

Capitalism as a system of economic and social co-operation

Many critiques of capitalism confuse their terms and use their language casually, often attacking straw men. As such, it is worth beginning by defining capitalism. Its definition is certainly not beyond dispute, but the definition used below has the advantage of focusing on the institutional and political economy structures and does not come loaded with insinuations about motives or behaviour of people within a capitalist system. Furthermore, when examining specific questions, such as the financial crisis, it is important to understand the inherent features of capitalism. If we do not, we cannot tell whether capitalism caused the crisis or whether something else did. The financial crisis is a particularly good example here. Was capitalism the cause of the crash or state guarantees to banks and their customers? Or was it regulators? Or central banks? Or was it all these things interacting, or something else altogether? We cannot even begin to talk about these problems until we understand what capitalism is. To launch attacks on something we have made no effort to define or understand is simply a form of prejudice.

What capitalism is...

Sternberg (2015, page 385) defines capitalism as “an economic system characterised by comprehensive private property, free-market pricing, and the absence of coercion”. This is a good definition – and an accurate one. Though, like Saint John Paul II, who defined capitalism similarly, I prefer to use the term ‘free economy’¹.

Given this definition, it is worthwhile considering what activities fall inside and outside a free economy.

A monastery where there is the sharing of goods in common falls within this definition as long as the monastery has acquired its property without, for example, the state confiscating the property of others and granting it to the Church. The fact that it holds its goods in common and operates somewhat communistically within its own bounds does not make it any less capitalistic. This is simply a function of what the order chooses to do with its freely acquired property.

A workers’ co-operative or mutual insurance company are definitely capitalistic institutions, as is the ‘Fairtrade’ movement. These organisations are the product of people acting freely in the economic sphere. On the other hand, if the government requires workers on boards (as opposed to shareholders choosing this), this is a deviation from capitalism². It is worth noting that the heyday of mutual financial institutions in the late nineteenth century coincided with the heyday of capitalism.

And what capitalism is not...

Two modern day examples help us understand the boundaries of capitalism. It is often argued that the financial crisis was a ‘failure of capitalism’. This is far-fetched, if

¹ See *Centesimus annus*, 42.

² There is a good discussion of workers on boards, Catholic social teaching and the role of the law in Lower (2012).

not totally untrue. The banking system in 2008 operated with *inter alia* all the following forms of state direction in place³:

- Banks were required to have state-backed deposit insurance.
- Banks had their capital regulated, something that was a new feature of banking regulation from the late 1980s.
- In the US, banks were required to make a certain proportion of their loans to those least able to afford repayments under the Community Reinvestment Acts.
- In the US, large government-sponsored enterprises existed which securitised mortgages and sold them on whilst providing guarantees.
- Central banks provided lender of last resort facilities to banks and control monetary policy which influences the behaviour of the banking system.

All these regulations or institutions involved coercion of taxpayers, customers or banks which are deviations from capitalism. Some would argue that these interventions existed because, without them, a genuinely capitalist financial system would be less stable⁴, even though the specific interventions seemed to promote the behaviours that led to the crash. But, these are contestable questions as is the question of whether the financial crisis was caused by the capitalist aspects of the system or by the interventions. The only thing that is not contestable is that the banking system in 2008 was not a deregulated capitalist system.

Secondly, capitalism is not a system that involves social exclusion and is not responsible for ills of the world such as poverty. For example, a confidante of Pope Francis, Cardinal Rodriguez of Honduras, has written: 'In this time the free market has produced one sector which is booming: social exclusion.'⁵ Underlying this perspective is a belief that capitalism is characterised by the state promoting particular business interests which lead those interests to be enriched at the expense of others.

In fact, Honduras illustrates the opposite point. Those who are 'excluded' in Honduras – one of the Americas' poorest countries - do not suffer because of free markets but because of the cronyism, corruption and absence of the basic conditions for markets to function. Honduras has the 112th freest economy in the world and has a quarter of its people living in absolute poverty. According to the World Bank's ease of doing business report, Honduras is the 162nd easiest place in the world to start a business (out of 189 countries surveyed). In Honduras, as in many other places in the world, people are most certainly excluded *from* markets, but not excluded *by* markets. They may well be excluded by business interest groups and governments working together, but they are still excluded and the system is not one characterised by "comprehensive private property, free-market pricing, and the absence of coercion".

³ See Booth (2011).

⁴ Though see Anginer et al (2016) and Haltom and Lacker (2013).

⁵ See: <http://www.caritas.org/2014/09/family-time-economic-crisis/>

Capitalism is also not characterised by the absence of any role for government in society. Supporters of capitalism are not generally anarchists (though some are). Supporters of capitalism believe that the role of government is not to coerce but to prevent coercion so as to widen the sphere of social and economic co-operation. Governments do this through the provision of basic structures of good governance such as the enforcement of property rights, the prevention of theft and bodily harm, good courts systems that enforce contracts, and so on. On the other hand, the absence of institutions of good governance leads to coercion, both by corrupt government officials and also by private citizens and businesses which it should be the job of government to prevent, punish or to ensure restitution⁶.

