriate reward. Proverbs 10:4 reads: "lazy hands make a man poor, but diligent hands bring wealth" while Proverbs 13:4 says "the sluggard craves and gets

nothing, but the desires of the diligent are fully satisfied.” Just as Christians are called to show compassion to those who are needy, they are also commanded to work and earn their livings. Charity must be balanced with effort.

Academic evaluation of wages is not the only setting in which a strictly economic view on wages is detrimental. In most businesses today, compensation is based primarily on economic goals, such as motivating productivity and enhancing shareholder value, rather than principles of fairness and “right and wrong.” Economics based pay leads to a materialistic, objective view of work, ignoring the subjective element of human development. Justice should be central to wage setting relationships, and human development should be the ultimate end of compensation (Alford, 2001). A balance of objective and subjective goals aligns compensation strategies more closely with a Christian worldview. Pay should not only reflect the value a worker gives a firm, but the value the firm places on that worker as a human.

Another danger in relying on economic forces to guide a market wage is the near-certainty that in a large economy there will always be someone lacking work and therefore willing to work for less (Collins, 2007). If work continually goes to the lowest bidder wages could spiral down to a level unsuitable for a decent standard of living and inconsistent with human dignity. Competition may be efficient, but cut-throat competition may eventually become de-humanizing.

A fair, decent wage then, according to a Christian worldview, is one that reflects economic, human, and spiritual value. Wages should be living wages in that they consider the needs of workers, equitable wages in that they consider a worker’s contributions, and sustainable wages in that they allow the firm to stay in business and continue supporting all stakeholders (Alford, 2001). Such wages embody a holistic approach to compensation policy. They acknowledge that pay is to reflect on work and productivity, but they uphold the dignity and sanctity of human life. The Christian worldview concerning labor compensation can perhaps best be summarized as “a fair day’s wages for a fair day’s work” (Collins, 2007).

Conclusions

The status of labor compensation in the American economy cannot be easily classified either positively or negatively. There are some trends indicating improved compensation for a laborer’s work effort. Other trends

indicate laborers are working harder but earning less. Economic criteria do not always align with ethical, moral, and spiritual criteria. Therefore, a general statement as to whether American workers are receiving fair and adequate compensation cannot be a simple “yes” or “no” response.

Despite declines in average real incomes over the past three decades, American workers are not necessarily seeing an equivalent decline in overall compensation. The growth pattern of fringe benefits indicates a trend away from simple cash wages in exchange for work in favor of more diversified compensation packages. While this trend ultimately reduces discretionary income available for the worker to spend freely, it also perpetuates increased investment in human capital, especially in healthcare and financial planning. Such a trend reduces the possibility of wasting wages through frivolous spending and instead focuses on investments that can yield significant long term benefits for both productivity and quality of life. In addition, workplaces are becoming significantly safer and more agreeable to workers’ well-being and happiness. Improved work conditions are a positive step towards affirming the value and dignity of workers. These trends certainly indicate remarkable progress in the well-being of the workforce.

A subject where progress is less clear, and perhaps even non-existent or negative, is the relationship between wages and productivity. While the general economic assumption traditionally has held that wages and productivity approximately grow and decline in unison, recent empirical data (McConnel, 2008; BLS, 2008) shows a rate of productivity growth that outpaced stagnating or declining real wages. While not all of this productivity growth can be attributed to labor, workers simply did not enjoy much benefit from growing output. This could lead to an undesirable shift in income distribution favoring owners of capital and equity over labor. Also worrying about this failure of wages to match productivity is the apparent failure of efficiency wage theory. If the workers’ gift of extra output is not returned with a gift of similar value by the firm, the social conventions of gift giving will be violated and workers will respond by reducing productivity, reducing loyalty, or a combination of both. Firms looking to maintain high rates of productivity growth and retain valuable employees must consider the detrimental effect paying wages out of synch with worker offerings will have on those goals.

Falling cash incomes have damaged the American economy by undermining the support behind consumer spending. While this damage

had been hidden for some time by the growth of home equity and the spending growth fed by the accumulation of higher than normal equity, the true consequences were uncovered by the housing market collapse and resulting recession. Reduced real incomes for workers harmed economic strength and established conditions for a painful recession.

