

# Opinions Regarding the Relationship Between Capitalism and Ethics

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**Abstract:** The study wants to propose a theoretical objective outlining in what extent the opinions of great thinkers, starting with Adam Smith to Max Weber and ending with Milton Friedman could still be actual, having in mind the compatibility between capitalism and ethics. The importance of this problem results from the large variety of mutations witnessed in the field during the last decades, under the pressure of the globalization process. The more important is this matter for Romania, where the political and juridical institutions can not succeed to stop the unfair competition and corruption. The difficulties of this endeavor are major, and the results of the research can not be but reasonable. We have started from the hypotheses in which the moral norms assure an organizational framework proper to each type of society. The debates are becoming contradictory when referring to what is happening in capitalistic free market, under the circumstances in which the role of state is being restricted. This diversity of options makes it necessary a permanent research upon the fundamental values of the contemporary capitalism. This study pleads against the false representations, deforming the correct understanding of the private initiatives. The conclusion is that nobody can be moral, more over in the case of the businessman, without having a clear and responsible assumed set of values. In order to do that, the debate should become permanent.

Even if, for the moment, in Romanian society debate over moral problems produce few practical effects, it is important that such debates take place and that they prepare an evolution towards normality. The idea is that no community can stay in a permanent state of confusion of values, which means that we have to expect essential axiologic clarifications, with sure extensions in politics, economy and administration. As I constantly find myself in such a state of waiting, I point out that in the year 2006, the Polirom publishing house in Iassy came published the book "Ethical frontiers of capitalism", under the coordination of economists Daniel Daianu and Radu Vranceanu. It is a volume of studies (13, to be more precise) written by Romanian and foreign authors, dedicated to ethics in general and the ethics of capitalist societies in particular.

Regarded as a whole, the book manages to combine philosophical reflections on the matter of moral with so-called case studies. It investigates the value system and moral standards which should define the economical and social activity. Actually, the volume is

structured in three parts, respectively: 1. "Programmed ethics", 2. "Spontaneous ethics" and 3. "Ethical dilemmas in practice".

In the first part of the book, we start from the finding that no society, including the capitalist one, has the capacity to offer optional solutions to the problem of ethics for the investigation of the possibility of improving the situation with the help of the government. Here, the French researcher Laurent Billeart, in the study "Capitalism and its ethics" tackles the main dilemma of capitalist society and reaches the conclusion that true ethics is between western "modern" ethics of complete human control of the world and the ethics of old or traditional civilizations, which sometimes become very reluctant to modern western ethics. In essence, this intermediary ethics needs a constant reinvention to the present, the unforeseen happenings whose consequences are always uncertain and risky, between an imperfect past which, whether we like it or not, defines us, and a future we try to direct towards the perfection we dream of"<sup>1</sup>. Also of some interest are the studies proposed by Michel Keren (Israel), Marie-Laure Dijelic (France), Daniel Daianu (Romania) and Nicoletta Ferro (Italy).

The second part of the book analyses ethical virtues of capitalist society and formulates favourable conclusions regarding the capacity of the market economy to cultivate universal human values. In this sense, Mircea Boari (Romania), for example, in the study "Capitalism. The Foundation of Ethical Behaviour", formulates the following ending: "The bond between capitalism and ethics can be tackled from numerous directions. Irrespective of perspective, whether it is either predominantly philosophical, economical or sociological, an adequate understanding of human behaviour is essential. Otherwise, we run the risk of statements without proof and of recommendations which do not reach their aim"<sup>2</sup>. Supporting arguments are numerous in following analyses, owing to the research by Sorin Cucera (Romania), Armand Pellissier-Tanon (France) and Antonio Argandoña (Spain).

In the third part, the book contains several case studies where real issues are analysed, such as the way companies are run in the context of major corporate scandals. For example, in the study "Ethical marketing, a myth?", the French researcher Rene Y. Darmon concludes: "Although laws, regulations and professional ethics codes contain useful suggestions, these are insufficient. Many of the actions they have to do have ethical aspects stipulated by professional standards, but others, don't. In these cases, only the spirit of moral values and high professional ethics standards can show the direction to follow. The answer to the question whether ethical marketing remains a myth or will become reality depends on how much we consider that such kind of ethical conscience will become current in this profession"<sup>3</sup>.

