

The Global Financial Crisis

A Christian Perspective

■ by Kenneth Barnes



In tackling the moral wilderness of capitalism today, some Christians suggest dismantling it altogether, but Jesus came to redeem rather than overthrow the power structures. By drawing on Aquinas and applying the insights of the cardinal virtues, Ken Barnes supplies a moral compass which not only Christians but those of other faiths and none should be able to accept as the route to capitalism's moral health.

Capitalism works. It works for a wide variety of reasons, but one of its greatest strengths is that it is not a construct devised by economists to be imposed by governments from the top down. Instead it is a system that has evolved organically over the centuries, essentially from the bottom up – a kind of ‘economic Darwinism’ that has, through a process of natural selection resulted in an extremely efficient mechanism for the creation of wealth. However, as with biological evolution, Capitalism can be capricious, even brutal, especially to those whose participation is less efficient than the most ‘fit’ participants. It is capable of gross mutations that if left unchecked may seriously affect the entire system. Capitalism can also be manipulated for the benefit of a few at the expense of many. It is an efficient system, but it is not infallible – far from it, as the current global financial crisis (GFC) has made painfully clear.

So what, if anything, are Christians supposed to do about capitalism’s inherent shortfalls? How do we make this brutally efficient system less capricious and more just? Some well-meaning Christians have suggested we scrap capitalism altogether in favour of a newly constructed system based upon biblical principles. While that seems a noble objective, I believe it is a misguided attempt to build an economic Utopia that is doomed to failure for several reasons. Firstly, we simply aren’t smart enough to pull it off. The current economic landscape is far too complex for anyone, even the greatest minds in the world,

to construct a new system to replace capitalism; and even if they were successful in developing such a system there is neither the political will nor the governmental structures in place necessary to impose it from the top down.

Secondly, no new construct, however cleverly conceived, can overcome the corrosive effects of sin. Human beings are what we are, human nature is what it is and no amount of regulation in the world can prevent our innate ability to manipulate and pervert even the most brilliantly conceived processes.

Thirdly, I believe that the entire enterprise is built upon a false premise, namely that Christians are called to ‘change the world’. We aren’t. Jesus didn’t come to change the world *per se*; on the contrary, Jesus accepted the world exactly as he found it. He did however, come to redeem the world and that is what I believe Christians should do in the current context. Just as Jesus didn’t attempt to overthrow the power structures of His day, neither should we. Instead, we should accept the systems we have as a matter of fact and seek instead to redeem them.²

An approach such as this of course, offers a significantly different paradigm from the one proposed by the aforementioned Utopians. However, after spending a lifetime as both a participant in and critic of capitalism, I believe its greatest challenges are not merely structural; they are moral, thereby requiring an ethics-based remedy. ▶▶



Moral Failures

In an article published by the New York Times Magazine on September 13, 1970, economist Milton Friedman famously stated that the primary responsibility of a corporate executive is to “make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom”. This, along with various precepts laid out in his 1962 book entitled *Capitalism and Freedom*, became known collectively as the Friedman doctrine³. The notion that business is amoral and that companies have no social responsibility other than the maximisation of profits has been the generally accepted mantra of business schools and boardrooms for a generation.



Milton Friedman

However, there are obvious flaws in the logic of Friedman’s argument.

In the first place, there is no consideration given to time in Friedman’s formula. ‘Make as much money as possible’ over what period of time; the next day, the next month,

the next quarter, the next conference call with analysts, the next year? As we have seen with countless recent business failures, a company could make a great deal of profit in the short term while creating an existential threat to the business in the medium to long term. Is that responsible behaviour? Similarly, we have seen that obeying the ‘rules of society (as)...embodied in law’ is no guarantee of responsible behaviour either. When Lehman Brothers used an accounting trick (Repo 105) to manipulate its balance sheet prior to its collapse, their actions were technically legal; but were they responsible? What exactly is the ‘ethical custom’ Friedman was referring to? If it is the custom of investment banks to employ high-risk/high-leverage business models and trade in complex derivatives whose underlying assets are either unstable or untraceable or in the case of some derivatives, both, is that responsible behaviour? Obviously not, yet according to the precepts of the Friedman doctrine, most bank executives do exactly what is required

of them: they ‘make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom’. Such thinking however not only encourages moral failure, it sanctions it.

