Is Capitalism morally bankrupt?

Five moral flaws and their social consequences

by Michael Schluter

I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. Corporations have been enthroned, an era of corruption in high places will follow, and the money-power of the country will endeavor to prolong its reign by working upon the prejudices of the people until the wealth is aggregated in a few hands and the Republic is destroyed. Attributed to Abraham Lincoln

A whole world of new and stronger policies is needed – measures that strengthen our families and our communities, address the breakdown of social connectedness, and favor rootedness over mobility …

James Gustav Speth

Summary

Many Christians accept Capitalism as broadly in line with biblical teaching. Its economic success appears to vindicate attribution of its origins to Christian theology. This confidence in Capitalism as the best available economic system has meant that Christians have failed to recognise that it is one of the main drivers of social and moral breakdown in Western societies. This paper will highlight five failings in the philosophical foundations and institutions of Corporate Capitalism, pointing to their devastating impact on families and communities, and how they bring about the growth of giant corporations and centralised state power. Christians need to search urgently for a new economic order based on biblical revelation. One such alternative will be set out in a future issue of Cambridge Papers.

Does Capitalism have a case to answer?

The economic benefits of Corporate Capitalism are obvious to all of us. Paul Collier suggests that a billion people have been lifted out of poverty in the last 30 years by the incorporation of their economies into the Capitalist-inspired global trading system. Many of us in Britain enjoy the experiences offered by air travel, computers, iPods and mobile phones, all made possible by the efficiency of Capitalist corporations. When someone close to us contracts a serious illness or has an accident, which of us is not grateful for modern drugs and technology, again the products of mega-corporations?

In terms of political benefits, Capitalism has led in many countries to the replacement of feudal aristocracies with meritocracies, and arguably there is a close link between Capitalism and democracy. As Novak suggests, ‘political democracy is compatible in practice only with a market economy’. Of course, Capitalism is not the only form of market economy imaginable, but it is the only one with which most people are familiar. For many, daily life in a Capitalist society appears highly desirable, and millions from former Communist countries aspire to achieve it.

While there is much concern about the activities of the modern corporation, especially in terms of exploitation of the workforce and impact on the environment, its critics can exaggerate. Some large companies take good care of their staff, providing training and career progression without regard to gender, class or race. They encourage good citizenship, give generously to charities and increasingly are adopting measures to protect the environment, all in the name of corporate social responsibility.

Moreover Capitalism, it is argued, rests largely on Christian values. According to its early proponents like Adam Smith, it takes account of the sinfulness of the human heart. So rather than rely on the State to allocate resources and fix prices where human greed

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1 www.de-fact-o.com/fact_read.php?id=110
4 Paul Collier, The Bottom Billion: Why the Poorest Countries are Failing and What Can be Done About It, Oxford University Press, 2007.
can too easily play a part, impersonal markets determine these outcomes, with each player in the market pursuing their own self-interest. The greed of any individual is constrained, in effect, by the enterprise of others through the mechanism of the market. In the words of a leading left-wing thinker, ‘The free market remains, all in all, a factor promoting socialisation, a means of connecting human beings, even of creating fraternity or, in any case, mutual recognition. Hence, it is the opposite of corruption.’ Indeed, biblical teaching assumes free markets for exchange of goods and services, provided only that the conduct of markets is just and fair and that traders do not hoard food in periods of shortage.

In addition, for human beings to reflect fully the image of their Maker, they must have the opportunity to exercise responsibility, to make choices, to experience ‘liberty’. This liberty only flourishes where economic decisions and exchange are not constrained by powerful political or social interests. Hence, biblical teaching warns against excessive state power in both Old and New Testaments. Traditionally, it has been those in favour of Capitalism who have argued most vigorously for limits on the power of central government.

With clear evidence of the economic benefits of Capitalism, and of its roots in a Christian understanding of the world, why should any Christian question its legitimacy? As shown below, the failings of Capitalism arise substantially from corporations which developed as its primary engine. So it is important to separate out the moral failings which are intrinsic to Capitalism itself, and those attributable to Corporate Capitalism, i.e. to the legal form of its institutions.

