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Market Capitalism and Christian Social Ethics: A Contradiction?

Capitalism and free markets are widely considered to be incompatible with Christian social ethics. Despite the rather exceptional teaching of the Encyclical “Centesimus annus”, it currently seems to be commonplace that market capitalism, i.e. an economic system based on the free use of private property in the means of production, profit-making, free markets and competition, does not meet Christian standards of justice and charity as taught by the Church.

Notwithstanding, there is an older Catholic tradition going back to the Middle Ages, originated by theologians, philosophers and canon lawyers, mostly Franciscans, and later – e.g. in the School of Salamanca – also Dominicans and Jesuits, who arrived at an adequate understanding of the productive use of money as capital, the role of interest, banking, commerce, the role of the market in forming prices, the relationship between government spending, monetary debasement and inflation, etc. These thinkers sowed the seeds from which modern economics developed toward commercial and market capitalism as a way, pleasing God, of doing business and earning a living. So, it is not surprising that at the beginning of the 14th century, Flemish merchant agreements were opened with the formula “For God and Profit”, a formula that was already found in Florentine banking books in

the year 1253. It is a tradition largely forgotten today.

Origins of Church anti-capitalism

Church anti-capitalism has specifically modern origins in the experience of the Industrial Revolution, which gave rise to the so-called social question: the social uprooting of a growing number of people due to the liberation of peasants and the introduction of freedom of trade; as well as the often-shocking poverty of the working class that could not be eradicated by any political means but only by economic development.

Added to this was the growing anti-Semitism, a reaction by those damaged by structural change, in particular members of the crafts and trade industries, but also lower civil servants. Anti-capitalism motivated by a kind of anti-Semitism criticizing the immoral acquisitiveness and pursuit of profit, allegedly typical of the Jewish spirit, also left its mark on the Catholic social ethics of the earlier 20th century.

In the 19th century, following a rise in nationalism, especially Germany experienced a strengthening of the faith in the State and its bureaucracies as well as the conviction that free markets, cross-border competition, free

trade and the entrepreneurial desire to make profit only exploited workers and prevented improvement of their situation. The new idea of a check on free markets by State interventionism – protective tariffs, the promotion of powerful cartels and so-called social policy – also had an impact on Catholic social doctrine, influenced in particular by the idea developed by the Jesuit Heinrich Pesch, called Solidarism, that is, corporatism as a “third way” between socialism and individualistic capitalism.

Pope Francis’ rejection of the “techno-economic paradigm” of market capitalism

Moreover, among wide sections of the clergy, an increasing skepticism towards the industrial and technological nature of modern capitalism became apparent, a tradition that has reappeared in the most recent social encyclical “Laudato si’”, and its rejection of the “techno-economic paradigm” of market capitalism.

However, modern market capitalism is characterized by the very connection between capital accumulation, on one hand, and technological and entrepreneurial innovation, on the other hand. This combination has been able to create increasing wealth, especially for the lowest layers of society, so it is not an exaggeration to say that market capitalism is the economic system for the advantage of the masses and the poor. Driven by the pursuit of profit, it leads to mass production, generating technically ever more advanced and at the same time less expensive products. Unlike former economic systems – as for instance mercantilism –, market capitalism increases standards of living not only of the wealthy, but also, and to an even more significant degree, of the poor. It is an economy that is not in the interest of the producers, but of the consumers. Because everyone is a consumer, and because the poorer a

person is, the more vitally important it is for him to consume, capitalism turns out to be a profoundly inclusive and even “democratic” kind of economics.

Market capitalism and its “techno-economic” logic is also able, as it has proven already in many cases, to address the negative environmental side effects of progress. These side effects do exist, but contrary to what the warnings of anti-capitalist ecologists seek to suggest, only market capitalism is able to provide both the means for global development and the technology capable of resolving the problems it causes.

Admittedly, this capitalist development, as Joseph Schumpeter said, constitutes a procedure of “creative destruction,” which always creates losers as well. But it eventually leads to increasing wealth and improved living standards for the masses. Today, we have become witnesses to how this process is being rapidly repeated on a global level. By successively introducing capitalist production methods and market-based, entrepreneurial principles, the distance between rich and poor countries has been continually and drastically reduced in recent decades, and the number of people living in absolute poverty has been cut in half.