The book's conclusions are formulated by the volume's coordinator. In short, this is what the two economists say; the present volume suggests that a decentralized economy can better function only if the society becomes more aware of the importance of the ethics side of the economical operations. Ethical conflicts can and should be anticipated, not only at individual level, but also at company level. Judging by what some of the authors have shown, the business sector especially, would function better if the ethical dimension became a fully recognized part of the corporate management systems, and the global quality of social analysis would certainly improve if more attention were paid to the ethical aspects."<sup>4</sup>

After having read it, I am positive that this work can be appreciated as a remarkable achievement in a field of prime concern for the Romanian society. Because we have to

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<sup>1</sup> Laurent Bibard, *Capitalism and its Ethics*, in "Ethical Frontiers of Capitalism", coordinated by Daniel Daianu, Radu Vranceanu, Polirom, Iasi, 2006, p.38

<sup>2</sup> Mircea Boari, *Capitalism. The Foundation of Ethical Behaviour*, in the same volume, p.148

<sup>3</sup> Rene Y. Darmon, *Ethical Marketing, a Myth?*, in the same book, p.228.

<sup>4</sup> Daniel Daianu, Radu Vranceanu, *Conclusions*, in the same book, p.229.

develop learning skills regarding behaviour from the experience of the more civilized, who tell us that business ethics is characteristic to a mature market, in which companies have grown to understand their cultural and civilizing role in society. This knowledge, however, firstly has to be built centrally, starting from the truth that ethics in business, in civilized societies with mature markets, is an independent discipline of high stateliness, destined to direct economic and social management and marketing around a system of values. We find ourselves in a pioneering state and we have to hurry so as not to remain without competition partners. With these thoughts in mind, I bring in discussion some authorised opinions regarding the relationship between capitalism and ethics.

### **Selfishness as a way to do collective good (according to Adam Smith)**

The debate about the relationship between capitalism and ethics resorts, naturally, to the position of Adam Smith, known as the father of the theory of liberalism. Firstly, because he was seriously preoccupied with ethics problems, expressed in the volume "The Theory of Moral Sentiments", published for the first time in 1759. Then, as he is the author of "An Inquiry into the Nature and Cause of the Wealth of Nations", published in 1776, book of major importance for the ideology and institutional organisation of modern capitalism.

Starting from the theory of the natural right, as an extension from John Locke's idea, who stated that the natural form was not a chaotic one, but settled by the law of nature, Adam Smith strongly gives priority to the autonomy of economics. According to his conception, the activity of independent economy is a stable reality, governed by natural laws, such as the laws of competition and work division, which he calls "the invisible hand" that assures the social order. The "natural" man, before politics, is, first of all, an "economic" man, and tends to exchange with the others the products of his individual work. As a consequence of this tendency of the "natural" man, the market appeared as a natural and essential reality of the human and social life. Being inclined to trade, the individual could satisfy his personal wide variety of necessities, through the market, even though his abilities helped him to produce a narrow variety of products. By the multitude of individual trade relationship, he obtains even an improvement of his welfare. But, for the work division, as well as the "invisible hand", to take effect, the mechanism of competitiveness must be free to act. In this way, in "The Wealth of the Nations", Smith says: "The food on the table is not the fruit of the goodwillness of the butcherr, the brewer or the baker, but the fruit of their preoccupation for their own interest. We do not resort to their kindness, but their instinct of self-preservation and we will never talk to them about our needs, but rather about their advantage".<sup>5</sup>

Therefore, in Adam Smith's vision, the moral imperative of capitalism seems to be the one that individuals must be selfish and greedy, in order to maximize their profit. And still, the thinker goes on with the demonstration and shows that, through the market, the selfishness of the individual leads to the greater, collective good. The hypothesis that derives from "The wealth of Nations" is that the market, because it assures the wellbeing of the collective, satisfying from an ethical point of view, is a moral structure, even though it combines the moral and even immoral actions of the people. As a result, capitalism works at optimum parameters when individuals are allowed to explore freely the ways in which they might maximize their gain.

This explanation, that Smith offers in "The Wealth of Nations", becomes debatable if we bear in mind the work "The Theory of Moral Sentiments", previously published. Here, he writes: "As selfish as man is considered to be, there certainly are some principles in his

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<sup>5</sup> Adam Smith, *An Inquiry into the Nature and Cause of the Wealth of Nations*, ed. A. Skinner, Penguin Books, London-New York, 1999, p.II9.

