

## IS CAPITALISM ETHICAL?

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**Abstract:** *The author of this paper have set off from the question: is the present capitalism ethical? We started with the delimitation and correlation of the concepts of ethics, morals, morality. Further on, we analysed the evolution of capitalism in connection with morals. Based on this research, we came to the conclusion that the capitalist system has undergone through three stages: moral capitalism, amoral capitalism, and immoral capitalism. We concluded by implying that the corporate capitalist society is immoral, that it cannot regulate itself and that the government's assistance is needed to inoculate the ethics.*

**Key words:** *ethics, morals, morality, moral capitalism, amoral capitalism, immoral capitalism.*

We have been preoccupied by the following question: in its current stage of evolution, is capitalism moral or immoral? In other words, is ethics a constitutive part of capitalism, does it come from outside, or is capitalism unethical?

The complexity of this matter is determined by the double nature of ethics. On the one hand, there is the theoretical-philosophical dimension, and on the other, the practical-behaviourist dimension, the link with economics in general and capitalism especially.

In order to analyze the relationship between capitalism and ethics, it is necessary to delimitate the concepts of ethics, morals, non-ethical, amoral, unethical, and immoral.

### 1. Conceptual Delimitations

The concepts of ethics and morals have a parallel origin – from the Greek *ethos* (virtue, habit, custom, character). From this term, Aristotle derived the word ethical for certain human qualities of

spiritual nature, called by him ethical virtues, such as: moderation, courage, generosity.

Starting from the Latin *moris* (virtues), Cicero created the notion of *moralis* (morals). In the IVth century AD, the Latin term *moralis* turned into morals, a synonym for the Greek *ethos* (ethics). So, the two concepts, ethics and morals, have a similar origin and identity.

Morals is a set of forms of the social conscience which regulate the cohabitation of people in society. In many of its descriptions, at the core of the morals are the fundamental values, the good and the evil, destined to direct people's behaviour. [1]

Other authors elaborated a more comprehensive characterization of morals, including there the set of principles, norms, values, ideals and convictions which constitute the spiritual level of the human conscience, and also the set of feelings, skills, attitudes and mentalities that constitute the psychological level of the conscience.

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Briefly, morals is the appliance of human principles and skills to the facts of life. The fundamental values of morals are: good, evil, duty, responsibility, dignity, equity, moderation, the equity of chances. Morals consider that man is a valorising being who produces preserves and order his life and activities according to a system of moral categories which coincide with the moral values mentioned earlier. All these values and categories of morals refer to man's purpose in the world, the meaning of the existence of the individual and of different human societies.

The moral principles are prescriptions which recommend a general model of behaviour, an ideal to be followed. The moral ideal is a potential and desired project, while the norm is a beacon of the individual behaviour in the relation with the others.

Apart from morals, but in tight connection with it, ethics is seen as 'the set of values and norms that define in a certain society the man of honour and the rules of correct, dignified and successful behaviour, the breach of which is condemnable and despicable. Ethics promote certain values (honesty justice, correctness, equity, impartiality, kindness, magnanimity) and try to hold to certain norms'.

What is necessary to be underlined in this introduction about ethics, apart from the fact that it is a complex of values, norms and rules that are also included in the characterization of morals is the fact that between morals and ethics exists a core structure, a distinctive note, in other words, the fact that the rules here, the same as with the religious commands, are positive imperatives, urging to 'be honest!', or 'be just!', while others are stated as negative imperatives, prohibitive, such as 'don't do what you don't like to suffer!'.

The notion of morality is in interdependent relation with morals. By the notion of *morality* is implied 'the condition of the man who aspires to live under the guidance of as higher ideals and principles as possible'. If we wonder what kind of ideals and principles are those, we can answer, without fear, that they are moral ideals and principles, and therefore morals and morality cannot be clearly told apart.