The theological framework
Rather than a general appeal to conscience, the Cambridge Papers approach is to explore issues from within the framework of biblical revelation. This allows not only a critique of principles or values, but also provides a plumb line for evaluation of ‘institutions’, which are described as the ‘rules, formal and informal, which govern the behaviour of organisations and individuals’.

The starting point for evaluation of economic and social ‘institutions’ is the fact that God is a relational being, and that his priority is revelation. This allows not only a critique of principles or values, but their historical context, they provide a key source of biblical ethical teaching. Thus God’s relational character, Christia ns today can learn what principles should govern the contemporary economic and financial system, and thus what Christ’s Lordship over that system would require. The approach taken here is set out in detail in Jubilee Manifesto.

Five moral flaws of Corporate Capitalism
Capitalism sets out a framework within which individuals, and society at large, make decisions governing their business and financial affairs. It will be analysed here in terms of its contemporary manifestations, including the corporation as its main actor and engine, and with national governments and international agencies intervening to set many of the rules in a manner which often promotes scale and ‘leverage’. This paper will focus on the Anglo-American model as its most extreme manifestation, although the failings are evidenced to some degree across all Capitalist economies.

The points at which the morality of an economic system can be evaluated are threefold:

- The morality of its underlying philosophy
- The morality of its ‘institutions’
- The social outcomes arising from its institutions

It is not sufficient to examine only outcomes of an economic system; the causes of those outcomes, i.e. the social philosophy and ‘institutions’, need to be examined as well. We shall consider one major way in which the underlying philosophy of Capitalism conflicts with biblical ethics, and four ways in which the institutions of Capitalism do so, and then analyse two of the destructive social consequences of these five moral flaws in Capitalism.

1 An exclusively materialistic vision
As generally understood, Capitalism is concerned with the deployment and use of capital, although it has highly significant social ‘side effects’. Capitalism rests unashamedly on the pursuit of business profit and personal gain: it promotes the idolisation of money, which Jesus refers to as ‘Mammon’. The moral dangers of Corporate Capitalism are similar because the modern corporation is driven primarily by shareholder materialistic self-interest. Adam Smith provided a moral framework for this pursuit of wealth by pointing out that at each person pursued personal gain, the outcome was, miraculously, the collective economic good. But pursuit of self-interest is a far cry from the biblical focus on ‘love’, requiring other-person-centredness. People are regarded by companies as a resource, or as a cost in the profit and loss account, devoid of relational or environmental context. So Capitalism constantly has to be restrained from destroying the social capital on which it depends for its future existence.

This focus on capital lends itself to the idolatry of wealth at a personal level, and the idolatry of economic growth at a corporate and national level. It invites Mammon to supersede God as the focus of human loyalty and thus to break the first and most foundational of the Ten Commandments. Shareholders pursue personal wealth with little knowledge of how it is generated, and senior management with scant regard for pay structures at lower levels of the company, while customers are persuaded by corporate advertising to pursue self-gratification in its many forms. At a systemic level, under Capitalism companies seek to expand current consumption beyond satisfied appetite, in order to generate supernormal returns for current suppliers of capital; they seek to generate this additional consumption through advertising, built-in obsolescence and expansion of debt. This is not a malign ‘conspiracy’, but how the system operates. However, the consequence is not just to undermine individuals’ pursuit of spiritual realities, and to cause misery in many low-income households, but to create huge and growing income differentials with negative consequences for social cohesion. For example, the inflation-adjusted income of the highest-paid fifth of US earners has risen by 100 per cent since 1970, while it has fallen by 10 per cent for the rest.