Fatal confusions

If we do not have a secure definition of capitalism, we are likely to produce a very confused analysis. The most obvious intellectual confusion arises when capitalism is conflated with materialism. Marquand (2014), for example, blames unfettered capitalism for leading Britain to be the most money-worshipping large Western democracy. Whether Britain is the most money-worshipping country is difficult to know, but Britain definitely is not the most capitalist Western democracy. At the time the book was written, even the Swedish government spent about the same proportion of national income as the British government (over 50 per cent). The UK has one of the most centrally planned health systems in the Western world. Its land-use planning system, which leads to high housing costs which are at once responsible for increasing inequality and much working-age poverty, is a product of the late 1940s government admired by opponents of capitalism. In the Index of Economic Freedom, a well-used measure of how capitalistic a country is, the UK falls below Chile, Ireland, Canada, Australia, New Zealand and Switzerland as well as a host of smaller countries.

But, the error of conflating capitalism with materialism and 'money worship' is not so much empirical as an error of logic. And it is an error to which Tawney (1926) fell prey. In *Religion and the Rise of Capitalism*, Tawney criticised the division of commerce from social morality and Christian teaching and its subordination to material wealth. This is certainly a problem, but it is a problem of poor moral formation. It is possible to act morally in a capitalist system, putting material goods to the service of mankind (as the monastery example illustrates). Somebody who goes out to work, earns money and keeps their family, gives some time to social activities, saves for a rainy day and for a pension, engages in charitable works, and treats people with justice in economic exchange is living out their life virtuously in the economic sphere. This is not only possible, but it describes the everyday life of most of the world's people.

If we consider alternative economic systems, such as social democracy⁷, it is also possible to have a well-functioning democracy, where civil servants, members of parliament and voters act in the general public interest. But, on the other hand, there is ample opportunity in such a system for the pursuit of self-interest and materialistic

⁶ The situation in one country is brought home by a very personal account in Tooley (2016).

⁷ Ignoring other socialist systems such as Nazism and Marxist communism which are explicitly utilitarian.

and utilitarian goals. The pursuit of private interests through the state is the subject of study of a branch of economics known as 'public choice economics'⁸ and it now seems to be a recognised problem on all sides of the political spectrum. Indeed, such materialistic interests are at the root of the problems in South and Central American countries such as Honduras described above.

Italy France, Germany, Ireland and Belgium (*inter alia*) have all had party leaders, presidents and/or prime ministers prosecuted or given special immunity for enriching themselves in public office (see, Senior, 2005). Indeed, the result of the 2017 French presidential election was almost certainly changed due to accusations that the family of one of the candidates enriched themselves at the expense of the state. In recent years, five British MPs have been sent to prison for enriching their families illegally by claiming expenses that were not due to them. Materialism is a moral problem which can manifest itself in any system.

In a capitalist system, people can produce goods which have little moral value or, for that matter, which are clearly immoral (for example, pornography). But, this is also true in the non-capitalist part of the economy: it was a nationalised television channel which brought us voyeuristic reality TV. Government regulation and control of the economy, or of culture, is no guarantee of moral high-mindedness.

The second fatal confusion relates to the meaning of self-interest. Self-interest is not inherently bad. At its best, it is an extension of self-respect. For example, it is in my self-interest each day to take the train to work rather than to walk (which would take days). It is, though, not selfish of me to take the train.

Selfishness is disordered self-interest. Supporters of capitalism do not believe that selfishness is inherently a good thing as is often suggested.⁹ And the idea that it is unique to a capitalist economy is bizarre, as the examples above illustrate. A capitalist economy relies on free exchange and not on coercion. It is therefore able to turn self-interest and even selfishness to some good social use (though that is not the same as arguing that selfishness is a good thing). Even selfish business people can do good, without intending to, by providing goods and services which are valuable to others. A free economy can make the best out of the human condition by requiring selfish people to serve others – indeed, it might even force them to develop some virtues such as taking care to produce a good product.

It would be better if all people were always virtuous, but it is imprudent to assume that they will be. In an economic system controlled by the state, nakedly selfish people can do much more harm. Corrupt police and court officials can ruin businesses and individuals and prevent economic activity developing and the economy prospering whilst enriching themselves.

Political or government regulation of the economy is no substitute for ethics and, by concentrating economic power in the state, may well make things much worse.

A further confusion is that free markets are somehow 'unfettered' or are 'autonomous'. Pope Francis has criticised markets on this basis on a number of

⁸ At least two Nobel prizes have been awarded for work in this area.

⁹ This might be the position of followers of Ayn Rand. Some try to pin this idea on Milton Friedman, but it is certainly not a view that can be attributed to Hayek.

occasions. Markets, however, are institutional settings in which economic resources are exchanged through free, peaceful agreement. As in any such free social setting, people can act with self-restraint and the best of moral intentions or can act in scurrilous ways chasing immoral objectives. Thus, the first constraint on markets comes from individuals themselves. But, we also find, within capitalist economies, institutions which restrain behaviour in a more comprehensive way. Indeed, the heyday of capitalism was the heyday of the development of such institutions in the UK. These included professional bodies, stock exchanges (which had much stricter though less bureaucratic regulations relating to behaviour in securities markets than state regulators adopted when they took over the functions of stock exchanges in 1986), trade associations and workers associations. Such organisations act to restrain behaviour within markets as well as providing opportunities for fraternal association. Catholic social teaching often stresses the role of such organisations. For example, in *Centresimus annus* 48, it was suggested that: “Another task of the State is that of overseeing and directing the exercise of human rights in the economic sector. However, primary responsibility in this area belongs not to the State but to individuals and to the various groups and associations which make up society.”