Although ethics coincides with morals as they have similar etymological evolution, delimitation between them is necessary, even though there is no ethics outside morals. Ethics is a theoretical approach of morals, a moral philosophy or a science of morals, which tries to illuminate with theoretical constructs the moral problems.

While morals is considered a set of convivial norms and principles of good quality, with universal or particular character, referring to the daily behaviour both at spiritual as well as at practical and behavioural level of human individuals or societies, ethics, with its theoretical traits, of moral philosophy, has, as morals does, an object of study, meaning that it is the conceptual system which sees morals in action, day to day morals. Ethics elaborates a theoretical-rational vision on the morals as a whole.

Ethics, even with its subordinated branch of economic or business ethics, as some economic specialists call it, represent 'the totality of norms and regulations which refer to the conduct of the business officers in their economic activities'. Economic ethics, as a particular science of the general ethics 'makes a synthesis of the system of values, principles and norms establishes in time between the economic entities'.

In contemporary literature, the concepts of ethics, morals and morality are synonyms in most of the languages. As a moral theory or philosophy, ethics studies the code of norms and rules that guide the life and activity of man. Apart from ethics

in general, we also speak about branches of ethics such as the economic ethics, business ethics, management ethics, medical ethics, law ethics, and professional deontology.

## 2. Is Capitalism Moral?

In order to explain the connection between moral and amoral (ethical and non-ethical), moral and immoral (ethical and unethical) and the connection between these terms and the evolution of the capitalist society, we refer to a study, significantly entitled *How capitalism lost its soul: from the protestant ethics to the 'barons' of theft*. Marie-Laure Djelic, the author of the study, distinguishes four stages in the evolution of the relation between ethics and capitalism.

In the first stage, the missionaries, in the liberal tradition, conceive capitalism as an ethical system, characterized by social and political freedom which leads to progress. In the second stage, the relationship between capitalism and ethics is seen in a Nietzschean perspective, where capitalism is outside ethics, it is non-ethical. Capitalism manifests an amoral economic order. The third stage, called 'critical', sees capitalism as 'deeply immoral'. The fourth stage is a 'de-standardization' one, where the capitalist system is neither ethical, nor self-regulating by nature. The author concludes that, under historic circumstances, the capitalism begun as a morally founded system, then 'coming to lose its soul', which is its ethical essence.

These four stages of the evolution of the relation between capitalism and ethics are questionable and arbitrary, because between the third stage, which characterizes the capitalism as "deeply immoral" and the fourth stage, which presents capitalism as cancelling its standards, and thus unethical, there is no essential difference. But, beyond the analyse of the evolution of the relation

between capitalism and ethics in the fourth stage, what needs to be remembered is the evolution of the capitalism from the morals, in the first stage, through an amoral stage, to the present stage of the 'theft barons', as a 'deeply immoral' and "without rules" type of capitalism.

In daily conversations, there is no difference made between the terms 'amoral' and 'immoral', between 'non-ethical' and 'unethical', understanding the first as opposed to morals and morality, and the second as opposed to ethics. At a closer look, we see that the terms 'amoral' and 'immoral' are not synonyms, as well as 'non-ethical' and 'unethical'.

The word 'amoral' means 'indifferent to morals', it does not refer to it, as it is placed outside morals. The same, 'non-ethics' is outside the content of ethics. They are equidistant.

The word 'immoral' is opposed to morals, and also to the principles and norms of morals. Immorality is antonym to morality.

In the same antagonist relation are non-ethics and ethics, with reference to the rules and the code of ethics.

Further on, we will analyse the significance of the three terms: moral, amoral and immoral, in close connection with the evolution of the connection between the capitalism and morals.

This connection undergoes three stages: the moral capitalism, the amoral capitalism and the immoral capitalism. There are substantial differences in the evolution of capitalism during the three stages, which refer to the essence of the capitalism and to the development and transformation of the phenomena.