nature according to which he shows interest for the wellbeing of the others, conveying the wellbeing of his kind as a necessity, even though he gains nothing from it -except maybe, a selfless happiness.”<sup>6</sup> Therefore we see, according to the English thinker’s conception, that man is ruled by two categories of orientations. On the one hand, the instinct of self-preservation, manifested in the maximization of his own interest and, on the other hand, the feeling “love your close one”. From the above results, at least at a hypothetical level, that in the work “The Theory of Moral Sentiments”, Smith bore in mind that the “teological” man, ruled by the feeling “love your close one”, and in “The Wealth of Nations” he narrows the analysis to the economic man, pre-social, inclined to win from commerce. The idea is that, in the same proportion as the feeling “love your close one”, the instinct of self-preservation is a technique of survival given on a divine plan. In other words, both the instinct of self-preservation, that claims the actions to maximize interest, and the love for the close one, that requires compassion and empathy, are part of a divine project. Also in the work “The Theory of Moral Sentiments”, Smith says: “The desideratum of approval and this aversion toward the disapproval of others couldn’t make him adequate to society he was formed for. Therefore, nature gifted him with not only the will to enjoy the approval of his kind, but also the will to earn or to be what he himself sees good in those around him. This means tht the individual has a natural tendency to morally judge. However, this tendency does not make for sufficient sorce of control. This is why, the natural tendency towards morality must be supported by stability, at a social level, through inductive generalisations, of some rules regarding the fairness of behaviour, starting from the divine commands. This supported code of morality seems to be the prerequisites on which Adam Smith relies when he states, in “The Wealth of Nations” that through the gathering of interested actions a greater good is achieved, acceptable under moral aspect. In other words, it is about an ethic fundament stamped in the individual consciousness ,that would create the premises of collective self-constraint capable of ensuring a relative harmony, a correct functioning of the market.

Of course, at an abstract level, Adam Smith’s ideas still seem to be of topical interest, but with a partial applicability and not only in the economic area. The promotion of individual interest doesn ot always mean the promotion of collective interest, not even in the economic activity. The argumentation becomes even morer debatable when these ideas are explained beyond the area of economics. Anyway, the pragmatic ideal of the compatibility of selfishness with morality, under the ruling of the principle of “invisible hand”, seems more of a tale, almost incredible to Romanians.

### **Religion and Economic Activity** **(Max Weber’s explanation regarding the relation between** **the protestant ethics and the modern rational capitalism)**

In trying to explain the organisation and functioning of the modern and rational capitalism, the German sociologist Max Weber’s conception seems to be of a great importance. In his thesis “The Protestant Ethics and The Capitalist Spirit” (1905), he defended the idea of theinfluence of religion in a Protestantism form on the economic aspect, expressing a spiritualistic thesis on the capitalism’s genesis and its becoming through history. Within the given circumstances, the Marxist explanation had already established the idea according to which at the basis of economy only the materialistic factor and the traditional striving for money would have mattered though they stopped any of the spirit’s requests. Weber’s point of view suggests that things are not as clear as they might seem, however in certain conditions the spirit’s virtues could be felt present despite existing in such a fair economic jungle. This is the thinker’s statement: “It is necessary to point out the way in which religion’s supremacy has influenced the mind’s qualitative

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<sup>6</sup> Adam Smith, *The Theory of Moral Sentiments*, Liberty press, Indianapolis, 1982, p.I.i.1.1.

achievement and quantitative expansion and what culture based factual aspects does it refer to. Taking into consideration the endless labyrinth of the reciprocal influencing among the materialistic origins, the organisation and political forms as well the spiritual content of reformed culture times, there is no way out but firstly identifying the points of “elective resemblance” between the forms of religious faith and professional ones. All at once the “general orientations” due to which the religious movement exercise the great power on the development of this materialistic culture will be possibly highlighted.”<sup>7</sup>

As it can easily be observed, Weber’s ability arises from his attempt to spiritualise the notion of “homo economicus” by promoting the idea that in man’s nature the religious constituent has always been active alongside the money thirst characterising other periods throughout the Economy’ history, too. Thus, the German thinker connects the origins of capitalism to the existence of certain moral traits. Weber’s opinion highlights that the appearance of the personally and professionally dynamic and enterprising man was not strictly determined by either economic factors or a specific psychology of profit- orientated men.

This audacious attitude apparently functions as a characteristic of a mass of people the moment something historically great might take place, respectively the spirit of capitalism. It is the same spirit that against tradition may also impose an ethical intrinsic meaning on the economic behaviour. Weber’s way of thinking suggests that “the spirit of capitalism” should be perceived as different from the “traditional spirit”. The difference between the two types of acting lies both in the work-attitude and profit-attitude. Consequently, while in the traditional perception work has been perceived as a burden, offering pleasing incomes that should provide a secure and comfortable life, in modern man’s new work has become a sign of superiority and a source of personal satisfactions, thus man focusing on the rational benefit. As Ioan Mihailescu states in the already above mentioned book, according to Weber’s conception: “Capitalism is a rational economic organisation involving enterprises based on long-term investments, on the juridical liberty of labour, on the planned division of labour of each institution, and on an equilibrium between the production factors and the market demands.”

