By Mark Skousen

Time to Tell Uncle Sam, "Not with My Money!"

Why is it that so many patriotic Americans (including some REASON subscribers) vehemently denounce the growth of the US government and its huge deficits and yet are the biggest buyers of Treasury securities and "all-government" money-market funds? They criticize the waste and corruption in Washington while lending the Treasury their money to further the very ends they oppose.

I can only surmise that this unrecognized hypocrisy hearkens back to World War II, when Americans felt it their duty to buy US Savings Bonds to support the war effort. Since then, the Treasury's debt financing has grown immensely. Without a war and patriotic fervor, the government has resorted to other methods to entice investors, banks, and institutions to purchase Treasury securities—paying higher interest rates, for instance, and emphasizing safety. Banks, brokerage houses, and other financial institutions have played a major supporting role by issuing 30-year "zero-coupon" bonds, using T-bills as collateral for margin accounts, and promoting "all-government" money funds.

But now we need to look beyond security and high yields. The new patriotism demands that investors stop buying Treasury securities and funding wasteful and nefarious government activities. It's time to tell Washington: "Not with my money, you don't!"

Investors of the '80s, welcome to the enlightened age of "ethical investing"—investing profitably without sacrificing your principles.

What! Allow your personal ethics to keep you from maximizing your profits or minimizing your risks? That's financial heresy. "Never let your political views interfere with your investment decisions," investment advisor Doug Casey warns, for one. "You give up a lot of speculative opportunities when you let your patriotic feelings influence your investment decisions." Casey, author of the iconoclastic bestseller *Crisis Investing*, has never been afraid of speculating in "unorthodox" investments that raise one person or another's ethical eyebrows, including nuclear utilities, South African gold shares, and Rhodesian real estate when "blood was running in the streets."

The president of a women's investment club in Virginia dealt with this dilemma. She told me that she was opposed to the club's purchase of a gambling stock because she was personally against betting. But she was chagrined when she learned that the gambling stock proved to be the best performer in the club's portfolio in the past year.

On the other hand, Amy L. Domini in her challenging new book *Ethical Investing* (Addison-Wesley, 1984, $17.95), argues that the "ethical" investor often does better than the "average" money manager or mutual fund. She cites several examples: Among the *Fortune* 500, companies that didn't invest in South Africa outperformed companies that did. The market performance of non-nuclear utilities was better than that of nuclear utilities. The Dreyfus Third Century Fund, the largest "ethical" mutual fund, returned 373 percent between 1974 and 1982, compared with only 110 percent for the Dow Jones Industrial Average.

But selective statistics can be misleading. Domini ignores other statistics that prove just the opposite. For example, United Services Gold Shares, which invests in South African gold shares, returned over 500 percent between 1974 and 1982, far better than the Dreyfus Third Century Fund. Other mutual funds that don't limit themselves to "ethical" investments have performed even better (Nicholas Fund, Explorer Fund, Mutual Shares, and Twentieth Century Select Investors, to name just a few).

Limiting your investment opportunities probably does limit your total return. But that doesn't make "ethical" investing necessarily bad. After all, "making a buck" isn't the beginning and end of one's financial life.

Investing without compromise isn't a cut-and-dried issue, and it can be taken to the extreme. Do you invest in IBM, which is one of the strongest recruiters of blacks in the country, or do you avoid IBM because it sells computers to the communists? Do you stop buying gasoline from Exxon because it trades with the Soviets? Things can get out of hand rather quickly, and your investment choices will be extremely limited in no time.

The morality of investing is very much an individual decision. Objectivity is difficult. Should you buy the South African gold coin, the krugerrand? Anti-apartheid groups oppose the sale of the krugerrand because it is a legal-tender coin issued by the South African government. The gold is mined by private companies, but they are required to sell their gold to the government. The purchase of the krugerrand is therefore giving indirect support to the South African government's discriminatory policies. But ban the sale of the krugerrand? No, I'm opposed to *legislation* forcing others to agree with anti-apartheid beliefs. After all, some could argue that it's all right to buy the krugerrand because the South African government is removing some racial barriers and mining gold keeps blacks employed. The decision to make ethical investment choices must be individual and voluntary.

Writer Amy Domini suggests three approaches to ethical investing. First is the avoidance approach: refuse to invest in companies or investments of which you don't approve. Second, the positive choice method: seek companies or investments offering products or services that serve a purpose you support (instead of T-bills, for instance, buy nongovernment money funds). Third, the activist approach: seek to change the policies of companies by writing letters, attending stockholder's meetings, engaging in takeover bids, etc. I endorse all three approaches.