The correct question is not whether we want the market to be ‘fettered’ or not (of that there is no doubt), but whether the state is the best ‘fetterer’. In other words, should society simply be made up of individuals and the state (as regulator) or should we welcome a rich variety of civil society institutions to participate in and help order activity in a broadly free economy? And, do such institutions regulate an economy less imperfectly than government bureaucracies¹⁰?

The final flawed critique of capitalism that we shall consider is the idea that it is a system somehow based on atomised individuals rather than one that places social co-operation at its heart. It is difficult to think of a more facile criticism. The whole basis of a free economy is social co-operation. The purpose of competition is to find the best ways to co-operate. Workers co-operate with each other, business owners and customers freely exchange, workers co-operate with business owners – both need each other. The Marxist idea that those involved in the process of production are in conflict has permeated critiques of capitalism, but it has been totally rejected by Catholic social teaching since at least 1891. As F. A. Hayek (1948, page 6) put it rather bluntly, using the term ‘individualism’ in place of ‘individual freedom’¹¹: ‘the silliest of the common misunderstandings’ is ‘the belief that individualism postulates (or bases its arguments on the assumption of) the existence of isolated or self-contained individuals, instead of starting from men whose whole nature and character is determined by their existence in society.’

Not only is social co-operation at the heart of everyday capitalism, capitalist societies have also developed specific examples of direct social co-operation for the provision of welfare. In 1910, in the UK, nearly seven million people were members of

¹⁰ I use the words ‘less imperfectly’ advisedly. Again, a straw-man argument is often made that supporters of a free economy believe that markets somehow produce perfect outcomes. This seems to be one that Tawney came close to making. Marquand (2014) also argued that a belief in free markets assumed a belief in perfect information. This is strange. The opposite is true. It is the absence of perfect information which leads to a necessity for a market economy.

¹¹ Rhetorically and as a matter of semantics, I believe that the word ‘individualism’ is a foolish way to describe a free economy.

registered friendly societies. These organisations provided unemployment and disability insurance as well as being fraternal organisations. Many were explicitly religious. This figure excludes members of mutual insurance organisations that were not registered as friendly societies.

There can be no place for the idea that religion, ethics and trade are separate domains. The economy is inseparable from society, as is religion. In the US, as was once the case in Britain, many firms are run on explicit Christian principles¹². As the economist Kenneth Arrow has noted, "Virtually every commercial transaction has within itself an element of trust...It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence." But, the crucial question in the debate about capitalism is what happens when trust and other aspects of morality are deficient? Can we be confident that government intervention in the market economy will produce better results? Those who will be intervening are carved out of the same block as the rest of humanity.

The economy is, in many ways, the most important part of society, especially for those who have to work a full week to ensure the upkeep of their families. Religion, virtue, ethics and morality should be inseparable from economic activity. If they are not – as Tawney suggested - this is a failure of religion to help its adherents understand that God is for life and not just for Sundays. This is a problem which cannot be solved by giving responsibility for planning economic activity to the state. Indeed, as the state rather than conscience has become the main regulator of economic activity in the post-war period, has religion been more or less woven into economic life?

Conclusion

It is perhaps strange that capitalism is coming under attack at the current time. A move away from central planning and even tentative steps towards market economies has been responsible for a fall in global poverty to about a quarter of 1990s levels. Child mortality and illiteracy have also fallen dramatically as has global inequality. People who experience dreadful poverty tend to do so under the extremes of government coercion (the opposite of capitalism) or with their lives under threat from external forces such as war.

After the collapse of communism, John Paul II asked a rhetorical question about whether capitalism should be embraced. He answered as follows:

If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy", "market economy" or simply "free economy". But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of

¹² A small number of very many examples of Quaker companies in Britain would include: Bourneville, Frys, Friends Provident, Clarks and Barclays.

that freedom, the core of which is ethical and religious, then the reply is certainly negative.

This is not unlike Sternberg's definition. Of course, there are debates to be had about how the government helps those who cannot help themselves, how it deals with monopolies (which can, themselves, be coercive), and so on.

Capitalism allows ethical human action in the economic sphere. It does not guarantee ethical behaviour – but neither does government control of the economic system. We should ensure that the less-well-off are looked after, but we should do so in a way that promotes socialisation rather than socialism.

The idea behind capitalism is that freedom, the peaceful allocation of economic resources and social co-operation in the economic sphere serve the common good better than state control of the economy; that it promotes the dignity of the human person living within society; that it harnesses human ingenuity; and that it is a system that is most compatible with our human nature which lacks omniscience, is fallen, but is called to virtue. The proof of the pudding is in the billions of people who are now eating.

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