Six reasons for widespread anti-capitalism

These positive developments, that should fill us with hope, are frequently overlooked today, or they are not mentioned. Church statements on issues of worldwide poverty often present themselves as almost apocalyptic and show an image of decline and breakdown. However, the opposite is the case. Of course, the Church should act as advocate of the weak, and condemn human rights violations. But in my opinion, it should mainly encourage the forces that

effected prosperity for countless people and will continue to do so. In the countries where the dynamics of capitalism, entrepreneurship and innovation, free and open markets, and international trade were allowed to develop, hundreds of millions of people were able to free themselves from poverty.

Unfortunately, a widespread anti-capitalist mentality and resulting ideologies, or simple ignorance of economics, block the view to this obvious reality and the prosperity-inducing force of market capitalism.

What are the reasons for this widespread anti-capitalism? In the following pages, I will propose six reasons: (1) False historical narratives; (2) ignorance of the nature of the economic value creation process; (3) the still dominant influence of Marxist exploitation theory; (4) the erroneous interpretation of the last financial crisis as a failure of the free market; (5) the misinterpretation of the current monetary and financial system as typically market-capitalist; (6) the widespread “consumerism”, mistakenly seen as a consequence of free market capitalism.

False historical narratives

The first reason is the common view of history and the still predominant narrative of an allegedly noxious, unbridled laissez-faire capitalism of the past, which caused crises and social misery until the State finally intervened and, by social policy and prevention of monopolies and cartels, adjusted the market forces in line with the common good. This narrative does not correspond to historic facts and has repeatedly been refuted by research. History tells us that industrialization and capitalism from the very beginning improved peoples' lives and saved impoverished peasants, who poured into mills and factories to earn a living, from certain starvation. For a period of several

decades, the success of 19th-century capitalism led to improvements which, in turn, caused an unprecedented population growth. As a consequence, the ever-increasing supply of relatively unproductive workforce held real wages very low for a long time.

But this began to change definitively in the last third of the 19th century. Standards of living and life expectancy increased. Life of the masses, mostly living on the countryside, in the preindustrial times was never so good as it began to be in the second half of 19th century as a consequence of market capitalism. However, after 1870 this process was being obstructed by political interventionism, protective tariffs fostering the formation of cartels and State protected big business, understanding economics as part of the power politics of the State – a mentality fiercely opposed by market liberals and advocates of laissez-faire that paved the way to the outbreak of the First World War.

Ignorance of the nature of the economic value creation process

The second reason for the anti-capitalist mentality is a widespread lack of understanding of the economic value creation process, and thus of what market capitalism actually is and how it works.

In market capitalism, private wealth is neither redistributed nor just consumed by the rich, but profitably invested at their own risk. Private wealth thus becomes capital, i.e. a production factor for new goods. Capital in combination with entrepreneurial vision and innovative ideas creates labor and therefore wages; this generates purchasing power and increases effective demand and consumption, which in turn makes further investments profitable. Driven by the logic of competition – which is not a war against competitors but a

war against production costs as well as a war for improving products – this results in an upward spiral of capital accumulation, technological innovation and increased productivity. As a result, real wages grow continually, which also increases purchasing power, and thus consumption and the standard of living.

This is what happened in the 19th century and is still going on today. In 1964, the Austrian social ethicist Johannes Messner, originally a harsh critic of capitalism but later coming to a better understanding of it, praised its achievements (using data provided by Joseph Schumpeter) as follows: In England, “[F]rom 1800 to 1913 the population increased fivefold, aggregate income increased tenfold, prices dropped by one half, the average individual real income increased fourfold; at the same time, working time for the individual dropped almost by one half, child labor was abolished and work for women was limited.” The situation was even more spectacular in Germany, said Messner: in the 19th century, Germany’s population grew by 44 million, real wages at least doubled and working time was reduced by one third.

The techno-economic dynamics of industrial capitalism and innovative entrepreneurship

This process of enormous population growth, due also to improvements in hygiene and medical knowledge, combined with continually improving standards of living and mass prosperity, was both economically and socially without historical precedent. It was not a result of social policy or the pressure of unions. It was a result of the techno-economic dynamics of the industrial capitalism of the 19th century, innovative entrepreneurship, market forces and global trade. It effected the opposite of Marx’s predictions: it generated increasing prosperity and not only for the upper classes, but for all.