2 Reward without responsibility
Economists argue that capital markets ensure money is allocated to those in society who can pay most for it, i.e. to those who will use it most efficiently and increase society’s wealth fastest. Capital providers are to be rewarded just for allowing their capital to be used by somebody else. However, Jesus seems to understand the basis for rewards differently. In the parable of the talents, when addressing the lazy/fearful servant, that ‘earning’ money through interest on a loan is ‘reaping where you

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7 E.g. Deut. 25:13–16 and Mic. 6:10–11.
8 Prov. 11:26.
9 E.g. Deut. 17:14–20; 1 Sam. 8; 1 Kgs. 21; Rev. 13, etc.
13 E.g. Matt. 4:4; Matt. 5:11–20; Mark 7:9–13.
14 E.g. 1 Tim. 1:8; 2 Tim. 3:16.
17 Matt. 6:24.
have not sown; i.e. as contrary to natural justice. Investors lending at interest may be accepting some small element of risk; they are not accepting any responsibility for how or where the money is used. In contrast, Jesus seems to focus on the relational implications of how money is used; this includes the impact on a person’s relationship with God and on his or her relationship with neighbour.22 Debt finance generally results in relational distance rather than relational ‘proximity’ because the lender generally has no incentive to remain engaged with, or even in regular contact with, the borrower.

The relational distance between capital provider and user created by debt finance, today, and also by much equity finance, can be readily seen in the workings of large corporations. Providers of capital generally have little or no say in corporate decision-making, except perhaps in cases of insolvency. Most investors provide equity finance through a financial intermediary (e.g. a pension fund); often they do not even know (or care) in which companies they hold shares. Seldom do individual shareholders attend the annual general meeting of the company; even financial intermediaries generally do little to influence company policy, preferring to ‘exit’ if things go badly, because less cost is incurred, rather than seeking to influence a company’s decisions. Trading of derivatives similarly involves no responsibility for the actions of the targeted company.

Because purchasing shares through the stock market provides no additional funds to the chosen company, it is hard to distinguish from placing money in a bank. The intention of the investor is not to aid company growth but to make a short-term profit; they do not apply any skill or effort to help company performance. The only way purchase of shares aids a company’s performance is in the context of raising new capital, and possibly takeover situations. Just as putting money in the bank led to Jesus’ warning that it constitutes ‘reaping where you have not sown’, 23 so surely would most stock market transactions today. Jesus appears to question whether it is legitimate for a person to sit at home with their feet on the desk, as it were, and be rewarded in the same way as the person who actively trades goods, or works all day on the factory floor. Much as the American revolutionaries took as their slogan, ‘no taxation without representation’, should we today adopt the slogan, ‘no reward without responsibility, no profit without participation’?

3 Limited liability of shareholders

The corporation, which had only the smallest of roles in early Capitalism, is today the chief engine of economic growth. In the mid-nineteenth century, companies were permitted to become legal persons, separate from their shareholders; they own their assets and have many of the legal rights and privileges of an individual ‘person’. If they register as limited liability companies, shareholders have no liability beyond the amount of capital they have subscribed or paid for their shares.

Limiting liability is contrary to biblical teaching because, exceptionally in the law of contract, it allows debts to be left unpaid in cases of insolvency. This contradicts a fundamental moral obligation.24 Worse still, the unpaid creditors, as has been conspicuous in the last decade, are often employees, consumers, and smaller companies supplying goods and services who have little or no knowledge of a larger company’s financial circumstances, and may be relatively financially illiterate, while those best able to protect their position are often banks and highly paid executives; there is often great injustice. Examples include the bankruptcies of Enron, WorldCom and XL.25

While proponents of Capitalism would point to the way limited liability has resulted in a massive mobilisation of capital for productive enterprise, which perhaps would not otherwise have occurred, it has also had many negative, unintended consequences. Because the downside risks of borrowing are capped, while the upside risks are not, management – backed by shareholders – have been willing to borrow huge sums relative to the firm’s equity base and thus grow firms at a frantic pace. These giant corporations have enormous market power which can easily crush smaller competitors. In the

financial sector, incentive schemes often reward risk-taking excessively on the upside with no downside penalties, reflecting the risk position of shareholders. Consequent mega-losses have to be financed by taxpayers to limit wider economic and political fall-out.

