Money and morality

by Barry Riley

Money, or at any rate the *love* of money, is the root of all evil. But it is also the fuel for the global economy. Eventually religious authorities have to grapple with the real world and seek to keep greed, exploitation and injustice under a degree of control. Money may be intrinsically evil, as Paul wrote in his first letter to Timothy, but today we recognise that somehow it has to be channelled and put to work in ways that benefit mankind as a whole.

Late last year the Pontifical Council for Justice and Peace issued a note* on the global economic and financial crisis. It called on the world's peoples to adopt an ethic of solidarity; it proposed the creation of a global authority which would pursue the common good. In doing so it challenged one of the principles of modern capitalism which is that rewards should flow without limit to those who are successful in an open and competitive environment. Capitalism is about incentives which inevitably lead on to inequality.

This has long been true but the modern problem has been exaggerated by the impact of globalisation. True, as commerce and technology spread around the globe they can create great benefits for poorer countries. Indeed, many developing countries have made great strides in recent years. But at the same time many of the least privileged regions have been left a long way behind.

Growing inequality

Meantime inequality of income and wealth has become more extreme at all levels of society, and from rich countries to poor ones. Those economic groups and individuals that are able to reach and exploit a global market, of vast and growing size, can be greatly enriched: these include bankers but also footballers, pop stars, mobile phone makers and providers of various raw materials ranging from oil to copper.

Yet at same time as wealth is accruing to a small minority the vast majority of the developed world's labour force is vulnerable. There are huge populations in the richer countries that have become exposed to the increasing globalisation of the labour markets. Income differentials in Europe and the US, between the highly-rewarded professionals, experts, and star celebrities on the one hand and the unskilled workers on the other, have widened; and for several years now the absolute level of real income for average earners, after allowing for inflation, has been falling.

If the economic system is creating ever-greater differentials perhaps the tax system could be used to moderate the scale of the income gaps. Indeed, in the UK as recently as the 1950s the top rate of income tax on "unearned" income could reach

80 to 90 per cent. But that was in an era of foreign exchange controls and in an immediate postwar climate of national solidarity which disposed people to accept sacrifices. In today's globalised and prosperous world an attempt by a single government to impose high tax rates compared to the levels in similar countries would cause capital, and sometimes the people who own it, to move overseas to less heavily taxed jurisdictions.

The rich today generally do not accept that they should suffer onerous taxation. The recent campaign against the UK's current "temporary" top income tax rate of 50 per cent has been based on the proposition that wealthy people need the incentive of low tax rates to stay in the UK and work hard. The argument is that "wealth creators" must be handsomely rewarded. (But the same factors do not, surely, apply to wealth *inheritors*.)

This resistance by the wealthy has contributed to the development of a fiscal crisis in the United States. The Republican Party has recently become dominated by ultra-conservative thinking, as focused on the so-called Tea Party – not a true political party but a pressure group funded by billionaires. Its title relates to the Boston Tea Party, an 18th century demonstration which was based on the principle "no taxation without representation".

In the 21st century the argument, of course, has had to move on. The suggestion is that high taxation of the rich is unethical. Far from being "fair" it is unjust. With elections coming up next October many Republican politicians have promised voters that they will oppose all tax increases as a matter of principle. "We don't have a tax problem – we have a spending problem," was the way a Republican politician put it.

The arguments are not fully developed but the rich man's philosophy in the US is that donations should be voluntary – that is, charitable - rather than in the form of taxation, and therefore compulsory. Indeed, many people make charitable donations in America. According to the Charities Aid Foundation charitable donations represent 1.7 per cent of gross domestic product in the US. That is higher than in other countries (in the UK the figure is 0.7 per cent of GDP) but modest in proportion to the fiscal deficit.

Bankers and globalisation

Here in the UK the financial markets have created the greatest scandal. Top bankers, especially those in the big investment banks that operate around the world, have been uniquely placed to benefit personally from globalisation. The disproportionate scale of their salaries and bonuses has caused furious ordinary citizens to camp out in protest on Wall Street and in front of St Paul's Cathedral in the City of London.