One may reasonably ask what I mean by moral failure? For the purposes of this paper, I shall define a moral failure as any action or policy that is inconsistent with the moral virtues as defined by Thomas Aquinas in his seminal work *Summa Theologiae*, namely: prudence, justice, fortitude and temperance (the so-called ‘cardinal virtues’). I have chosen the Thomistic model for several reasons. Firstly, Aquinas himself identifies these virtues as being ‘common’ to human kind regardless of one’s religious beliefs (or lack thereof). Secondly, they spare us the ethical gymnastics of consequentialism⁴. Lastly, the cardinal virtues and their subsidiary virtues along with the Decalogue⁵ have been at the heart of ethical and legal thinking in the West for centuries.



St. Thomas Aquinas
Carlo Crivelli
(c. 1435 - c. 1495)
The National Gallery

Some will no doubt argue that such a definition is impractical, unworkable, simplistic or even naïve. I contend however that its beauty is in its simplicity and that its practicality requires neither superior intellect nor an in-depth knowledge of complex principles - merely the unfettered exercise of one’s own conscience. In light of this definition of morality, let us view the current crisis through the prism of virtue.⁶

Prudence

Aquinas does not invent the cardinal virtues in *Summa Theologiae*.⁷ He builds upon the ancient Greek understanding of them, particularly that of Aristotle and the Stoics as well as the early Church Fathers,



▶▶ especially St. Gregory the Great and St. Augustine of Hippo. However, his combination of theology and philosophy has produced definitions of virtue that are neither overtly religious nor unduly esoteric. They are in fact incredibly practical and rooted in both reason and experience. This is demonstrated by the simple yet profound definition of prudence as ‘knowing what to want and what not to want’.⁸

This is a truly sublime definition as it indelibly links virtue with values, actions and motives. In this regard, prudence is far more than mere caution (as it is commonly understood in contemporary culture); it

is the subjugation of desire (motive) to the principle of goodness (value), thereby producing actions that are virtuous.

This of course begs the question: what should one want? For Aquinas the answer is simple: pursuit of the ‘common good’. He puts it this way: “the idea that man need only seek his own private good conflicts with charity and right reason, both of which prize the general good above all”.⁹ In other words, the only reasonable behaviour is that which *prudently* considers the impact of one’s conduct on all of society.

This, Aquinas logically concludes, must involve the ‘reasoned regulation of conduct’, not merely as a ‘general rule’ but in ‘particular cases’.¹⁰ That is to say, when making decisions that could affect others (which is true of most business decisions), virtue requires us to think forwardly, using our cognitive abilities and such tools as memory, insight, our ability to learn from the experience of others and soundness of judgment to ultimately determine the best course to follow - without resorting to imprudence which consists of willfulness, headlong haste and negligence, the latter leading to guile and fraud.¹¹

What we have witnessed in recent years however, are executives who care far less

about the ‘common good’ than the maximisation of their own profits regardless of the risk to shareholders and investors alike.

This is especially evident just before a financial collapse. In 1995 the actions of a single derivatives trader, Nick Leeson famously brought down Barings Bank, one of the oldest and most respected merchant banks in the world. While Mr. Leeson was involved in a series of frauds (for which he was ultimately convicted and imprisoned), it was his constant ‘betting’ on a recovery in the Japanese stock market that finally caught up with him. Had he cut his losses early, the bank would probably have survived. Similarly, had

Lehman Brothers’ executives not acted with such guile and bravado, acting imprudently, they too may have been able to avoid destruction. They didn’t however, and countless others have suffered as a consequence, which brings us to Aquinas’ next virtue, justice.