### 2.1. The Moral Capitalism

The various stimuli of which the ethical conduct is responsible are divided into two important groups: rewards and punishments. They are the main determinants of the human ethical

behaviour at individual and communitarian level. Rewards are more important for the moral life than punishments, because they stimulate the improvement of the personal and the collective life, like dignity, generosity, and so forth, while punishments generate conservative strategies, such as the deviation or breach of law, of moral rules and norms, meanness, mischief, etc.

Without doubt, the reward was not invented by capitalism, but profit was, and it is the powerful stimulant of the capitalism even from its apparition.

In his book, *The Protestant Ethic and the Spirit of Capitalism*, Max Weber shows that J. Calvin and M. Luther had reconsidered the meaning of profit as seen by capitalism. The protestant ethic was a constitutive part of the rational capitalism.

According to Max Weber, the birth of rational capitalism associated with the free market of work, with the development of occidental cities and organization of the national states were built on the principles of ethics. By his organizational spirit, J. Calvin saved a big occidental city (Geneva), of the menace of general bankruptcy and a high rate of unemployment, setting the stones of the city's industry. He elaborated a new Christian attitude towards money. Through J. Calvin and M. Luther, the rising bourgeoisie builds up its own morals, different from the obsolete morals of feudalism. The norms of the protestant morals are based on the fact that the businessman, the entrepreneur, the trader, the banker are no longer an immoral Christian, as any professional activity shares the divine grace.

The businessman was set free from the curse that was upon him even from the raise of Christianity. The Catholic theologians considered the loans with interest immoral, based on the gesture of Jesus Christ who banned the merchants

from the temple. According to J. Calvin, by their professional activity, Christians fulfil God's given mission. By his work, the Christian praises God's glory, because there is no work, as dirty as it would, that does not shine in the eyes of God and not be priceless if it helps us serve our vocation.

Max Weber considers that the economic interests and the moral norms determine together the human action. According to him, morals and economic development are in tight connection. Ethics and professional activity are the fruit of a vocation, of a call. Profession is the highest form of Christian activity. The restless professional work is 'an excellent mean to acquire self-confidence'; it 'confers the certainty of the state of grace. God does not require work in itself, but rational professional work'.

As a consequence, the economic agents, in this stage of the building of capitalism as an economic and social system found their actions on their life and on law, on ethical norms and principles.

They aspire to obtain profit and benefits in a well-structured moral environment. The managers adopted an ethical code in dealing with their employees, shareholders, suppliers, buyers, and they also show social responsibility in the production process. Abiding to laws, to moral norms and regulations doesn't mean that, in this stage, there are no deviations or violation of these rules. There are, but the capitalist system has the capacity to correct them.

## **2.2. The Amoral Capitalism**

The second stage of its evolution, simultaneously with the beginning of the capitalist industrialization, larger and larger categories of people are attracted in the capitalist process, and the economic process brings along the organization in democratic structures. In this stage, ethics does not come from the capitalist process. Between the two fields: of ethics and of

capitalist economy, there is no cause-effect relation. They are exterior towards each other; the capitalist economy is, in this stage, amoral, non-ethical.

The market economy generates the private well-being. The common well-being, which results from the resource distribution, has an ethical character. It is expressed by the search for the social equity, of human solidarity; it is preoccupied by the helping of those with small income and challenged, in general, by the social assistance.

The public and administrative power exercise the influence it has by correcting the negative effects generated by the market economy on the population, by measures such as redistribution of income by means of fiscality, the progressive character of taxes according to the extent of the income, health assurance policies, education assurance, unemployment dotes.

But all these actions of the power institutions which are circumscribed to the common well-being are external to the capitalist economy, they are not the results of the capitalist economy dynamics and mechanism. The state, with his institutions, corrects in a certain degree the negative economic effects, fighting against monopoly and corporations, trying to assist in consumer's protection, as well as in salary and union rights.

The capitalist economy has its own functioning strings. It is accomplished inside the market and determined by the economic agents' action, in order to ensure the private well-being. The public power pursues the common well-being by mechanisms of political, administrative, legislative and judicial authority. The economic agents, relying on the principles of economic efficiency and rationality, aim at getting the best profit possible, at accumulating wealth on both company and individual level.