The two main prerequisites for this success – and this must never be overlooked – were the existence of a State under the rule of law, securing property rights and the enforcement of contracts, as well as a continually improving infrastructure. In the 19th century, pioneers of Catholic social teaching like, in Germany, Bischof von Ketteler and Pope Leo XIII, emphasized that the protection of property rights and of the corresponding freedom of property owners was crucial. In more recent social teaching of the Church, this is much less emphasized if not completely forgotten. Private property and the individual freedom connected to it, rather than being considered conditions for progress and key for the solution of social problems, are suspected by 20th century social teaching to be, as such, in permanent conflict with the common good and, therefore, to be subordinated to it by regulatory interventions by public authorities.

In my view, however, rather the opposite is true. Capitalism is the “economic system of giving”. The “giver” is the capitalist or the entrepreneur, including investors and, remotely, the wealthy in general who make their money “work”. Why is this so?

Market capitalism as an “economy of giving”: the role of profits

Capital – the investment of wealth – precedes returns. Even if the returns – or the profit – have not yet materialized, and even if it is uncertain whether it will ever materialize, the worker already receives his contractually stipulated wages. The worker’s wages are always an advance payment. The capitalist gives without knowing whether he will receive his share, and even risks losing it. It is therefore not against justice if the returns or the entrepreneur’s profits – depending on the success and the added value – are correspondingly high. With today’s corporations acting on a global

market, such profits can be many times higher than in previous times. Increasing inequality within economically sophisticated and technologically highly innovative societies is no more than the flip side of the increase in global prosperity caused by such businesses, who act on a global scale on globalized markets.

Profit is not only, as the Encyclical *Centesimus annus* correctly teaches, an indicator of the well-being or well-functioning of the firm. Economically speaking, it is much more: it is an indicator of a fulfilled social responsibility of the firm and of a specific business: the creation of economic value. To make a profit means that the value created by business activity exceeds costs and, therefore, both consumer needs have been met and resources have been productively used. Through meeting consumer demand, society's wealth and prosperity have been increased and, thus, the common good has been served.

The capitalist economy, thus, is both structurally and systemically social. While capitalism is an economy based on giving, socialism is the economy based on taking away – in socialism, expropriation and distribution continues until everyone is equally poor. Where market capitalism is allowed to flourish, it eliminates the most fundamental social problem of humanity: mass poverty. Capitalism does not create equality, but mass prosperity. Socialism in turn creates equality – together with mass poverty. A current example is Venezuela.

The social responsibility of private property: market capitalism or almsgiving?

At the same time, capitalism has proven to be the most effective way to meet the requirements of the so-called social responsibility of

private property. The Church doctrine of the “social function” of property, i.e., that private property must be always used also for the benefit of one's fellow human beings, originally meant that the rich were called on to hand out alms to the poor and needy. This still has its significance but has by far been surpassed by the possibility to use one's property in a profitable manner in a capitalist economy, and thus create a sustainable source of income and prosperity for others. Most of current Church teaching, however, remains in the older paradigm of sharing or almsgiving, presupposing that the economy is a zero-sum-game in which the poor can become richer only provided the rich – even the richer countries – give away part of their wealth. But this is not true. Economics, at least a free, capitalist market economy, is not a zero-sum-game.

As the German economist Karl Homann has pointed out, St. Martin, by giving away half of his cloak, has solved just a small, selective problem in a non-sustainable way, and this by rendering himself materially poorer. This in fact was a zero-sum-game, but it was charity, not economics. A capitalist St. Martin would invest his money in setting up a cloak factory to make money, create jobs and, in the process, prosperity for others. Everyone will have a cloak and many other things they could not even dream of before, and there will be no need to be a beggar any longer. Even if charity will always be necessary, the driving force of creating mass prosperity is not, and cannot be, charity, but rather business driven by profit-seeking. Profit is the income and reward of successful entrepreneurs, investors and other risk-takers, and, as most of it is reinvested, it becomes the source of additional innovation and, therefore, of economic and social progress.