Justice

Aquinas defines justice as ‘a stable and lasting willingness to do the just thing for everyone’ and injustice as ‘unfair discrimination’. That is to say, the virtue of justice demands that people are treated equitably ‘in proportion to their social worth’ and not according to their associations. He further distinguishes between ‘distributive justice’ (i.e. those dealings that are communal) and ‘commutative justice’ (i.e. dealings between individuals).¹² While Aquinas is suspicious of commerce he does not condemn it, nor does he object to private property. Additionally he does not espouse equal distribution of wealth regardless of one’s contribution to society and/or the creation of that wealth. However, he does condemn any ‘practice enabling one to sell a thing for more than its real worth’ and he specifically states: “when there are hidden flaws in something offered for sale and the seller doesn’t disclose them the sale will be fraudulent and illicit”.¹³ ▶▶



Imprudence

Richard Fuld Jr., Chairman and CEO of Lehman Brothers Holdings being sworn in for the bankruptcy hearing

▶▶ What could be more obvious about the sale of such products as collateralised debt obligations (especially those backed by subprime mortgages) than their suspect value; and what could be a more egregious violation of this virtue than the manipulation of company accounts? Yet executives often take these decisions despite having both actual and constructive knowledge of their impropriety. It is no accident that Aquinas designates truthfulness as one of the subordinate virtues within justice.¹⁴

Without a presumption of truthfulness it is impossible for basic human intercourse to take place. Contracts, pledges, vows, promises, etc. all presume truthfulness; and it is this virtue, along with the other subordinate virtues of loyalty, respect, obedience, gratitude and honour¹⁵ that make commercial transactions possible.¹⁶

Yet the motive for deception can be very strong, not because the penalty for failure is particularly severe but because the financial reward for 'success' is often extreme (a situation we shall consider later in this paper) and high-profile executives often find admissions of error and changes of direction too humiliating even to contemplate.



Admitting their mistakes

G4S Chief Executive Ashley Almanza at the Public Accounts Select Committee: "It was just a flawed judgment. I don't think we did correctly tell the difference between right and wrong. We got it wrong."

It is never easy for people in positions of power and authority to admit their mistakes. When they do, they are often accused of weakness or indecision. However, history has shown that sometimes the bravest decision a leader can make is one of strategic retreat. But it is a very brave CEO indeed who tells

shareholders, investors and analysts alike that they got things wrong, are cutting their losses, and changing direction. However, that is exactly what is sometimes required, which brings us to Aquinas' next cardinal virtue: courage.

Courage

When speaking of courage in the context of virtue, Aquinas makes clear that he is describing 'spiritual bravery', not 'physical bravery'. In other words, he is dealing with those things that endanger the soul, not the body. 'Evils of the soul' he says, 'are more to be feared than those of the body' because 'courage of spirit keeps the will steadfastly attached to the good.'¹⁷ One may add, in the light of Aquinas' aforementioned definition of prudence: remaining steadfastly attached to the common good, and willingness to take a virtuous stand in the face of great peril.

Quoting the words of Jesus in John's Gospel, he reminds his readers: "No man has a greater love than this, that he lays down his life for his friend".¹⁸ Sacrificing one's own pleasure, comfort, liberty, reputation or even one's own life for the benefit of others is what true courage is all about. It isn't merely a case of standing firm in the face of adversity - as we have seen from history, that may in fact prove to be folly; it is about resisting, and even opposing those things that are at enmity with virtue itself.

Courage, according to Aquinas is also about being purposeful in the use of our time, our talents and our treasures in such endeavours as enterprise and munificence.¹⁹ There is no sin in seeking to do great things including, one would think, building a great business; assuming of course the ultimate purpose of that business was (once again) the common good and not merely personal gain.