Ethics results from the confrontation between the economic performances of the organization (measured by costs and profits) and the social performance, determined in terms of obligations towards the persons and social categories from inside and outside of the organization.

By the way they pursue the accomplishment of the particular aims of the two powers, public and private, general interest outcomes intersect: common and private well-being. The common well-being is generally determined by the government, and the private well-being in generated, first of all, by the economic agents.

The segregation of wealth gathering and wealth redistribution is a characteristic of the XIXth and XXth centuries' capitalism, which had proved to be beyond good and evil.

The amoral capitalism, as a system, acts in two different ways: unconscious (involuntary) and conscious (deliberately). The businessmen, entrepreneurs, act involuntarily, they are not conscious of the fact that, apart from benefits, their actions also produce negative adverse results. They do not calculate the ethical dimension of their actions.

Many economic agents (individuals or corporations) assume, on the conscious level, that the moral aspects only refer to the private life. As an example, let's consider the case of alcohols and tobacco; even if the distribution of these commercial items is considered legal after the distributors inscribed on the labels the necessary specifications, still, the economic agents do not think about the profound moral problems that arise following the consumption, the harmful and noxious problems of the alcoholism, the dramatic effects of driving under the influence or the health issues, as cirrhosis or pulmonary cancer.

After all these observations, we conclude that ethics is external to capitalism that reached its industrial stage, and thus, capitalism is amoral and non-ethical.

### **2.3. Immoral Capitalism**

The recent studies about the relation between ethics and capitalism stress more end more the fact that the corporate capitalism system is going towards immorality and un-ethics.

In a society where ethics is integrated, this generates trust between business partners, protects the rights and interests of those involved in the production activity and retail. In the opposite situation, when inside the capitalist corporatist economy the immoral character is dominant, an extreme crisis arises, which can endanger the social-economic life itself of the different corporations, institutions and social categories.

According to the market fundamentalism as an extreme manifestation of liberalism, the corporate capitalism opposes to ethics, generally, because they have their own structures and causal mechanisms. The economic agents (individuals or companies) have complete freedom to act. Their main purpose is to maximize profit. Talking about the opposition between the capitalist system and ethics, G. Soros entitled a chapter of one of his books 'Capitalism versus Democracy', showing that the international financial markets and transnational companies had violated the sovereignty of the host states. Capitalism and democracy guide after opposite principles: companies' capitalism chases income, and the public authority is after democracy and well-being. The evaluation criteria and the values are also in opposition. For the corporate capitalism the measurement unit are money and the private interests, while the state and the democracy follow the public interests. These divergences of interests trigger after them tensions between capitalism and

democracy, between the state and the national or transnational corporations. The capacity of the state to ensure the well-being of its citizens is undermined by the cunningness of the corporations which skip the payment of their taxes, but still obtaining the benefits of the advantageous use of the working force, and in this way, the burden of the taxes moved on the shoulders of the contributors.

The menace of the failure of the corporate capitalism does not come from socialism, but from the market fundamentalism. The socialism had removed the mechanism of the market and imposed the control of the party-state over the economic activities. The market fundamentalism strives to impose the market supremacy over all the social and ethical values. Both of these extremes are dangerous.

The chain of corporatist scandals from the beginning of this century from USA and Europe, together with the deepening of the economic and financial crisis between 2008 and 2009, question the ability of the capitalist society to put a hold on greed, dishonesty, corruption, abuse and aggressive rivalry between the participants to the economic and social life.