4 People disconnected from place

In the Old Testament, the Jubilee laws required that all rural property was returned to its original family owners every fiftieth year, free of charge. This ensured long-term rootedness for every extended family in their place. In religious terms, God contributed to family solidarity. These goals are highlighted by their antithesis in the story of Naboth’s vineyard.27 An important by-product of the Jubilee land laws was to ensure a measure of equity in the distribution and ownership of property which ensured a broad distribution of political power.

In contrast, Capitalism regards land and property as assets without relational significance. The effects of ignoring the role of land in family identity and solidarity can be seen historically in the enclosure movement where low-income families were dispossessed of their traditional land rights by powerful local landowners, resulting in mass migration to the cities. 28 Today, there is little protection against repossession of homes when wage-earners lose their jobs and cannot meet interest payments on their mortgages. This contributes to many families’ loss of rootedness and also impacts on the distribution of income, given the importance of property as a form of wealth.

The benefit of breaking this people-place connection, economists would argue, is to increase productivity of labour, and national economic growth, because people can move more easily to where their productivity (and hence their wages) are highest. However, as extended family members move away from one another, and communities become more transient, they can no longer fulfil welfare roles. For example, grandparents can no longer help look after grandchildren, and responsibility for care of older people and those with disabilities falls on the state, with the costs having to be met from tax revenues. Economists have constantly ignored the economic and relational ‘externalities’ of mobility, i.e. the costs to wider family and society as a whole when an individual or nuclear family moves from one area to another.

5 Inadequate social safeguards

The legal framework within which Corporate Capitalism operates is the result of prevailing economic and political philosophies, and the power of opposing interest groups. However, Capitalism does not itself have any concept of protecting the vulnerable through constraints on the market. Consumers are assumed to be able to look after themselves, so the focus is on a person’s freedom to produce or consume what they like without state interference. The belief is that with market deregulation, companies will operate with greater efficiency, so that greater wealth and welfare will result. This perspective is in the interests of the corporate sector, so that given their huge lobbying resources, and the relative weakness of religious or trade union opposition, their view has prevailed.

Deregulation assumes there are minimal constraints on availability and promotion of consumer credit, although the devastating consequences of debt for personal health and family relationships are well known. 29 In contrast, biblical law provides that interest cannot be charged on loans,30 and all loans are to be written off every seventh year.31 Deregulation ensures labour is available for hire 24/7, whereas biblical law protects one day in seven for non-work priorities including rest, worship and family.32

In recent years in Britain, deregulation has resulted in removal of limits on pub opening hours, and removal of safeguards relating to consumer credit, and to betting and gaming. However, there is abundant evidence that a significant proportion of the population are ill-equipped to handle such ‘freedoms’ – for reasons such as mental

26 See Lev. 25:8–11.
27 1 Kgs. 21. For an examination of these issues, see Michael Schlüter, ‘Roots: Biblical norm or cultural anachronism?’, Cambridge Papers, Vol. 4, No. 4, 1995.
29 For example, see Raymond Lang et al., Families in Debt, Jubilee Centre, Cambridge, 1998.
31 E.g. Deut. 15:1–6; 31:10; Neh. 10:31.
32 E.g. Gen. 2:2–3; Ex. 20:8–11; Isa. 58:13–14; Mark 2:28. Protection of the vulnerable was clearly one goal of the Sabbath laws (see Deut. 5:12–15).