The influence of Marxist exploitation theory and the misleading dichotomy of “labor” and “capital”

A third reason for the anti-capitalist mentality and why capitalism and Christian social ethics are regarded as contradictory is closely connected to the previous reason. It consists of the widespread understanding that the capitalists of the 19th century exploited workers by depriving them of the greater part of the revenues to which they were entitled, and thereby unjustly enriched themselves. This is, in short, the Marxist theory of exploitation of the working classes. According to this understanding, the wealth of the rich and their “capital” were created and accumulated at the expense of the working classes. Only by government intervention and union pressure, the tale goes on, was social justice created, and eventually, more adequate wages were paid.

This momentous misjudgment, which has influenced many Catholic social ethicists and unfortunately also Church documents, is based on the misleading distinction between “labor” and “capital” in which the “labor of capital”, that is, the work of the capitalist (or the entrepreneur), is discounted. The value of the product made by the worker does not, originally, depend on the work of the worker, as Marx believed, adopting the incorrect value theory of labor held by David Ricardo. In reality, the value of the product depends exclusively on whether it meets consumers’ needs, preferences, and wishes and, therefore, can be sold on the market at a profitable price. It is the consumers’ preferences, and thus consumer demand, which generate the value of a given economic good, and not, as Marx – following David Ricardo – believed, the hours of work and the materials used for its production. Therefore, the creation, or the simple discovery, of the value of a good, is in no way the achievement of the worker, but exclusively – I

say on purpose: exclusively – the achievement of the entrepreneur, and of the investor (and, of course, of managers and other employees in so far as they participate in entrepreneurial decisions). The entrepreneurial achievement – or work – consists of discovering consumers’ wishes, or even anticipating them, and developing products that are sold to generate a revenue that ultimately allows the payment of wages according to the marginal productivity of workers or employees.

Note that when creating economic value, entrepreneurs act not in a world of equilibrium, but in a world of disequilibrium and all sorts of asymmetries, failures and uncertainties. This offers the perspicuous and innovative entrepreneur the possibility of making a profit, which is the necessary stimulus for taking the risks needed to be successful. Successful entrepreneurs have to have visions and be creative; their achievements are of an intellectual and organizational nature. This in turn enables the worker to be productive and have his wages paid to him. Wages do not fall like manna from heaven but have to be generated by the sale of the goods produced. In short: without capitalist pursuit of profit and the entrepreneurial accomplishments motivated thereby, ever cheaper mass production of ever more life-improving products would not have been possible and masses of people in the 19th century would have starved to death, or even not have been born.

The erroneous interpretation of the last financial crisis as a failure of the free market

A fourth reason for widespread anti-capitalist mentality is the erroneous interpretation of the last financial crisis. What caused the crisis were not markets that were too free, or not regulated enough and therefore instable; neither was it capitalist greed. What ultimately

caused the crisis was public policy and government interventions, a politically driven real estate bubble, government-backed mortgage banks that securitized bad loans, thereby obscuring risks and distributing these toxic but government-certified financial products world-wide with the help of State-regulated rating agencies. A free mortgage market independent of political interference, risk-aware entrepreneurial conduct and, correspondingly, appropriate bank lending – thus real capitalism and a free market economy – would never have led to an environment in which, thanks to government backing, greed became a systemic moral hazard, irresponsible leverage was seen as rational behavior, and criminal energies ran free enough to bring the entire financial system to the brink of collapse. However, the foundation of market capitalism and its self-regulating forces is precisely the link between property, risk and liability. This connection has been, and continues to be, undermined by politics and central banks fatally interfering with, and thus distorting, the regulatory forces of the market.

The misinterpretation of the current monetary and financial system as typically market-capitalist

The fifth reason for widespread, but unfounded, resentment against capitalism and the free market economy is our monetary and financial system. However, our monetary system is not capitalist or market-based, but in fact socialist. Socialism means nationalization of the means of production. In today's world, the State holds the monopoly of the production of money by its central banks, and thus controls the creation of money by the banks. And what is more, it dictates its own money as legal tender, forcing us to accept it as means of payment, even though for decades, it has continually lost its value.