This kind of courage is sadly lacking in many senior executives. They often prize only their own power, their own reputations and especially their own material wellbeing above everything else. This brings us to the last (and in the context of the GFC, perhaps the most important) of the cardinal virtues, temperance (or moderation). ▶▶

▶▶ Temperance / Moderation

Aquinas' discussion of temperance is especially useful as he was clearly not an ascetic. He understood the value of pleasure, not only in terms of its utility (i.e. the role of sexual desire in propagation of the species and taste-sensation in our quest for nourishment) but in its ability to give one rest from the burdens of life. In fact, he was quite scornful of those who avoided pleasures that were 'needed to survive' (unless of course such abstinence served some other utility such as dieting for health reasons or penitential fasting) and derided those whom he called 'wet blankets' (i.e. people who didn't have a healthy sense of humour). However, he also understood that while our desire for pleasure was both natural and useful, if left unchecked it had the potential to wreak serious havoc on us both physically and spiritually; hence his definition of temperance as 'a special virtue of restraint operating in fields in which we find ourselves specially and exceptionally attracted'.²⁰ In other words, because our natural desires are 'hard-wired' into our DNA as part of our survival instinct, their power over us can be overwhelming, requiring us to use our other uniquely human powers of will and reason to moderate them for our own benefit.

Aquinas gives many examples of the dangers associated with excess and immoderation in things that would otherwise be beneficial to us, such as excessive drinking, gluttony and sexual immorality. However, he also addresses other natural impulses such as hatred, anger, vengeance, envy and pride that have a terribly corrosive effect on both body and soul. To combat those negative emotions, Aquinas emphasises the need for the exercise of various subordinate virtues, such as mildness, clemency and most of all humility.

Humility is chief among the aforementioned subordinate virtues because it is this virtue that keeps our pride in check and it is our pride that Aquinas rightly notes, 'can give rise to every other sin',²¹ including of course, one of the most grievous of sins: greed.

Greed is an especially perilous vice because at its core is a rejection of God and God's values. That is why the Apostle Paul states categorically, that 'greed is idolatry'.²² It is not

a coincidence that the first four commandments of the Decalogue deal with our responsibility to God as sovereign and the requirement that we reject any and all competing idols. Throughout the Hebrew Scriptures God is described as a jealous God who suffers no rivals and demands total fidelity. Greed and love of money however can easily become competing idols, as their pursuit requires an inordinate amount of one's time and attention.

While it is true that money cannot buy happiness, it can certainly buy things that bring one pleasure; so much so that pursuit of wealth itself can become both a means and an end. Spurred on by an insatiable appetite for stimulation, or for some a desire to escape reality through the self-medication of pleasurable experiences, or for others still, the power and self-aggrandisement that often impel the rich, the love of money can in fact become the root of all kinds of evil.²³



**The love of money
is the root of all kinds of evil**

*The Worship of Mammon (1909)
Evelyn De Morgan (1855–1919)
De Morgan Centre, London*

Consider the matter of the personal compensation of Lehman Brothers CEO Richard Fuld. In hearings before the United States Congress in the wake of Lehman Brothers' collapse, Mr. Fuld complained that Congressman Waxman's figure of approximately \$500 million was exaggerated and that between 2000 and 2007 he had 'only' actually earned \$310 million. For argument's sake, let's assume Mr. Fuld's figure is correct. That is still over \$44 million per year in compensation, he is only one of dozens of Lehman Brothers executives whose annual compensation exceeded \$10 million per year²⁴; and Lehman Brothers was only one investment bank. A recent report by the Brookings Institute²⁵ revealed that investment banks distribute approximately half of their firms' annual earnings to their employees in bonuses. It also revealed the



▶▶ huge commissions traders make on the profitability of their accounts (approximately 30%). Is it any wonder that compensation of this kind and at this level encourages the kind of reckless behaviour we have witnessed recently on Wall Street? Of course not; it is a system that is built on greed, depends on greed and produces greed.

