The Excesses of Capitalism
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The excesses of capitalism are just as visible today as they were in the nineteenth century but to the wrongdoings of yesteryear is added the malfeasance of finance today. It is not enough simply to be indignant. Indeed any denunciation of immorality simply misses the point: capitalists, business people and financiers are not any more lying, thieving or miserly than anyone else. It is simply that they have far more opportunities than most. This is because of the greater importance taken by commerce and finance in proportion with the services they provide: the management of money, of financing and of economic risks. We need to look both at the economic institutions and at what the professional financiers are doing. For this purpose, my article is divided into three parts: (1) corruption in capitalism, (2) capitalist ethics, (3) the inadequacy of capitalist ethics.

1. Corruption in Capitalism

A lack of respect for the rules of professional ethics is as much part of life today as in the past. This has led to a number of well-known scandals: *Enron*, *Worldcom*, *UBS*. Nick Lesson, Michael Milken and others brought about great harm by yielding to the temptations of power, cupidity and greed. In many cases several attitudes born out of the same morally questionable culture have come together, as in the case of *Enron*, described in a report to the US Senate as follows, "The *Enron* Board of Directors failed to safeguard *Enron* shareholders and contributed to the collapse of the seventh largest public company in the United States, by allowing *Enron* to engage in high risk accounting, inappropriate conflict of interest transactions, extensive undisclosed off-the-books activities, and excessive executive compensation. The Board witnessed numerous indications of questionable practices by *Enron* management over several years, but chose to ignore them to the detriment of *Enron* shareholders, employees and business associates."[1]

The present excesses of capitalism seem to illustrate this fact. On 14th March 2012, Greg Smith, a member of the Board of the American bank *Goldman Sachs*, wrote a commentary in *The New York Times* to explain why he had resigned his post: "To put the problem in the simplest terms, the interests of the client continue to be sidelined in the way the firm operates and thinks about making money. *Goldman Sachs* is one of the world's largest and most important investment banks and it is too integral to global finance to continue to act this way."[2] *Goldman Sachs* made a gentle, but unconvincing protest.

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[1] Andrew Cornford, "*Enron* and Internationally Agreed Principles for Corporate Governance and the Financial Sector," in Paul Dembinski (ed.), *Enron and World Finance. A case study in ethics*, London, Palgrave Macmillan, 2006, p. 29.

[2] Greg Smith, "Why I am Leaving Goldman Sachs," *The New York Times*, 14th March 2012.

Capitalist ethics falls by the wayside when the workings of the financial system and the way it is organised mean that the user has to put up with economic risks, while at the same time cashing part of the corresponding revenues, either by the multiplication of the costs of intermediation or by ignoring or camouflaging the real risks involved. Banking activity is displaced away from financing towards running after financial products, which thus allows for things to go astray. This goes without mentioning the fraudulent agreements between big international banks which, it was revealed in Spring 2012, have manipulated the rates of the LIBOR to the detriment of clients the world over.[3]

Independently of any possible wrongdoing on the part of participating actors, the capitalist system is corrupted by the use of practical but inadequate intellectual tools. This explains why a political choice full of good intentions (allowing middle-class Americans without sufficient income to apply for a bank loan to own their own housing) became transformed into a world financial, economic and social crisis—the most serious since the great crisis of 1929—throwing tens of millions of unemployed persons onto the streets. The explanation lies in the fact that the tools used (titrisation and swaps)[4] are based on faulty hypotheses which make one believe that the economic and financial 'models' are a perfect reflection of reality. Such intellectual means were wholly inadequate to master events.