Following after a period of economic growth, the American economy now encounters serious economic and financial problems. The shareholders have lost around 7000 billion \$ in the biggest stock exchange crisis in the last 70 years. A notorious example of illicit revenue was the CEO of the New York Stock Exchange, Richard Grosso, who obtain from the members of the Board of Directors, the members of which he named, a hidden emolument of 48 million \$, apart the 140 declared millions. Of illicit income also benefited Kennet Kay, the general manager of Enron, who cashed 120 million \$ a few day before the company went bankrupt. Also Gary Winik, the

Global Crossing general manager ensured for himself over 130 million \$ from selling shares just before the bankruptcy of his company.

The economic and financial crisis deepens. The banks crush one after the other. The multinational conglomerates, which until yesterday had at hand budgets of several billions a day are now in big trouble (see AIG). The real estate business, which granted fabulous incomes and stable jobs, are now in dramatic situations, many being bankrupt. Car manufacturing has visibly decreased, and sales are half as they were before.

The shock wave of the crisis went from USA in the two American continents, shaking Europe and Asia. Its cold breeze is preponderantly felt in the staff reductions for limited or unlimited periods of time. Unemployment, rising in all countries, reached alarming proportions. This is the most dramatic effect of the crisis – the lack of means for existence of a bigger and bigger part of the population of the planet.

All these facts lead to the conclusion that the strategy of the corporate capitalism is to use extensively all the opportunities in order to obtain as big and as quick profits as possible, and the means include dishonest practices, as dilapidation, bribe, fraud, influence, corruption.

### **3. Conclusions and Solutions**

If capitalism was moral at its origins, placing ethics as a factor which generated rational and dynamic development, it crosses into a second stage where it cuts itself off from ethics, becoming nowadays, in its third stage a corporate and unethical and immoral capitalism. The fraudulent events we spoke about prove that they are at the core of the system, and they also prove the immoral character of the corporate capitalism. Those who are placed on a high hierarchy on the capitalist ladder became rich by dishonest means.

Directors of stock exchange applied outrageous methods, such as ‘creative contributions’, manipulation of information about the quota of the companies’ shares on the stock market, by falsifying the financial statements by the complicity of corrupted auditors and massive sells of shares just before the crush of the companies.

Many companies underestimated their debts and over evaluated their assets, thus misleading their shareholders. Some of the renowned accounting companies showed an atrocious greed in their consultancy and audit actions. The internal audit of the companies was degraded by corruption.

The most of the abuse in a company is determined by a fraudulent behaviour of their managers, who, by stock speculations and false financial reports earned fraudulent and undeserved gains.

We notice that the situation of some transnational companies depends on the craftsmanship of a general manager who, in many situations, trying to make easy and unlimited money, put personal interests above those of the shareholders they represent, sometimes being rewarded for the bankruptcy of the corporation. We mention that the lag between the richest fifth part of the population and the poorer fifth of the population has grown in three decades of globalization from 30 to 1 in 1960 to 70 to 1 in 1996. Among the richest fifth are also placed the managers and shareholders of the transnational companies.

In the circumstances of the current economic crisis, what would the possible solutions be? Could be the return to socialism a solution? The socialism as a world system collapsed, defeated not as much by capitalism as by the inefficiency of a centralised economy and a totalitarian political system, but because it was incapable to provide for a living standard close to that provided by the capitalist

system; as in these circumstances we cannot talk about the return to the socialism for the Eastern European countries, this is the more so for the developed countries.

Despite of the immorality of the capitalist system, we must accept it because its results, be they as in the present, are still better than those of the socialism. What the legislative power must do, in order to avoid the scandals such those in which corporations are currently involved, is to make of the immoral behaviour in ineffective strategy in the eyes of the managers. This fact involves the regulation of the judicial system so that it has the power to detect, prevent and drastically amend the abuse.

Governments are forced to intervene by measures such as nationalizing banks or companies where the managers made use of fraud, thus protecting them under some conditions. The corrupt leadership must be taken down and made responsible in front of the law.

We conclude that under the present circumstances of the economic and financial crisis which continues to evolve, the immoral capitalism cannot self-regulate and that is why the intervention of the governments is required, depending on the concrete circumstances of each national state.

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