Wall Street's justification for such obscenely high salaries is the notion that these 'masters of the universe'²⁶ are the architects of wealth creation without whom capitalism would fail to function. Proponents of this theory however, fail to note that capitalism functioned satisfactorily enough before the dawn of the current era of excess and could easily do so again, without it.

Postmodern Capitalism

The maladies affecting global capitalism however are not confined to the financial sector; they are endemic to the entire system and are reflective of the West's abandonment of its historic ethical norms. The Judeo-Christian ethics of which Aquinas' cardinal and theological virtues²⁷ are a part, have been replaced by post-modern relativism. Adam Smith and Max Weber would be shocked to see that capitalism is no longer undergirded

by faith in a higher power or that commerce fails to assume commonly held beliefs about right and wrong, morality and immorality. Instead, our culture has produced a mutant, postmodern capitalism that is devoid of a moral compass and resistant, if not impervious, to ethical constraints.

If left unchecked, this form of capitalism will continue to produce the behaviour responsible not only for the collapse of Lehman Brothers, but the scandals of Enron, WorldCom, Barings, Parmalat (to name but a few), the subprime mortgage crisis and the ticking time bomb of sovereign debt.

Capitalism requires a moral compass and while this paper has presented a Christian perspective, those of other faiths (or no faith) should not fear its premise. In the West, Christianity has been the guardian of the aforementioned cardinal virtues, but their universality is unquestionable. While it may be the duty of Christians to seek the redemption of capitalism, it is not a parochial activity. It is an inclusive mission whose participants are simply those who reject the widely-held narrative of naked self-interest and who seek instead an economic system that rewards the individual while first and foremost seeking the common good. ■

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- 1 Some commentators prefer the designation "Great Recession".
- 2 This is not to suggest that a redeemed world would not be significantly transformed. It merely suggests that transformation is a consequence of redemption, not its objective.
- 3 My criticism of this particular aspect of Friedman's thinking should not be construed as rejection of his entire economic philosophy, much of which is commendable.
- 4 As its name implies, consequentialism is predicated on the proposition that the morality of any given act is determined solely by its consequences. Classic utilitarianism is an example of consequentialism.
- 5 This is demonstrated by the bas-relief of Moses and the Ten Commandments prominently displayed on the east side of the U.S. Supreme Court building in Washington D.C. and in countless other judicial settings.
- 6 For an interesting perspective on the relationship between virtue ethics and the release of 'spiritual capital' in business, I would direct readers to Theodore Roosevelt Malloch: *Spiritual Enterprise* (2008).
- 7 Unless otherwise noted, references to Aquinas' *Summa Theologiae* are taken from the 1988 concise English translation edited by Prof. Timothy McDermott.
- 8 McDermott. 376.
- 9 *ibid.* 378.
- 10 *ibid.* 376.
- 11 *ibid.* 376-381.
- 12 *ibid.* 383-388.
- 13 *ibid.* 395.
- 14 *ibid.* 399.
- 15 *ibid.* 415-416.
- 16 This is a far cry from the notion of *caveat emptor* ("buyer beware"), which contrary to popular belief had no place in Roman Law and was almost certainly a 16th Century construct.
- 17 *op. cit.* 422-423.
- 18 Jn. 15:13.
- 19 *ibid.* 424-425.
- 20 *ibid.* 426-440.
- 21 *ibid.* 437.
- 22 Col. 3:5. For a further exploration of the concept of greed as idolatry, I highly recommend Brian S. Rosner, *Greed As Idolatry* (2007).
- 23 1Tim. 6:10.
- 24 <http://documents.latimes.com/lehman-compensation-chart/>
- 25 http://www.brookings.edu/~media/research/files/papers/2010/1/11%20wall%20street%20elliott/0111_wall_street_elliott.pdf
- 26 This is a reference to a sobriquet from Tom Wolfe's *Bonfire of the Vanities* (1987).
- 27 In addition to the cardinal virtues of Aristotle, Aquinas adds the (Pauline) theological virtues of faith, hope and love.