Economic analysis is not enough to analyze labor compensation. Beyond the economic value of labor is the human and spiritual value of a worker. Wages should not merely compensate the lowest bidder to get work done. Wages must fairly reflect a worker's contribution, provide for an adequate standard of living upholding human dignity, and allow the firm to be sustainable in a competitive business environment and fulfill all duties and responsibilities to its stakeholders. Above all, wages must ultimately be rooted in the fundamental worth of humans and contribute to human development.

Workers in the American labor market face a mixed situation. Growth in fringe benefits and improvements in the workplace environment have greatly benefited workers and have improved their condition. Reductions in real incomes have reduced their ability to spend, hurt economic growth, and undermined the gift-exchange process that foster productivity and loyalty. Income is unevenly distributed between workers and owners of capital. Workers are in many ways better off than ever before, but there is still much progress left to make before the Christian worldview of fair, adequate wages can be realized.

References

- Akerlof, G. A. (2005). *Explorations in pragmatic economics: Selected papers of George A. Akerlof and co-authors*. Oxford: Oxford University Press.
- Alford, H. J., & Naughton, M. J. (2001). *Managing as if faith mattered: Christian social principles in the modern organization*. Notre Dame, Indiana: University of Notre Dame Press.
- Collins, C. & Wright, M. (2007). *The moral measure of the economy*. Maryknoll, New York: Orbis Books.
- Economic focus: Home truths. (2008, August 9). *The Economist*, p. 74.
- Employee benefits in the United States. (2008, August 7). *Bureau of Labor Statistics*. Retrieved Dec 1, 2008, from <http://www.bls.gov/news.release/ebs2.nr0.htm>
- Housing wealth and consumer spending. (2007). *Congressional Budget Office*. Retrieved Dec 3, 2008, from <http://www.cbo.gov/ftpdocs/77xx/doc7719/01-05-Housing.pdf>
- Jacobs, E. E. & Ryan, M. M. (Eds.). (2003). *Handbook of U.S. labor statistics: Employment, earnings, prices, productivity, and other labor data*. Retrieved from <http://patris.apu.edu/>
- Jorgenson, D. W., Ho, M. S., & Stiroh, K. J. (2006). Potential growth of the U.S. economy: Will the productivity resurgence continue? Available evidence suggests persistence of healthy productivity change and economic growth. *Business Economics*. Retrieved December 6, 2008, from BNET Business Library Database.
- McConnel, C. R., Brue, S. L., & Macpherson, D. A. (2008). *Contemporary labor economics*. (8th ed.) New York: McGraw-Hill/Irwin.
- Morris, W. T. (1975). *Work and your future: Living poorer and working harder*. Reston, Virginia: Reston Publishing Company, Inc.

New International Version Study Bible. (1973). Grand Rapids, Michigan: Zondervan.

Productivity and costs: Third quarter 2008 revised. (2008, December 3). *Bureau of Labor Statistics*. Retrieved Dec 6, 2008, from <http://www.bls.gov/news.release/prod2.nr0.htm>

Summers, R. E. (1942). *Wages and prices*. New York: The H. W. Wilson Company.

The economy: Why it feels so bad. (2008). *CNN Money*. Retrieved Dec 6, 2008, from http://money.cnn.com/galleries/2008/news/0810/gallery.five_measures/3.html

Non-Profit or Non-Conscience: The Tragic Divide of American Enterprise

Luke Spink[†]

[†]Luke Spink is a senior Business Economics major. The author would like to extend special thanks to Dr. Roger Conover for directing, inspiring, and overseeing the writing of this work. While he may not be recognized often, the selfless commitment of Dr. Conover to the world of Development Economics, the effective means of addressing global poverty, and the institution of moral but effective practices in business and life needs to be highlighted. Thanks for keeping me on track with a challenging schedule, validating my ideas, and not being afraid to critique when necessary.

Abstract

Profit and nonprofit firms alike are too often plagued by the adversarial role perceived by each with respect to its ideological counterpart. There must be more to overcoming the ideological divides between business and nonprofit than more effective regulations. A misunderstanding of profit, leading to a misunderstanding of enterprise objectives may be at the source of this conflict, and correcting it may be the spark for its resolution. Reorganizing profits and nonprofits underneath a definition of profit that is more narrow than traditional reinforces the necessity that social value be created by both types of organizations, reducing tensions and actually increasing accountability. By adopting the ways in which both can concurrently pursue more broadly shared values, profits and nonprofits can strengthen their core competencies, improve their operations, and benefit society exponentially more.