The truly rich man is the one who uses wisdom and virtue in all his investment decisions. Perhaps those who throw caution and ethics to the wind can become financial tycoons, but in the words of investment writer John Pugsley, "Being the richest man on a sinking ship is a bitter victory."

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spotlight

By Patrick Cox

Showing How Self-Help Works

During the height of the civil rights movement of the 1960s, Robert L. Woodson was a "proud liberal" dedicated to giving the disadvantaged an opportunity to raise themselves from their situation. But as the movement gained political momentum, he grew disillusioned. According to Woodson, "Whenever it came down to actually transferring power to the poor, those who were encouraging blacks to take responsibility for their own problems ran into roadblocks."

He says the reluctance of white liberals to turn over power to the supposed beneficiaries of the civil-rights movement was "patronizing" and "not undeliberate." He describes waste and fraud in the poverty program the way many characterize Pentagon procurement processes. Moreover, he sees little difference between conservatives and liberals when it comes to programs for the poor, saying conservatives want to spend less money on the same failed programs. He calls Republicans "low-budget liberals."

Forced busing was the issue that pushed Woodson out of the mainstream civil-rights movement in 1967 into community-based activities. Forced busing, in Woodson's view, seemed to destroy the neighborhood's integrity and ability to operate as a social unit. Everything Woodson does today is based on the belief that communities know more about their own problems and how to solve them than does anyone else. He has tremendous confidence in the wisdom of those living in poor neighborhoods and virtually none in poverty technicians who are "parachuted" into poor areas to solve their problems.

Woodson was born in innercity Philadelphia 47 years ago. His father died when he was five years old. Though his mother worked full time, Woodson avoided the troubles that many in his situation experienced. "My childhood," he notes, "defies the myth that the home headed by a single black female is a dangerous environment."

Woodson attended Cheyney State College in Philadelphia and earned a master's degree in social work from the University of Pennsylvania in 1965. He was well into a doctoral program at the University of Massachusetts when he was drawn away to greater involvement in the civil-rights movement.

Robert L. Woodson

In 1971, Woodson became director of the National Urban League's criminal-justice program, where he spent six years dealing with issues like minority-youth crime, a topic about which he has written extensively. While at the Urban League, his own unorthodox, decentralist views began to clash with the more traditionally liberal approach there.

In 1977, he left the Urban League to become a researcher at the American Enterprise Institute (AEI), a Washington, D.C., generally free-market-oriented "think tank." AEI had begun a project exploring the role of private institutions, as opposed to government programs, in meeting human needs at the local level. By 1980, Woodson had become director of AEI's neighborhood-revitalization project.

But Woodson wanted more than an intellectual involvement in neighborhood programs. In 1982, he left AEI to found the National Center for Neighborhood Enterprise (NCNE), which provides direct "hands on" guidance to neighborhoods.

The center does not attempt to control neighborhood activities. Woodson says, "We inventory innovative solutions by low-income individuals and organizations, try to find out what is being done by people who have experienced similar problems, and bring many of them together."

NCNE gives some technical assistance but puts more emphasis on publicizing proven successes. Media exposure for local heroes does much for their self-esteem. It also exposes policymakers with "the same tired traditional solutions," as Woodson says, to creative alternatives in the struggle to help the poor.

Among other things, NCNE focuses on enterprise development, alternative education, crime prevention, and family preservation. Especially interesting is Woodson's effort to reform the adoption and foster-care bureaucracies. The "foster care industry," as Woodson calls it, handles approximately 275,000 children, half of them black, and costs taxpayers $2 billion a year. Woodson wrote in the *Wall Street Journal* recently that the mortality of foster-care children is twice the national average and that "a significant number of youngsters become delinquents as a direct result of prolonged foster care." He also points out that 70 percent of the money allocated for foster care is spent on administrative overhead and services.

Woodson's numbers on the subject are enlightening. There are four times as many black families who would like to adopt as there are black children available for adoption. Nevertheless, many black children are put into foster households. Woodson explains that the reason so many black children go unadopted through the formal process is that the agencies that determine the suitability of families to adopt often judge by standards that have nothing to do with the black community.

Stuart Butler, the Heritage Foundation's expert on neighborhood self-help programs, says Woodson is unique in his ability to take the neighborhood point of view to the White House. Woodson believes that people who live in poverty are often kept there by government programs and that those who live in poverty know more about the solutions to their problems than anyone else. His record of success is evidence that he is right.

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