Curiously the St Paul's encampment was only about a quarter of a mile away from the site of a house, 80 Old Broad Street, where John Henry Newman was born in 1801 as the son of a banker. There was no entry ticket to a life of wealth, however:

the bank closed after a financial crisis in 1816 and Newman Senior went off to manage a brewery.

Today's bankers are, for the moment at least, more fortunate than John Henry's father but they are not the only beneficiaries of the global boom in wealth creation. Footballers' pay can be grotesquely high, too, with Wayne Rooney earning £250,000 a week, but it does not seem to arouse the same degree of hostility. The injustice in the financial sector has been highlighted, however, by the extent to which the banks were bailed out with public money in 2008 after the whole financial system was threatened with collapse following the bankruptcy of the big Wall Street-based investment bank Lehman Brothers.

Even though governments now have effective control of a number of the big banks – for instance, the British government has acquired majority shareholdings in Royal Bank of Scotland and Lloyds Banking Group – this has not stopped the payment of very large salaries and bonuses. If such big payments are not made, so the argument goes, the top staff will leave and these banks will in many areas cease to function competitively.

Is it possible for a globalised sector such as banking to exist in the UK within its own bubble, in virtual isolation from the rest of the economy? The strains are showing and the middle classes, under increasing pressure from inflation, have lost patience with the scale of the perceived injustice. Before Christmas the demonstration outside St Paul's led to serious tensions amongst the Cathedral's staff, several of whom resigned, and caused problems for the Church of England at large.

To function correctly, Pope Benedict has said, the economy needs ethics. What sort of ethics? "An ethics which is people-centred" was his description in *Caritas in Veritate*, his 2009 encyclical on social teaching. The immediate issue in this case is that of personal responsibility if the rewards turn out to be excessive by generally accepted standards. Some of the senior bankers say they are perfectly justified in accepting whatever salaries and bonuses their directors and remuneration committees bestow on them. Non-bankers may argue that we all have a personal responsibility to turn away rewards that are fortuitous and disproportionate. The Pope warned of how business ethics risks falling prey to forms of exploitation.

Early capitalism was dominated by proprietors but in much of modern capitalism a management class has taken effective control and, being unrestrained, whether by regulation or ethics, is rapidly increasing its share of the cake. In theory the managers should be restrained by shareholders, to whom they are legally responsible. But in large public companies most of the shares are controlled by institutional investors – whose senior executives come from exactly the same handsomely-rewarded management class. Similar kinds of people sit on the remuneration committees and they can always argue that they must recommend the generally observed level of rewards in similar companies even though it is rising rapidly. The result is a seemingly unstoppable upwards spiral.

This subject was recently examined by the High Pay Commission – an independent body partly financed by the Rowntree Foundation. It has found that over the past thirty years pay differentials in the UK have widened substantially. In 1979 the top 0.1 per cent of earners took home 1.3 per cent of the national income. By 2007 this had increased to 6.5 per cent.

If anything this trend is accelerating. Directors of the top companies included in the FTSE 100 Index enjoyed an average rise in income of almost 50 per cent in 2010. At the same time the pay of average workers is being eroded by global competition. The annual rate of increase recently in the UK has been only about 2 per cent, well short of the 5 per cent rate of inflation. This erosion of real incomes is happening because the world's markets for goods and, increasingly, services too are progressively becoming dominated by goods and services exported from China, India and other countries where workers' pay, though rising, is currently still at only small fractions of the levels in Europe and the US. On this trend Western capitalism will begin to choke on its flawed functionality. Indeed, unemployment totals in developed countries are threatening to rise to levels not seen for any extended periods since the 1930s.

Billion-dollar trading

The particular feature of the financial industry is that opportunities nowadays exist for the manipulation of gigantic sums of money. Billions of dollars, sometimes even trillions, are traded by investment banks, hedge funds, investment managers and other financial institutions. Sometimes, of course, there are losses. But profits, when they occur, may fund personal incomes which are vastly greater than the average worker can aspire to.