Altruism or entrepreneurialism: how to approach the topics of poverty and social responsibility in the United States is a subject of great divide among politicians, economists, and humanitarians alike. Advocates of the political and economic left would like to see income redistribution, increased regulation, and official programs put in place correct the ills of society. Conservative activists says that underprivileged groups should rely on themselves and environmental factors to develop self-sustaining mechanisms; enterprise and individuals will benefit more, they say, if government lets environment be the primary factor which regulates these activities. In fact, recent years have shown a growing number of non-governmental market or business-driven models being used to address poverty both in the United States and abroad.

Free enterprise has also led to the development of what is called the nonprofit sector, a class of organization that is divided from the for-profit sector according to organizational objectives and certain regulatory exclusivity. While “profit” and “nonprofit” are legally defined more broadly than the de facto traditional understanding, there is a general consensus in American understanding that nonprofit organizations generally exist to benefit society, while profit institutions are generally geared toward the interest and empowerment of their owners.

Unfortunately, there are ideological conflicts here too. Social and environmental activists complain that profiteering corporations have been

allowed to create social and environmental problems by ignoring non-monetary outcomes. Likewise, critics of the nonprofit sector point to inefficiencies and lack of effectiveness in achieving stated organizational objectives. In fact, the greatest conflict is likely between these two types of organizations themselves. While a growing number of corporations and nonprofits have achieved partnerships whose collaborative efforts have achieved unprecedented gains, continued hostilities between those critical of the undesirable outcomes in their respective counterparts keep the issue hot. Gains in one have seemed to offset gains in the other.

Both are right. While business usually benefits owners but sometimes hurts society, nonprofits usually do create social value but can be subject to corruption and inefficiency. More to blame, however, is an incomplete and somewhat misdirected understanding of respective roles which keeps both from performing as they are capable. In fact, both types of organizations should benefit stakeholders and society alike, though through different competencies. The following is a description of how a polarized understanding of American institutions (not just corrupt people) is primarily to blame for business that has harmed society, nonprofits which have failed to be effective, and the falling short of both in potential effectiveness. At the core of the divide is a fundamental but common variance in the understanding of “profit,” which will be addressed first. Following, a look at the potential crossover of objectives between nonprofits and profits alike will suggest that movement toward the ideological center by both types of organizations will not only increase positive social impact but reduce the adversarial tendencies that plague the operation of both.

In the Fall 2007 issue of the *Stanford Social Innovation Review*, Heather Grant & Leslie Crutchfield identified “Make Markets Work” as one of six practices that are characteristic of high impact nonprofit organizations. The article was a summary of their book, which examined the twelve U.S. nonprofit organizations which they believe most effectively accomplish their stated objectives. “High impact nonprofits,” they say, “have learned that tapping into the power of self-interest and the laws of economics are far more effective than appealing to pure altruism.” The model commonly employed by the for-profit community, these authors say, presents a compelling best practice that nonprofits should learn to follow.²

² Heather McLeod Grant and Leslie R. Crutchfield, “Creating High-Impact Nonprofits,” *Stanford Social Innovation Review*, Fall 2007, pp. 35, 37.

But what is meant by profit? Most environmental activists or flower power leftovers are happy to make light of how individuals or businesses have “profited” at the expense of others or the environment. Corporate casualties resulting from greed and those who have pursued money-only objectives have littered the historic landscape of the global economy. In this regard, profit may be broadly termed as simply the excess of revenue over cost, allowing to fall within its definition anything from the legitimate creation of value to thinly veiled acts of deception. Pursuit of profit, according to this definition, may involve nothing more than the transfer of value from one who has it to one who is good at convincing others to transfer it to him (or, as some might say, stealing it). This form of profit will heretofore be referred to as “profiteering” or the “broad” definition of profit.