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incapacity, poor parenting, lack of education, character weakness and other factors. The negative consequences impact not just the individuals who make choices which harm them, but also impact on spouses, children, relatives, friends, and others who live in close proximity who are financially or emotionally harmed by these decisions.32

Two consequences of Corporate Capitalism’s moral failings

1 Family and community breakdown

Does the breakdown of family and community caused by Capitalism, noted above, really matter? Can’t people live in the modern day quite happily and healthily without the relational support of family and community? The evidence suggests not. The effects of family breakdown are often devastating and well documented. They include child abuse (especially in step families), domestic violence, ill-health, poorer education and employment outcomes, and greater likelihood of criminal offences and taking drugs.33 Other consequences include difficulty in sustaining long-term marriages for those whose parents divorced, greater likelihood of loneliness in old age, and mental illness, including depression.34 The greater wealth of some sections of society in Capitalist nations has to be set against the greater ‘relational poverty’ which extends to an even greater proportion of the population. The danger is that over time these relational problems become self-reinforcing and self-perpetuating. Indeed, a leading think-tank believes relational breakdown in Britain in terms of divorce and single parenthood has reached a point where it is irreversible.35

The effects of family and community breakdown run even more deeply and widely than this evidence indicates. Lack of stability in relationships threatens many people’s sense of identity, leading to profound restlessness and unhappiness. It impacts, too, on their capacity for intimacy. At a national level, families play a crucial role in the transmission of culture; to protect families is to ensure there continues to be rich cultural and linguistic diversity among peoples which contributes so much to human creativity and wellbeing.

2 Giant government and giant corporations

A second consequence of Capitalism’s failings over the longer term is a massive growth in government expenditure. As the number of damaged households increases inexorably, so does the size of the state bureaucracy. Government spending on welfare has reached a level which many regard as unsustainable; yet without it, many vulnerable people would have little or no physical or emotional support. Secondly, as corporations have grown to be giant organisations, the scale and power of the agencies of government required to regulate them have also increased so that the state can ensure a source of countervailing power.

Does the size and power of the state matter? There are a number of reasons why, in the long term, a powerful, centralised state is a threat to personal liberty, to the stability of families and local communities and to the institutions of civil society. As state agencies take over many of the roles of family and local community, they undermine the reasons why these institutions exist and thus lower people’s loyalty and commitment to them. For example, if a relative is unemployed, sick or in poverty, it is no longer the family’s responsibility to provide support. Removal of personal responsibility at a household level may well be a factor in lower levels of political engagement, expressed in lower turnouts in local and national elections. There is also a danger of collusion between leaders of government and business to their mutual financial advantage, making government a poor watchdog over activities of companies. The ultimate danger, then, is that corporates grow beyond the possibility of effective regulation, and government is loosened from its democratic moorings, so that business and government become arrogant and oppressive. Abraham Lincoln may well have foreseen this possibility.36

Conclusion

So is Capitalism morally bankrupt? Only people can be ‘morally bankrupt’ for it is people, not economic systems, who have a relationship with God. And at a personal level, regardless of the economic system, ‘all have sinned and fall short of the glory of God’.37 Economic systems, however, can be a cause of people’s sin, and Jesus warns how serious a charge that is.38 While all political and economic systems will have moral failings to some degree, few would argue that all systems are equally flawed. So how flawed is Capitalism? To what extent does Capitalism contribute to a nation becoming morally bankrupt?

Imagine a world where human beings did not need family and community for attachment, maturation and relational support, or where all humans were born into stable families with a strong sense of personal responsibility towards one another, and care of the planet; where we could discover God through the pursuit of money rather than by actively seeking after the meaning of life. Then arguably Corporate Capitalism could avoid the charge of being morally bankrupt, or even morally ‘bankrupting’. But the world is not like that.

If Corporate Capitalism is contributing significantly to the moral bankruptcy of Western societies, can Christians nevertheless accept it as part of their cultural context and concentrate just on personal evangelism and meeting individual need? The prophets thought it was necessary for God’s people to tackle the causes, not just the symptoms, of social breakdown and injustice.39 So did Jesus himself.40 How, then, can Christians avoid the urgent call to reform Capitalism radically? How can we start the reform process, and what might an alternative system look like? This will be the subject of a future issue of Cambridge Papers.

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37 See quote at the start of this paper.
38 Rom. 3:23.
40 See Isa. ch. 58, especially v.6.
41 See Matt. 18:7; Matt. 5:11-20, especially v.13.

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