By creating an inflationary monetary environment, governments are thus able to free themselves of debt at the expense of citizens. Since US President Nixon in 1971 terminated the gold standard for the dollar and subsequently all currencies linked to the US dollar under the Bretton-Woods system, and thus eliminated the braking effect of this linkage, the amount of money in circulation has continually and dramatically increased. This inflationary development (rather than increasing deregulation of financial markets), by which politicians could finance their endless series of new promises, caused the frequently lamented “financialization”, the growth in the financial industry becoming partly detached from the real economy. As we have discovered, this is associated with high risks whose bad outcomes are then charged to the taxpayers and, today, because of nearly zero interest rates, to savers (I will come back to this). Although this kind of “financial capitalism” has little to do with market capitalism and entrepreneurship, it is still regarded today as the embodiment of capitalism.

The inflationary policy of cheap money was an essential prerequisite for and contributing factor to the last financial crisis. Today, we are in a situation in which the toxins that led to the financial crisis are used as the supposed antidote to overcome the crisis. Instead of allowing painful but healing structural adaptations, monetary policy, especially in the Euro-Zone, is attempting to postpone them, thus causing an ongoing increase in asset prices (i.e. shares and real estate). This in turn benefits the wealthy, who are more able to invest in shares and real estate, and – at least statistically – makes them richer and richer. At the same time, savers, tenants, and thus the ordinary people, and among them especially the young, lose out.

The low interest rates, and this is most important, further secure – at the expense of the

common good – the survival of unprofitable businesses, inhibiting or even preventing innovation and growth. As economists have shown, tens, if not hundreds of thousands of relatively unprofitable zombie-enterprises, and zombie-banks supporting them, are absorbing resources which otherwise could be employed in more productive and innovative uses. This is one of the major causes of increasing inequality and stagnating real incomes which is not, as capitalist inequality is, a condition of economic progress, but a consequence of bad politics, and an injustice which, as a result of misinterpreting its causes, gives rise to increasing distrust of market capitalism.

The widespread “consumerism”, mistakenly seen as a consequence of free market capitalism.

The policy of cheap money also favors consumerism, which is rightly being criticized by Church social teaching and generally by Christian opponents to market capitalism, but widely misinterpreted regarding its causes and real nature. This leads us to a sixth reason for distrust of the market economy and capitalism. Harmful consumerism is not, as such, a result of capitalism or the market economy – because market capitalism makes people rich not by consuming, but by saving and investing –, but a consequence of public policy, including the welfare systems of most developed societies, which do everything they can to encourage people to consume, and even to consume on credit, instead of living self-responsibly by saving and providing for their future and the future of their families. The policy of cheap money and zero interest rates eliminates incentives to save. The time horizon is the present, not the future.

This mentality of constantly “living above one’s means”, being at the same time protected by, and dependent on, the public social security system, obviously uses market mechanisms, but ultimately is a consequence of a policy which follows the recommendations of neo-Keynesian economic theory. This theory claims that stimulation of effective demand is necessary to make the economy grow and thus avoid unemployment. This, however, is a fallacy. A society cannot grow wealthier and progress, economically and socially, by over-consumption and simultaneous financial repression (which is the price to be paid for cheap money and manipulated interest rates). A society can only grow richer by savings and investments in long-term profitable capital goods, thus stimulating entrepreneurial profit-seeking, risk-taking and subsequent innovation. This stimulates a culture of saving, long-term thinking and responsibility. Notice that there are two ways of spending money: consuming or investing. Only the second brings increased wealth and prosperity.

Nobody knows when the magic of cheap money will end. What seems certain is that the end of this public policy could become very uncomfortable. Once again, market capitalism will surely be blamed for it. Even more government intervention will be demanded, and in view of the social upheavals to be expected, even more determined primacy of public policy, claiming that the State is able to fine-tune, regulate and control what in reality can only be effectively regulated by the market itself. The market is a system of coordination of the actions of real, intelligent human beings by means of price mechanism signals – something that can never be done by central governments and their bureaucracies. They simply lack the knowledge which the price signals in a free market provide in a decentralized way, guiding entrepreneurial decisions.

A first conclusion: market capitalism and entrepreneurship are the most effective way of serving the common good

From a Christian viewpoint, I believe that market capitalism is, systemically considered, an “economy of giving”. As such, it is the economic order most capable of achieving consistency with basic principles of Catholic social ethics. The reality of market capitalism, however, has been, and still is, gravely distorted by State interventionism, whose pernicious consequences are falsely attributed to capitalism and market forces.