On the other hand, a successful manager will likely say that profit is the mark of efficiency, the evidence of a venture’s legitimacy. The presence of profit is taught in business schools as the way to determine that an organization is alive and productive; it signifies the rearrangement of disorganized and less valuable resources into something of greater value. Deirdre McCloskey, in her discussion of *The Bourgeois Virtues*, references the debate among utilitarians and ethicists regarding the exact nature of “profit” and the purpose of a business. While Adam Smith, she says, emphasized a holistic approach to value maximization and its capture, later economists allowed a separation between social or non-monetary gains and their business activities.³ Milton Friedman, for example, argued that “the social responsibility of business is to increase its profits” and, that a manager’s duty is to “make as much money as possible while conforming to the basic rules of the society.”⁴ While Friedman encourages adherence to law and ethical customs, McCloskey’s purpose in citing him is to highlight the psychological separation between monetary and social goals which Friedman believed appropriately characterize capitalist activities. In response, she tells of Miyake Shunro, an 18th century instructor in the Japanese merchant city of Osaka who described profit as “nothing other than an extension of human reason . . . Indeed, merchants should not even

think of their occupation as being profit seeking but as the ethical acting out of the moral principle of ‘righteousness.’”⁵

If profit is understood as a result which naturally proceeds from rational arrangement of resources and activities, one might conclude that a more narrowly defined understanding of the concept can be leveraged against the broader and more contemporary understanding, which defines it only as taking in more money than is spent. To those who hold the narrow view, profit is a virtuous concept that signifies the arrangement of resources in such a way that creates value rather than simply capturing it. And though it is a more narrow definition, its relevance is far broader than business and economics. It is in this strain that the biblical parable of the talents in Matthew 25 commends both a servant who received five talents and a servant who received two talents for doubling their investment outlay. The third, who had received one talent, was condemned as “wicked and lazy” for simply holding the money. At least, the master said, he could have “deposited my money with the bankers, and at my coming I would have received back my own with interest.”⁶ Not only were the investors rewarded for their gains, but the one who held onto the money without investing it was condemned; the type of profit gained in this context has a positive moral connotation, and it is this latter use of the word that is to be adopted and revived into application by this discussion.

Both the “for-profit” and “nonprofit” modes of enterprise within the United States rely heavily on an understanding of what constitutes profit. Depending on the character of people involved, for-profit ventures may embody any range between the broad and narrow definitions of profit. These organizations are understood to be the primary and most efficient modes in which value is created or captured. For-profit institutions, it is believed, should primarily benefit those who create them, while trying to minimize damage to society. Stakeholders may then distribute their value as they believe appropriate, including in charity and the nonprofit sector.

Nonprofit institutions, on the other hand are usually understood to pursue neither definition of profit, hence their name. These are understood primarily to not benefit those who create and run them; rather, positive outcomes for those outside the organization are to be the primary

³ Deirdre N. McCloskey, *The Bourgeois Virtues Ethics for an Age of Commerce*, Chicago (University of Chicago Press, 2006), 120-121.

⁴ Milton Friedman, as quoted by Deirdre N. McCloskey, *The Bourgeois Virtues Ethics for an Age of Commerce*.

⁵ Mikaye Shunro, as quoted by Deirdre N. McCloskey, *The Bourgeois Virtues Ethics for an Age of Commerce*.

⁶ Matthew 25:27, New King James Version.

focus of programs and resource allocation.

Unfortunately, both types of organizations are weakened by the practical implications of these distinctions. While specialization has allowed people and organizations to focus only on areas in which they possess (or develop) a competitive advantage, this polarization hides and weakens the necessity that social value be created in both profit and nonprofit institutions. There are clear and distinct core competencies that must characterize both types of organizations, but the distinction is not that one makes a profit and the other does not. In fact, efficiency, productivity, and results are equally important on both ends of the organizational spectrum. Again, a contextual understanding of profit is critical to this discussion. It is critical that nonprofits pursue a narrow, socially beneficial definition of profit (the creation of social value) and that the for-profit sector not be pushed toward an unethically broad definition of profit.

Because the profit sector has been dubbed by common understanding as the primary area in which profit (by both definitions) is to be made and value is to be created (and social benefit is taken care of by the nonprofit sector), it should come as no surprise that anti-social results have occurred as byproducts of a narrowly focused business machine. Why waste resources to benefit society when that is accomplished by a nonprofit (or government) sector devoted to such? The very idea of specialization here dictates that business intentionally focus on something other than social responsibility.