Titrisation and swaps led financial actors to believe that risks had been suppressed. In fact, risks were merely diluted and spread throughout the world via innumerable banks and their customers. Naively believing in the security of their possessions, financiers and customers took even greater risks. The relations among the parties created a systemic risk that was to blame for catastrophic economic troubles. An error in calculating the real price of financial products shows that the excesses of capitalism are not simply due to the dishonesty of capitalists themselves, but also due to their own culpable ignorance. The tools they use, despite appearances, are in fact very simplistic. They are based on a false hypothesis according to which the variations of prices on the financial markets follow a law of 'normal' probability—which is regular, like clockwork—and which is perfectly easy to manage according to accepted theory. This is indeed not the case. There are practical causes for this simplification—the mathematical tools used are easy to apply—and also ideological causes in as much as one is led to believe that social phenomena, market prices, obey the same laws as the laws of nature and so can be mastered in the same way. In his own time, Karl Marx had already denounced this ideology.

Institutions established by law also play a part in the excesses of capitalism. The fundamental institution of capitalism is the separation between owners and productive capital. This has led to the construction of management systems in which juridical bodies have

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[3] LIBOR: *London Interbank Offered Rate*. This determines several rates of interest. The rate had been manipulated downwards by international banks. The wrongdoing was denounced by one of the participating banks, the UBS [Union Bank of Switzerland]..

[4] Titrisation and swaps: « Titrisation » , a financial new term, commonly translated as *securitization*, is a complex financial procedure through which financial credits, debts or loans are being transferred through a specially established banking agency to investors by "*swapping*" them with profit into financial "*securities*" offered on the financial market. [Editor's note].

overlapping jurisdictions in a complicated and opaque conglomeration which in fact shores actors of their responsibility. This can lead to poor management of productive potential, which may at times result in catastrophe as with *Enron* in 2002 or *Lehmann Brothers* in 2008. In an analysis of the *Enron* case, one commentator had this to say about the Special Purpose Entities used by *Enron* to paper over its cracks: "Financial conglomerates have made the deliberate choice to keep their 'ordinary' investors in the dark and making transparency a secondary objective. The well-known result is that the market value of such economic subjects is generally lower than the theoretical market value of their components. This 'cost' of the secrecy intuitively confirms the merit of other, most transparent, economic structures."[5] It would be naïve, however, to imagine that transparency—any more than any other value such as efficiency, justice, responsibility or courage—could by itself do away with the excesses of capitalism, for, capitalism bears within itself contradictions and cannot be reduced to a simple practice. Knowing the limits of the tools used in a capitalist economy is the starting-point of an ethics which is able to limit its excesses.

1. There is a Capitalist Ethics

The professionals claim that the immorality of the managers is confined to a small number of persons, whilst the majority are as trustworthy as the London Puritans studied by Max Weber over a century ago. Max Weber treated the Puritan—under which heading he included Calvinists, Methodists, Quakers and many other members of "ascetic Protestant sects"—as a kind of moral ideal of the capitalist. He depicts this ideal in his best-known book *The Protestant Ethic and the Spirit of Capitalism*.[6] Contrary to what one might think on a superficial reading of this work, Weber did not want to show that a given religion, Calvinism, was at the origin of capitalism. […] But the cultural predispositions […] were not sufficient in themselves. Capitalist institutions were required: private ownership of the means of production, salaries, contract law, separation between the industrial entrepreneur or the businessman and the provider of capital. All of that was already in use in Mesopotamia in ancient times. Corresponding accounting techniques were known by the Romans—but they came up against an unresolved social problem, that of "speaking tools" or slaves capable of reproducing themselves without outside help. These accounting techniques were made workable in the 15th century thanks to various financial practices perfected in northern Italy towards the close of the western middle ages. The experience of poverty lived by Franciscan Friars played a role here. A separation between ownership and use of the fruit of labour led the Franciscans to the idea of productive capital, which was formally expounded by the Franciscan, Lucas Pacioli (1445-1517),

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[5] François-Marie Monnet, "Who is Who in Financial 'Swaps' and Special Purpose Entities," in Paul Dembinski (ed.), *Enron and World Finance. A case study in ethics*, London, Palgrave Macmillan, 2006, p. 100.