This is not to deny that Christian faith and ethics is able to not only purify, but also elevate the behavior of those who engage in market capitalism to a degree of moral perfection that is not contemplated in its economic logic as such. But Christian ethics does this not by “correcting” this logic, but precisely by following it. The mediaeval slogan “For God and Profit”, thus, still applies for Christians today, and in no way constitutes a contradiction.

Except rare exceptions, Catholic social doctrine praises entrepreneurs only insofar as they create jobs, but not insofar as they create innovation, increase productivity and bring about mass prosperity. The role of entrepreneurial profit-seeking in this process is normally not understood and, thus, met with distrust. This is why its economically and socially beneficial nature, as well as its crucial contribution to the common good, is mostly overlooked.

This often causes a bad conscience in Christians engaging in entrepreneurial activity, wanting to run a profitable business and regarding profits as the yardstick for their business success and, therefore, to reach their goals, sometimes being forced to restructure and make job cuts.

However, if Christians as entrepreneurs, investors, or employed managers, act entrepreneurially, that is, if they act in accordance with the logic of capitalism and the market, and try to sell a good product to their customers in order to make money, this is the best way to use their mind, their knowledge, their work and their property for the benefit of the common good. They can very well work “For God and profit” at the same time, serving thereby society, because they are making money not only for themselves, but also for others.

Profit-seeking, self-interest, and the common good

This is the case even if what is intended is not to serve the common good but self-interest, e.g. supporting oneself and one’s family, providing them an adequate standard of living; or even if one just wants to become rich and pursue one’s dream of an independent and successful life. Unlike socialism, which is based on the despoliation of others, in capitalism such aims can be pursued without harming others. In a capitalist market economy, the pursuit of this kind of self-interest contributes to an improvement of the situation of others as well, and of the society as a whole. Note that an entrepreneur is not responsible for the well-being of an entire nation or a region; it is not his task to pursue this. To intentionally pursue the common good is the competence of government institutions and politics. The entrepreneur is responsible for the well-being of his business, those directly affected by or dependent on him, and of course those for whom he primarily works – normally himself and his family, or other members of his personal social environment. By doing this and abiding by the law, he fulfills his social task as an entrepreneur.

In my opinion, it would be wrong, therefore, to believe that an entrepreneur, in order to justify his actions on a social or even Christian level, would have to pursue, as an entrepreneur, any social or charitable purposes in addition to his entrepreneurial activities. Depending on the circumstances and opportunities, an entrepreneur would be obligated to do this as a human being and as a Christian – that is, not with his own enterprise, but with the income he is paid or pays himself as owner of his enterprise. As a successful entrepreneur, you can become a generous philanthropist. But the enterprise itself is not meant to act in a philanthropic way. Or, to put it in Milton Friedman’s words: “The business of business is business.”

Therefore, enterprises fulfill a social role and serve the common good exactly in the measure that they act according to market logic and are profitable as a first condition. To be profitable means that consumer demands are met, and costs are lower than revenues, and thus economic value is created. Note again that the aim of the economy is to satisfy consumer needs and preferences and thus to provide consumer goods (again: we are all consumers). This is what market capitalism achieves, and there is no alternative to it. Precisely by seeking to be profitable and to use profits to enlarge and improve business, and by being innovative, the enterprise also promotes higher standards of living, social improvement, more wealth for everyone, better education and more possibilities for people to live an autonomous and meaningful life.

“Corporate Social Responsibility”: a misconception?

What, then, about “corporate social responsibility”? Is it a misconception? I think Corporate Social Responsibility (CSR) is certainly not a misconception. However, experience shows that entrepreneurs only successfully

engage in CSR – beyond the immediate business purpose – if they do it for strategic reasons, i.e. because they reckon that it will be worth it for their business and their enterprise, and that also means that it does not endanger or diminish their competitiveness, but rather increases it. CSR, therefore, can only be justified as a better and more accurate vision of business itself. To include in one’s calculations stakeholders’ needs, and contentedness, is smart – as it is smart to think of consumer satisfaction – because long-term entrepreneurial thinking is ultimately the best, and the only sustainable, business model. This is also being understood increasingly by large corporations, triggering new ways of doing business. Note that CSR is not something to be imposed by regulations but stimulated by the market itself – and it actually works, provided that market inventiveness is not crowded out by State interventions.