In an article in the *The New York Times*, Don Peppers, who at the time was working for a leading advertising agency, remarked that, sadly, ethics was not a primary concern in business at large. Speaking of his own industry, he mentions sarcastically, “Ethics? In the advertising business? Surely I jest,” adding that the moderator in a recent “Ethics in Advertising” seminar where he spoke “couldn’t resist remarking that the discussion might be very brief.”⁷ Randy Cohen, in another article, remarks on his frustration with the conflict of interest created by doctors who advertise their services, adding that while the general consumer might be qualified to select laundry detergent by evaluating a soap commercial, selecting a surgeon is another issue. He adds, “A 30-second TV spot is unlikely to help me make so consequential a decision.”⁸

⁷ Don Peppers, “Business Forum: A Practical Guide to Playing Fair; Make Money. Have Fun. Be Ethical,” *The New York Times*, July 24, 1988.

⁸ Randy Cohen, “The Way We Live Now: 6-27-99: The Ethicist; Madison Avenue Medicine,” *The New York Times*, June 27, 1999.

Every seasoned consumer has experienced the larger-than-life infomercial, the new sunglasses that weren’t really needed but had to be purchased because they were “in,” and the not so great feelings experienced after signing onto that new CD program and realizing the \$50 “administrative” fee is non-refundable. What is the motivation that causes garages to be full of devices, equipment, or clothes that the average American thought he needed but that soon broke or went out of style? The consumer is advised to beware of the slick and smooth salesman who boasts of a products advantage, only to leave social impact or objective evaluations of product necessity as secondary considerations. There should be no mistaking that, to the intentional creation of marketers, consumers are persuaded to make purchases according to manufactured needs, not legitimate uses. Because “profit” has been isolated from “nonprofit” in American understanding (and nonprofit is associated with altruism), for-profit entrepreneurs are naturally led to believe that their activities should primarily benefit themselves. American society has been rocked and shocked by more than a few cases of insider trading, large-scale accounting deceptions, and advertising exaggerations.

Yet for the sake of market share, for-profit firms are motivated to portray themselves as socially beneficial, humanitarian, or genuinely concerned about the environment. Consumers want both inexpensive products and socially responsible organizations, urging firms to masquerade themselves as something that common sense make it impossible for them to achieve. How can a business satisfy consumer desires and still compete with the positive social outcomes of a sector which specializes in it? In these cases, business’s success is consequently tied more to what it can lead society to believe about themselves rather than what is actually the case. In other words, many firms attempt to gain market share by implying they are a “green” or socially responsible company regardless of whether or not any significant resources of the company are thus appropriated. The complaints of many in regard to executive compensation are tied to this same strain: a company can claim to “care” about the poor or the Leukemia foundation it partnered with during its last ad campaign, but if more money goes to executive compensation than social programs, it is apparent that these are empty claims. Society wants business to engage in humanitarian activities, but authentically doing so is a fundamental (by efficiency-driven standards) duplication of efforts and unsound. Business is caught within the paradox of consumer demand.

Conversely, because nonprofit executives have been taught by society that they are not to profit (a dirty word) but rather to benefit society, those who have striven for cost efficiency and results in this sector are at odds with those who want to feel good about what they are doing. Unfortunately, the reality is that efficiency and results are required if a nonprofit truly wants to “feel good” about what it is doing. The confusion filters down to the employees of an organization. While founders and core leadership in an organization may embrace and pursue its core values, the interests of lower-level employees may be in conflict. In other words, there is no foolproof or internal safeguard built into incentive mechanisms to guarantee employees are not working just because it was the best job they could get. At a categorical level, there is nothing that differentiates motives for employment in the nonprofit sector from those in the profit sector. If even a majority of employees within a nonprofit organization are not primarily involved because of mission-motivated objectives, the “nonprofit” status of the organization can be compromised. While jobs at nonprofit firms usually pay less than their for-profit counterparts, the differential does not eliminate this conflict of interest.