Is this a question of the application of talent and its fair remuneration through an appropriate level of reward? More likely it is generally a matter of being in the right place at the right time, in the absence of any rational and ethical rebalancing mechanism. Much attention has been focused during the past few years on the asymmetry in the financial system: many banks are "too big to fail" and they have been bailed out by governments. This has encouraged bankers to take unusually high risks which, if they pay off, will bring big profits to the banks and therefore to their senior employees; but if the gambles go *wrong* the costs will be largely covered by governments. Distorted signals are being generated.

This kind of risk-taking finance needs to be brought back into line with the public interest. As the Vatican document puts it: "A spirit of solidarity is called for that transcends personal utility for the good of the community." But today's capitalism explains and justifies itself in terms of the appropriate rewards for individual brilliance.

I remember having a long conversation with a top London investment banker about five years ago – when the City of London was still prospering mightily after a long financial boom but the signs of trouble just ahead were clearly visible. Indeed, within about six months the mortgage bank Northern Rock was teetering on the edge of bankruptcy. I suggested that the truly enormous profits being earned by investment banks at that time were unsustainable and unhealthy: they reflected the taking of high risks – probably higher than even the investment bankers themselves were aware of – and the exploitation of customers in contravention of the regulatory codes of behaviour which the big banks were supposed to follow. The banker, however, stuck to the standard defensive argument: the staff of his and similar investment banks were brilliant, he insisted, and the rewards were entirely appropriate.

Even five years later most bankers appear to be unapologetic. All the same, it is not uncommon for people who earn enormous rewards to feel somewhat guilty about their good fortune and they satisfy their consciences by becoming charitable donors. There is a long history of voluntary redistribution. Capitalism has always had a tendency to create very rich individuals but they were not as numerous or as obvious as is the case today. In the 19th century philanthropists appeared, who demonstrated a feeling of obligation to share their wealth. When this happens there is an implication that the capitalist economy has a tendency to produce disproportionate and, indeed, unwanted rewards. George Peabody. For example, was a self-made Victorian banker who directed a large part of his enormous fortune towards his Peabody Estates of low-cost social housing. Moreover at the beginning of the twentieth century the soap tycoon William Lever built Port Sunlight near Liverpool for his workers including kitchens and bathrooms almost unheard of at that time in working class houses. During the same period the enormously rich chocolate family Cadbury constructed Bourneville as a rather similar model village near Birmingham. The Rowntree Foundation, which supported the High Pay Commission, came out of a similar philanthropic origin.

And not only billionaires feel a desire to share wealth. The "Fairtrade" movement, now nearly twenty years old, has grown out of a collective feeling of guilt and responsibility on an international scale. It has strong, but by no means exclusive, links with the Christian church: amongst the founding organisations in 1992 were CAFOD and Christian Aid. Perhaps its theoretical basis is rather loose: what exactly is a *fair* price? The word *fair* is commonly used by politicians without proper definition: in some circumstances it may mean *equal (*"fair shares for all"*)* but in others it may mean *proportionate* or perhaps *an appropriate return for effort and innovation*. And it may be described as *fair* to tax the wealthy heavily. In the area of the production of agricultural commodities conventional economic theory argues that growers should be rewarded for producing cheaply in favourable locations, and not for battling against harsh and unsuitable conditions. The Fairtrade approach seeks to equalise incomes through setting a minimum price which ensures that the cost of sustainable production is covered. In Europe tariff and quota protection is used for a similar purpose although this is widely described as "unfair".

The Fairtrade principle

The Fairtrade concept is about the spirit rather than the letter. But the wide support the Fairtrade principle has received reflects a common view that untrammelled markets sometimes produce the wrong results, in this case mostly in relation to the global markets for commodities.

This rather vague concept of "fairness" can also be applied to incomes within our own country. Recently the St Paul's Institute, a kind of think tank within the Anglican communion, with a mission "to bring finance and economics into dialogue with Christian ethics and theology", published the results of an opinion survey into ethics in the financial services industry. The respondents were drawn from professionals within the financial industry itself in London, and though not necessarily working in the City itself they can be presumed to be more favourable to bankers than the typical man in the street might be.