Max Weber’s attitude registers the beginning of a new justifying form of human action. If previously the enterprising and daring being could only be identified beyond religion, his theory opposes the idea according to which the spirit of capitalism could be immoral but it pleads for its justification within christianism. Weber’s outlook points out that the economic conduct possesses an ethical intrinsic essence of a transcendent origin that distinguishes itself by means of religion. But obviously not any kind of religion could activate the proper behaviour. The German sociologist observed that the capitalist economic system has emerged in Western Europe and then it differently extended from one region to another.

From this realisation, the scientist naturally asks himself: “How can the fact that this organisation appeared in an area and succeeded in certain places while in others it failed, be explained?” The marxist doctrine according to which economic development is possible only if one ensures the necessary material factors (modern, technical basics, a sufficient volume of capital, a qualified workforce and management competence) could not offer an answer to this question. This implies that in the development of capitalism there are more intervening factors than those suggested by Marxist doctrine. The extra factor identified by Max Weber, on his explanation, is the correlation between religious ethics and economic behaviour. Basically, in his explanation, there is a difference between the way in which capitalist spirit was met by Catholicism on one side, and by Protestantism on the other side. In other words, the sociologist investigated which of the two religions can accept the compatibility between “ascension”, as a necessity of medieval christianity and “rational

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<sup>7</sup> Max Weber, *The Protestant Ethics and The Capitalist Spirit*, Humanitas, Bucharest, 1993, p.70

action serving to accomplish a goal”, as a necessity of productive life. Weber’s argument stems from the idea that “The Reform didn’t just mean the «removal» of religious dominance over life, but mainly the replacing of an old form of domination with newer one. That means the replacing of a form of dominance that was extremely tolerable, at that time, almost formal, with a code of organisation that was much more oppressive and intrusive for human life as a whole.”<sup>8</sup>

In his analysis, Weber used a study conducted by Offenbacher, about the career choices made by catholics and protestants. The conclusion of this study showed that while the sons of catholics were interested in propagating the old craftsmanship culture, which had been adopted for hundreds of years, the sons of protestants were oriented towards the new capitalist professions, and enjoyed several advantages with regards to their economic positioning. Protestant doctrine, agreed Max Weber, responds in a better way to the needs of capitalism, which brought about a rejection of traditionalism. “In other words among journeymen, catholics are those who are more inclined to choose a craftmanship activity, which means that relatively fewer become “master craftsmen”, while protestants are more inclined towards factories, in order to reach the higher echelons of workmanship society and industrial bureaucracy.”<sup>9</sup> Even if there is nothing but an incidental link between Protestantism and the spirit of capitalism, the idea of spiritual determination in the early stages of capitalism development constitutes the point made by Weber’s explanation.

In order to make his theory credible, Max Weber uses the distinction between the different forms of capitalism that have marked human history, neglected to mention war capitalism, capitalist theft, and commercial capitalism, but carefully stopped to analyse modern rational capitalism, because he considered that this economic model is capable of dampening the irrational impulses of the enterprisers. The scientist observed that the appearance of rational capitalism can be correlated with the apparently perplexing phenomena, when, against tradition, the intensification of religious activity become compatible with the increase in economic activity. In trying to explain this exception from regular history, he came to the conclusion that this phenomenon characterises societies that have embraced Protestantism. This leads to the conclusion that Protestantism produces an essential mutilation in the behaviour of its adepts, in comparison with capitalism.

So Weber comes to the conclusion that the novelty of Protestantism is in the way in which it solves the problem of destiny. Unlike catholic doctrine, where being saved or damned depends on one’s action, on the sinner admitting his sins, in the protestant doctrine, one cannot know whether he is chosen or damned, as this is chosen by God forever. In other words, in the catholic doctrine, God is good, and merciful, and allows the sinner to choose his destiny, while the protestant God is unrelenting. In commenting about Jean Calvin’s doctrine, Max Weber says that: “It’s not that God exists for people, it’s the people that exist for God and everything that happens – I mean the unquestionable fact for Calvin that only a small number of people are called to be saved – can have a meaning only as a means to worship God’s grandeur. To apply the standards of mundane “justice” to his sovereign decisions is useless, because He and only He is free, meaning that He doesn’t obey any rule, and His decisions can become understandable and known to us only if He considers it’s good to communicate them to us. We know only fragments from this eternal truth, everything else – the meaning of our individual destiny – is a mystery and every attempt to decipher it is impossible. If the damned cried their destiny is undeserved, it would be as if animals showed this content that day weren’t borne people. Every human being is separated from God by a precipice which can’t be crossed and man deserves in front of Him, if He hasn’t decided something else, just eternal death. We know