Perhaps it is difficult to be effective in humanitarian endeavors when the marks of efficiency which necessitate it have been unduly associated with the evil and “socially irresponsible” businesses. Social polarization of profit and nonprofit objectives has dictated that if the for-profit sector exists to benefit stakeholders (especially shareholders), the operations of the nonprofit sector must be categorically different. Yet, those nonprofits which are most notable look and operate an awful lot like businesses. Could it be true that the most successful “nonprofits” are the most “profitable” of their class? Perhaps the primary way in which they have succeeded is by weaving through the ambiguity and paradoxical nature of exactly what they are supposed to be doing... let alone doing it. They have succeeded in achieving the narrow definition of profit which underlies the effective and beneficial operation of both profit and nonprofit alike. An additional concern of the nonprofit sector relates to its accountability for resources donated to it. Because of social assumptions about nonprofit objectives, this sector is usually able to collect donations for causes it desires to support, but it is not tied to normal market factors for either the appropriation of that value or the creation of additional social benefits. While some firms are more effective than others, individual or collective knowledge (not true market accountability) is all that determines how

resources are allocated. Both efficiency and fiscal accountability become concerns.

A large body of literature exists on addressing the problem of measuring outcomes and goal attainment in nonprofits. As David Renz and Robert Herman of the Midwest Center for Nonprofit Leadership point out, the present era has brought heightened concerns regarding performance, results, accountability, and organizational effectiveness of nonprofits. Because nonprofits cannot be assessed by any single indicator (such as fund balance, growth, etc), other multi-dimensional and more complex mechanisms must be used. One method, mentioned by these researchers, is comparison. Nonprofits can be compared to themselves at earlier times, to similar organizations at the same time, or to an ideal. However, nonprofit organizational effectiveness is a social construction that may conform or change depending on exactly what stakeholders want to accomplish.⁹ In this regard, nonprofit outcomes are tied to the market force of donor satisfaction. While this presents some accountability, a weakness is that (just as in the profit sector), this market share can be won without the achievement of any social end in particular. Regardless of whether or not results are being obtained, firms and their leaders are able to survive as long as they are able to convince stakeholders that something is being achieved.

With respect to both profit and non-profit, some would argue that the aforementioned weaknesses are simply the downside of economic freedom. While truth in advertising and other laws catch gross offenders, the fact that government doesn't try to influence individual or organizational activities allows some undesirable or inefficient ends to take place. This is a necessary sacrifice and required for the achievement of beneficial ends in other areas of society. Furthermore, the accountability of stockholders, donors, and stakeholders provides adequate means for addressing undesirable behaviors: If executives perform in ways that dissatisfy shareholders or donors, they are removed.

While this is true, the problem here is that American psychological understanding of enterprise objectives promotes a definition of profit which allows broadly for socially undesirable activity, while nonprofits not only aren't required to profit but may not benefit anyone either.

⁹David O. Renz and Robert D. Herman, “The Changing Face of Nonprofit Effectiveness,” Midwest Center for Nonprofit Leadership; University of Missouri – Kansas City. < <http://www.bsba.umkc.edu/mwcnl/research/The%20Changing%20Face%20of%20Nonprofit%20Effectiveness.pdf> > [Accessed December 16, 2008].

The de facto understanding of what defines each organization must be reformed. It is a paradox of objectives that is to blame for the detriments of socially irresponsible business and ineffective nonprofits. Both have been given a task by society (and a narrow way to accomplish it) that society blames them for achieving.

May it be suggested that the creation of social value is a moral definition of profit that be re-adopted by profit and nonprofit alike. The objectives of this definition of profit allow both types of organizations to capitalize on their core competencies. Businesses should be free to reap the advantages of being truly socially responsible while nonprofits shouldn't be confused about what they need to do or how to do it. Removing the unwritten psychological requirement that business and nonprofit specialize only in value creation and social benefit respectively will eliminate the barriers that hamper both from doing either. Business has the capacity to drive owner incentives toward the creation of value and social benefit in a way that is unique from that of the nonprofit sector; removing the requirement that it be distinct from nonprofit objectives will free it to do exactly this. Likewise, nonprofits have tax incentives and legal advantages which strengthen their comparative competency in efficiently achieving their own ends; eliminating pressure for them to be distinct from the profit sector in the area of value creation will allow them to accomplish their own missions more effectively and with less confusion. While some argue for more regulation and others less, a reformation of understanding between the unitary objectives of profits and nonprofits alike, centered around more virtuous "profit" can create more freedom and accountability through market structure than would be possible by the ideals of extreme right, extreme left, or any form of compromise.