[6] Max Weber, *Die protestantische Ethic und der Geist des Kapitalismus*, 1905; Talcott Parsons (translator), *The Protestant Ethic and the Spirit of Capitalism*, London, Allen and Unwin, 1930.

who introduced double entry book-keeping into commercial practices, thus separating in accountancy the productive capital (the active) from its owner (those having economic right who were inscribed on the passive column of the account). In this way Franciscan theologians were not only able to justify commerce in limited partnership, but also state bonds and pawnshops (with loans granted for objects pawned), which they helped to set up.

Weber [...] simply underlined something of great importance: a certain social, economic and cultural configuration in which religion played a role allowed for the appearance of a certain type of person, in Weber's case, a serious, thrifty capitalist who would invest on the basis of rational calculation and for whom increase in capital was a real vocation. [...] This hypothesis made people think that capitalist ethics could only be present in a particular social, economic and political configuration. Its corollary is striking: it is useless to moralise about capitalism by only taking into account education, religion and culture. It is also necessary to act on the institutions and their political organisation.

People who look at the habits of animals are called 'ethologists', whereas those who observe human beings and seek the foundations of life in society are called 'ethicists'. For the founder of Buddhism the root was compassion, for Aristotle friendship (the basis of political life), for the founder of Christianity love of one's neighbour, for Habermas communicative reason, for Levinas responsibility for others... The list is unending. Observation of capitalist practices would lead one to think that a capitalist ethics really does exist. It amounts to accumulating productive capital so as to reinvest its added value, as Karl Marx put it, or so as to manage economic risks as today's financier would have it. All those who see no point in increasing capital to produce more or to spread the risks more widely simply allege that there is no capitalist ethics. They are wrong. Capital helps to increase productivity though with the risk that it might be lost if the market does not respond to expectations. If Joseph Schumpeter, an Austrian economist of the last century, is to be believed, capitalism permitted the eradication of mass poverty in an increasing number of countries and in a population that was growing rapidly. It did so by increasing productivity and managing economic risks rationally. He states that it has given to humankind besides the development of individualism, feminism and the invention of the suit, an intense creativity in the matter of techniques of production, means of transport and new products which billions of individuals profit from.[7]

If capitalism is indeed such a social and historic movement of growth of capital then we must conclude that there is truly a capitalist ethic. It forbids any waste, that is benefits which do not make any productive contribution, the uncreative destruction of market values. In short, a capitalist ethic is opposed to any distribution of wealth based not on work or an increase of productivity, but on what economists call income. At the dawn of industrial capitalism François Guizot, a minister of Louis XVIII of France said "Enrich yourselves." The slogan was taken up by Deng Xiaoping in his own way in 1992, "to become rich is glorious." But wealth is like efficiency. We must ask for whom is it efficient and when. Likewise, wealth is for whom and when? These

[7] Joseph A. Schumpeter, *Capitalism, Socialism & Democracy*, London, Allen and Unwin, 1942.

ethical questions do not come after the economic process. Rather they accompany it from the very beginning. These questions lead one to ask if the accumulation of capital will be concentrated in the hands of a small number or will be spread out—and how?—over the immense increasing middle class throughout the world, whose level of life is beginning to go down in the West. In China the middle class will go from its present figure of 600 million to one billion around 2025. The logic of an increase of productivity by the use of up-to-date technology has already produced the social phenomenon which the West now suffers from: an increasing gap between the *Working Rich* (managers and financiers) and a middle class which is growing increasingly poorer.[8]

From the point of view of a capitalist ethic alone, remuneration without any corresponding gain is inadmissible. The beneficiary becomes a predator who gets rich without contributing anything to the collective wealth he draws upon. This principle can be applied directly to the astonishing sums given to the CEOs of big businesses (and not only those who leave their business with a "golden handshake" after having declared the bankruptcy of the business) or even more to the fat packets awarded to financial traders. These colossal figures lead to surprise, even envy or admiration, and often indignation. But capitalist ethics distinguishes between money paid to remunerate an economic risk and money that is a virtual sinecure more or less protected by the state, by corruption or by an outdated tradition.