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<sup>8</sup> Max Weber, op.cit,p.24

<sup>9</sup> Max Weber, op.cit,p.26

that only part of people will be saved, and the other part will be damned. To consider that a merit or a human guilt would contribute to his destiny, would mean that God's absolutely free decisions, which are unflinching in eternity, could be regarded as changeable through human action, which is an impossible idea."<sup>10</sup>

At the beginning, faced with his extremely rigid doctrine, the individual is aware that he can't cooperate with God anymore to make his own destiny and he lives a dramatic state of permanent uncertainty and restlessness. But, as we will see, the doctrine of predestination issued by Calvin offers the solution to overcome this restlessness.

To sum up, Max Weber considered that, at the bottom of modern capitalism, an important spiritual phenomenon lay, which, though it was partly invisible, impelled the early development and expansion of this kind of society. Thus, in the German sociologist's opinion, the structural and material premises of society were necessary, but not enough to explain the development of rational capitalism. The idea was that, for modern capitalism expansion, material conditions had to benefit by the contribution of a spiritual factor, that is, by the meeting with the doctrine of Calvinist Puritanism. The novelty of Calvinist doctrine is predestination theory according to which the condition of grace or damnation is decided by God from the beginning of the world and forever. In other words, according to this theory, man can't cooperate with God to make his own destiny. Being aware of this truth, man feels lonely, he lives a dramatical state of permanent uncertainty and helplessness.

Man's big problem is that he doesn't know if he is predestined to be saved or damned. Moreover, he doesn't have any magical means to gain divine grace. Not even the priest, the sacraments, Church or God can help him. At first, being aware of this truth man lives a dramatical state, feels lonely and without any support. Faced with divine decision, man is helpless. The solution offered by Calvinism in order to overcome this condition was man to behave as if he were chosen by God and to reject any doubt as if it were's devil's temptation. Man has to be permanently in God's service and to behave as a chosen one. Man has to lead an ascetic life. He has to have an active life, yet an abstinent one. Weber sees the connection between Calvinism and the spirit of capitalism in this attitude. Using the sociologist's words, we find out: "On one hand, it is compulsory for the believer to consider himself chosen and to reject any doubt on this fact as if it were devil's temptation because a deficit of self-confidence is a consequence of fragile faith, that is, an insufficient fact of grace... On the other hand, a great emphasis was put on tireless professional work as excellent means to acquire self-confidence. It, and only it drives away religious doubt and offers certainty for the state of grace."<sup>11</sup>

Commenting on Weber's text, Ioan Mihailescu in the postface of the text sums up: "The puritan doctrine arguments to the religious people that work is the only defence against temptations and doubts. The faithful man should use each moment of his life in order to serve God's glory and obtain confidence in his "choice". Using life for useless conventions, such as parties in society, sleeping more than is needed to maintain your health, even living in prayers is bad because man isolates himself from an active life, which is the only one that meets God's demands. Continuous labour is the life style ordered by God to whom every man should conform. The work's utility is judged by obtaining good results, which, in their turn, represent signs of divine grace. Profit and wealth are to be blamed, only if they lead to laziness and neglect. On the contrary, if they are the result of fulfilling obligations, they are appreciated as gifts of God that man can not refuse. As long as is the result of a permanent effort, obtaining profit is an obligation, a duty for the entrepreneurial.

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<sup>10</sup> Max Weber, op. cit, pp.114-115.

<sup>11</sup> Max Weber, op. cit, pp.114-122.

It is remarkable that even though formulated like a regional and historical explanation, Marx Weber's theory was a success among researchers. It can be still used as working hypothesis, even though many of the coordinates of capitalism have been modified. Still, the problem of morality remains of topical interest, be it religious or not, of social relationships. The opinions on the relationship between capitalism and ethics are different. Although the idea that the project constituted initially a catalyser for the ethic development seems plausible, the fact that between economic logic of earning money and the rules of ethics, there are often incompatible relationships that can not be avoided. This does not mean that the debate is senseless. Gain is obtained with difficulty, but the desideratum must guide the strategies of social development.

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