While it is beneficial for some organizations to occupy the outlying edges of the profit and nonprofit distribution, at present the curve is disproportionately skewed; too many organizations are pushed to the extremes of profiteering and social benefit by the need to specialize. Society will gain far more by the movement of profit and nonprofit alike toward the middle, creating a healthy center of gravity between right and left, profit and nonprofit.

Finally, in addition to the simplifications that can be made to organizations by this crossover of ideas, there may be additional functional benefits not previously considered. Grant and Crutchfield's aforementioned article stresses the gain to nonprofits of a market mentality but also

cites profit firms Wachovia and Fannie Mae who were able to reach historically undeserved markets through innovative lending models that were more socially focused.¹⁰ UPS, in its Spring 2008 Quarterly Publication for Preferred Customers, claims that while businesses which fail to adapt to environmental concerns are at a distinct disadvantage, more than half (57%) of IT professionals polled in a recent survey indicated that a key motivation for going green was the benefit to their business.¹¹ The publication also cited the over \$40,000 annual cost savings of a business which recycles its trash instead of hauling it to a landfill and the \$75,000 annual utility payments saved by another through an environmentally friendly building structure. Cost savings were mentioned as a primary rather than secondary benefit for this type of change, adding, In addition, there's benefit to the conscience.¹² A relevant topic for future investigation might examine just how closely more authentic social and environmental friendliness relates to long-term cost-savings and organizational stability. One can at least be certain that in terms of comprehensive organizational and individual health, moral business that profits is of greater benefit to both society and holistic individual health than business that profiteers and leaves moral repercussions for others to address.

Redefining profit, especially to a narrower confine, is a formidable task. Wealthy and reputable stakeholders in all sectors are not likely to embrace changes that could reduce their income, challenge their reputation, or hamper their growth. Yet, it is the host of currently unseen advantages internal and external to both nonprofit and profit that can motivate change. Once all sides become aware that social improvements to business may improve business reputation and a crossover of objectives can improve nonprofit effectiveness, changes will more easily follow. More significantly, if the general public becomes aware that a contradicting dichotomy of objectives has forced organizations into policy caveats with secondary disadvantages, the increase in flexibility allotted to organizations will allow them to find a more natural place among others in the distribution curve of organizational objectives. Better yet, perhaps nonprofits and businesses will find that even more collaboration is key to the operation of both. Who

¹⁰ Heather McLeod Grant and Leslie R. Crutchfield, "Creating High-Impact Nonprofits," *Stanford Social Innovation Review*, p. 37.

¹¹ "As the world turns green" *Compass: The Quarterly for UPS Preferred Customers*, Spring 2008, Vol. 2, No. 2., p. 8.

¹² "Green deeply rooted at Brown," *Compass: The Quarterly for UPS Preferred Customers*, p. 10.

knows? The right may even fuse with the left to create an amalgam of creative productivity—or maybe it is better to stick to one problem at a time.

References

- As the world turns green, Green deeply rooted at Brown, *Compass: The Quarterly for UPS Preferred Customers*, Spring 2008, Vol. 2, No. 2.
- Cohen, Randy, The Way We Live Now: 6-27-99: The Ethicist; Madison Avenue Medicine, *The New York Times*, June 27, 1999.
- Grant, Heather McLeod and Leslie R. Crutchfield, Creating High-Impact Nonprofits, *Stanford Social Innovation Review*, Fall 2007.
- McCloskey, Deirdre N, *The Bourgeois Virtues Ethics for an Age of Commerce*. Chicago (University of Chicago Press, 2006).
- Peppers, Don, Business Forum: A Practical Guide to Playing Fair; Make Money. Have Fun. Be Ethical, *The New York Times*, July 24, 1988.
- Renz, David O. and Robert D. Herman, The Changing Face of Nonprofit Effectiveness, Midwest Center for Nonprofit Leadership; University of Missouri Kansas City. <<http://www.bsbpa.umkc.edu/mwcnl/research/The%20Changing%20Face%20of%20Nonprofit%20Effectiveness.pdf>> [Accessed December 16, 2008].



AZUSA PACIFIC
UNIVERSITY