The classical economists of the 19th century, including Marx, thought that the only productive elements were the technical works which transformed inputs into goods. Administrative services, state apparatus and all the commercial and financial services were viewed as sterile as regards wealth creation—which does not mean they were useless—much in the same way as was the vast expenditure of the nobles and higher clergy in the past. In the economic theory of the 18th century Western physiocrat, François Quesnay, even artisans were thought to be economically sterile, because they were said to only transform nature and not to add anything to it. By realising that administration could contribute to productivity and that a given physical object is not the same when viewed as an economic object and hence may differ in value according to the economic space in which it is available, economists ended up admitting that administrators and business people were not predators but that they also contributed to the collective wealth. We need to make a similar step to distinguish between unwarranted remuneration and productive earnings.

In today's financial capitalism it is not always easy to make this distinction because financial income comes from distortions of time. Unless he is a pure theoretician for whom everything is confined to relations based on figures, an economist will acknowledge that there is income which is not related to the factors of production (capital, technique, work and inventiveness) but to favourable geographic, economic, political, social, cultural or administrative situations. According to capitalist logic, one must be in the right place at the right moment, one should

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8 Olivier Godechot, *Working Rich, salaires, bonus et appropriation du profit dans l'industrie financière,* [Working rich, salaries, bonus and profit appropriation in financial industry], Paris, La Découverte, 2007; Louis Chauvel, *Les classes moyennes à la dérive* [Drifting middle classes], Paris, Le Seuil, 2006.

discover innovative techniques, so as to draw on the wealth one has contributed to creating. This entails a struggle against income obtained by corruption, poor regulation or inadequate traditions. This struggle gains by preferring competition, by winning votes to have recourse against administrative decisions, and not only by multiplying rules and sanctions. In the best case, for the same degree of competence, the same job and the same investment I will gain more or less according to place, organisation, technique, the country and the economic and political environment. The income then begins—in this unique case—a better stimulant to industrial and commercial profits and to global wealth. Other forms of income, linked to corruption, political arbitrariness or administrative failures are contrary to capitalist ethics.

Finance, however, does not play on spatial difference but on temporal distortion. The distortion is shown in the variety of ways economic risks present themselves. By exchanging time against risk, that is, by accepting the promise of uncertain future income against money immediately available, credit payable in the future as opposed to credit here and now (cash is one such kind), finance brings into tension measured intervals of time against risks which are very different in scope. This is but one way of talking of the lever of finance—which John K. Galbraith claims is the only discovery made by financiers, one that is reinvented in every generation.[9] The archetypal lever is well-known: to borrow at a low rate of interest whilst offering guarantees to the lender of a certain degree of security over a shorter term, even one that is immediate, from placing the borrowed money at a higher rate of interest in enterprises that are very promising but more uncertain. When bankers talk openly about their trade they say that it is a matter of transforming short term placements into long term investments.

For the remuneration of professionals as well as for the financial activity itself, the lever relies on a basic point of rest, namely debt. Hence capitalist ethics leads to discerning between the advantages for society as against the systemic effects of debt. Such discernment is necessary because the solution is not inscribed in a universal norm. A debt appreciates according to its compensation and to the economic and regulatory context. There is a subjective side to this appreciation: risk is relative to the one who takes it. This is what can justify the portion of financial income given to the professional as a bonus. The problem is that speculative gains are won by the professional with money that is not his own, whilst the risk that a trader takes only rarely cuts off his own income. According to capitalist ethics, for there to be real professional responsibility the subjective dimension of risk calls for a strict framework, for when gains go in step with risks taken, professionals have a lot to gain and little to loss apart from their bonus.