In market economies, even more in free and prosperous societies, enterprises have a strong incentive to improve working conditions (because they want to attract the best workers) and to respect stakeholders’ interests (because they want to be treated favorably in the media and by of public opinion). This is a sign of intelligent management because one of the most important resources of an enterprise and of business, in general, is reputation. It is the very logic of the market, often under the pressure of public opinion, that makes firms act in a way that their reputation will not be damaged but, on the contrary, improved. This is the best and currently the only sustainable business model.

Market capitalism, business and the virtues

Viewed from a moral perspective, is this enough? Is it not the case, as even some defenders of the market economy believe, that

market logic is, by its nature, purely utilitarian and morally corrosive? I do not think so. After all, and unlike the State-organized forms of business activities such as socialism, the logic of the capitalist market economy calls for the best qualities and instincts in people, such as initiative, responsibility for one's own actions, willingness to take risks and to bear the consequences, contract compliance, strength, endurance, patience, but above all: building trust and reputation, business people's most precious resource. However, the more the State interferes with regulations and ad hoc legislation, the more lobbyism, chasing after subsidies and corruption will arise – entrepreneurs and politicians then attempt to obtain advantages at taxpayers' expense, and therefore in an unproductive manner, and they become greedy and morally corrupt.

I do not claim that honorable profit-pursuing capitalists and entrepreneurs are more valuable human beings from a moral point of view. I only contend that they do something that serves as an incentive to act more or less morally, provided that they really act in accordance with market logic, in an entrepreneurial manner. In this case, they promote the common good, certainly more than most politicians do.

The world of a capitalist market economy is not an ideal world. Like mankind generally, it is also infested with losers, fraudsters, crooks, and cutthroats. Sooner or later, however, the market will sanction incompetent and immoral conduct, especially if it is embedded in a functioning legal system. The real danger are not the crooks, who in a free market cannot be successful in the long run, but the alliance of big government and big business, that is, big

corporations seeking political favors, and trying to bend legislation and regulation in their favor. This so-called crony capitalism is a topic which I cannot discuss in depth here. It certainly is a distorted form of market capitalism even if, due to ongoing and even increasing State interventionism, it is sadly a part of real existing market capitalism which, for the time being, seems to be the best we can achieve.

The need of entrepreneurs in an imperfect world

To conclude: The market economy is not to be viewed as a flawless system of “perfect competition” or “competitive equilibrium”; the State must not step in to regulate or correct what, in this wholly unreal perspective, is considered a “market failure”. However, this is what most students of economics learn when they study academic textbooks. In the real world, a market will always be an imperfect world, full of failures, disequilibriums, asymmetries of all sorts, and uncertainty. This is precisely why we need entrepreneurs whose function is to detect these imperfections as an opportunity to run a profitable business, serving thereby the common good of society.

It is wrong to expect more from an economic system than to provide the right moral incentives for economically beneficial ways of acting – its purpose is not to assure moral perfection or even holiness. The sanctification of work, and sanctifying oneself and others by work, is a different topic. However, being an entrepreneur following to the logic of market capitalism is certainly a good start in the right direction. ■

This is the text of a keynote delivered at the Congress “The Company and its Social Responsibilities IESE Business School: 60 Years of the Company's Impact on Society” at the IESE Business School in Barcelona, July 5, 2019.



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In 1983 he was ordained priest in Rome by Pope John Paul II (incardination in the personal prelature Opus Dei). Since 1990 he has been Professor of Ethics and Political Philosophy at the Faculty of Philosophy of the Pontifical University of Santa Croce in Rome (since 2015 without teaching obligations).

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Numerous publications in professional journals and anthologies, mainly in the fields of ethics and political philosophy as well as economic and social philosophy, including several books, some of which have been translated into various languages. Currently, his work focuses on economic and social-philosophical issues, in particular the study of the Austrian School of Economics and its philosophical, ethical, political social implications; the tradition of the “Social Market Economy”, the development of Christian social teaching, especially Catholic Social Doctrine, and the critical examination of the idea and reality of the welfare state as well as related political-philosophical and ethical issues, in particular those referring to the theory of justice.

Last books:

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