Nevertheless the majority considered that City bond traders and bankers were paid too much while on the other hand teachers were paid much too little (though the rewards of doctors were about right). Most considered that there was too big a gap between rich and poor in the country as a whole. This cannot be attributed to religious conviction because half the respondents said that they never attended a religious service. But it is some sort of measure of educated opinion.

The High Pay Commission put the problem like this: "Over the last thirty years we have lost touch with what fair pay is. Indeed, it has been undermined by a process that simplified individual motivation to that of self-interest – ignoring the importance of professional ethics, broader aspirations and leadership". It adds that the concept of fairness is deeply entrenched in our collective consciousness – but it also appears elastic.

Secular thinkers are grappling with a testing problem. How, then, can religious judgement be brought to bear and perhaps contribute some precision? According to the Justice and Peace Council's document: "No one can in good conscience accept the development of some countries to the detriment of others". But can regulation be imposed in a practical way in the public interest? At a purely technical level steps have been taken, for several decades, towards the development of globalised rulebooks for the financial markets, including those established by the Basel Committee: established in 1974, since 1988 this committee has developed, in succession, three regulatory systems for banks. But such an approach can only work if the bankers, in the same way as Fairtrade supporters, accept the spirit as well as the letter of the regulations. Faced with a growing body of rules in the 1990s many of the big international banks began to set up secret offshoots to hide some of their more controversial activities. By 2007, when the bubble began to burst, the "shadow banking" system was estimated to be comparable in size to the official audited and regulated institutions although nobody could be sure.

It is all very well to propose a strengthening of the regulations but there is a risk that financial institutions could shift their activities to less-regulated centres: tax havens could expand their scope to become havens from regulation. Is it at all practicable to develop the existing international approach into a system of one or more global bodies that would introduce not just rules but also ethics into the worldwide market place? The Vatican dreams of “a public authority with global jurisdiction”. But it accepts that this will not happen easily. “This development,” warns the Pontifical Council’s paper, “will not come about without anguish and suffering.”

When it comes to money, feelings can run high. All four gospels mention Jesus’s angry reaction to the presence of money changers and other traders in the Temple. In an uncharacteristically aggressive way he knocked over the tables of the money changers, scattering their coins, and according to John he said to the pigeon-sellers: “Take all this out of here and stop turning my Father’s house into a market”.

Elsewhere three gospels refer to Jesus’s encounter with a rich young aristocrat. According to Matthew Jesus said: “It is easier for a camel to pass through the eye of a needle than for a rich man to enter the kingdom of heaven”. Some scriptural scholars have claimed that the Needle’s Eye was a small gate in the exterior wall of Jerusalem; the challenge facing rich men is therefore difficult rather than entirely impossible. But there is no firm evidence to justify comforting the rich in this way. A similar phrase even turns up in the Koran: “The impious shall find the gates of heaven shut, nor shall he enter till a camel pass through the eye of a needle”.

We all, as individuals, face the challenge of harmonising our economic and financial activities with our moral framework. We all have to measure ourselves through our contribution to the common good rather than the size of our bank balance. The Vatican paper calls for “s spirit of solidarity that transcends personal utility for the good of the community.” But at present the world does not think along such lines and may it not come to accept such principles without first enduring a crisis of global proportions.

In what conceivable circumstances could our world of conflict and greed produce general agreement to the creation of what the Vatican paper describes as “a world public Authority at the service of the common good”? Well, after the First World War came the creation of the League of Nations, and after the Second World War there emerged the rather more powerful United Nations (which unlike the League of Nations attracted the participation of the United States, the most powerful nation). A few years later the European Union appeared, intended to free Western Europe from the fear of recurrent warfare – successfully, as it has turned out.

Perhaps we now face, if not a world war, a painful global economic depression. If there has been human suffering on a sufficient scale then different countries may accept the case for sinking their enmities, surrendering part of their sovereignty and pursuing common objectives. The end-result will be enormously beneficial but the process through which it is reached may be deeply unpleasant.

**Towards reforming the international financial and monetary systems in a way that responds to the needs of all peoples: The Pontifical Council for Justice and Peace, October 2011*

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