The argument which invokes the responsibility of share-holders in exorbitant remunerations seems to overlook the concrete way by which share-holders' meetings work. They are caught between the individual bearers whose actions are already determined by the structure of the enterprise and the representatives of the collective funds who share the same analyses, the same *a priori* and the same interests as the structure itself. [In] these meetings, sometimes [...] a large majority in the room would appear to accept the criticisms voiced but the result of the vote

9 John Kenneth Galbraith, *A Short History of Financial Euphoria*, New York, Penguin Books, 1990.

generally confirms the position of the administrators. Meanwhile the gap between the results on the stock market and the remuneration is so common as to be not worth insisting on.

2. A Capitalist Ethic is insufficient

Even if capitalists were irreproachable and capitalist ethics without fault, the state and society should still intervene to limit the excesses of capitalism, because capitalism is a type of social formation which works like a game of football by excluding others. The winner is the one who has succeeded in eliminating his opponents. For a long time, in fact since the mid 19th century, up until today, we normally distinguish between the economy, which has to do with the science of the production of wealth, and morality and politics, which have to do with the art of distribution of wealth. "Competitive capitalism has the task of producing efficiently; politicians and charitable works have the task of distributing wealth so that each person's dignity is respected." By thus isolating capitalist ethics from the needs of the social and political grouping, the excesses of capitalism are allowed to appear before they can be corrected by way of redistribution and social works. Two centuries of experience as well as reason show that this separation has not led to the desirable result of the birth of a capitalism without excesses. Not only must the state intervene to control corruption, to sanction abuses and to maintain juridical security and enable entrepreneurs to apply their work or their capital in risky enterprises, but the state must also safeguard competition without which unproductive allowances multiply as well as other unjustified levies on the work of the whole of society. This demand for ethical capitalism will lead the state to manage import and export duties, exchange rates and the technical norms and transfer of capital such that new industries are not crushed by vast conglomerations which already exist. Competition is the principal leverage of capitalist efficiency, but it is an objective which, like the horizon, recedes as one advances forward.

Governments may not relieve themselves of their task to regulate capitalism on the market, for the market does not lead to efficiency in the means of production even less to social justice. This is shown by logic and not only by empirical evidence. Economic theory would like it that the rationality of agents should automatically lead to the best allocation of productive resources possible, and thereby guarantee a just distribution of gains. In reality it is not so, because competition does not bring about equilibrium, even if equilibrium may come about [...]. The government should also take into account the inefficiency of markets which can only attain what economists call the fundamentals of the real economy by chance.

Moreover, however useful it may be, the increasing productivity preferred by the accumulation of capital cannot be considered as the ultimate goal either of public management or of individual desires. The 13th century Dominican Friar, Thomas Aquinas , made the common good the basis of the ethics both of public authorities and of individual persons. The specific role of public authorities in the promotion of the common good is that of the general interest which seeks to put in place, to maintain and support the infrastructure of communications (both material and electronic transport) without which individual liberty could not exist. But the state also contributes to the common good by imposing on the workings of capitalism rules which respect the employees, the providers, customers and savers.

However restrictive they may be and even if they limit the economic efficiency of the system by regulating the hours and conditions of work, safety, hygiene, the ecological and political environment, these rules are a legitimate imposition on capitalism. Economic efficiency is not the supreme value, even if such may at times be said to be the case. The dignity of persons, especially of workers and their families, comes first.

It remains though that the redistributive role of the state can never completely eradicate the excesses of capitalism, because those who share in the success of capitalism are in the best situation to demand and obtain the largest share of the wealth they have helped to produce. In his reply to the German economist, Adolf Wagner, Karl Marx underlined that "the capitalist contributes to creating that which he draws from."[10] This is why even in a capitalism that is thoroughly imbued with morality, the state must work to create institutions—such as mutual help organisations, cooperatives, joint-ownerships or inter-help organisations—and rules of play which enable risks to be met together in such a way as to spread out economic powers more broadly. Without this, the wrong-doings of state capitalism and monopolist capitalism will continue to show their excesses.

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[10] Karl Marx, *Randglossen zu Adolph Wagners "Lehrbuch der politischen Ökonomie"* [Random commentaries about Adolph Wagner's "Manual of political economy"] (Zweite Auflage), Band I, 1879.