LIBERTY AND SOLIDARITY
Living the Vocation to Business
How can liberty and solidarity address the problem of crony capitalism?

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Thank you. It's a great pleasure to be here again at The Catholic University of America, to see so many good friends, and, like many others, I want to thank the School of Business and Economics and The Napa Institute for the kind invitation to speak to you today.

The issues that I have been asked to address this afternoon are, first, the problem of what many people call “crony capitalism,” and, second, how the Catholic understanding of liberty and solidarity might assist us in addressing this challenge. And, in the spirit of this conference, and because we have limited time, I also thought that it might be helpful to be somewhat provocative: not for the sake of provocation, but in order to stimulate thought.

Crony capitalist behavior is a problem that manifests itself in multiple sectors of the economy. Nor is it limited to America and the West. As a way of acting economically, crony capitalist behavior is well entrenched throughout the global economy. Politically speaking, it’s also a problem in which both the political left and the political right has been complicit in fostering.

Yet despite the economic problems, but also the considerable injustices, resulting from crony capitalism, official Catholic teaching has not examined this issue in any significant depth. Nor has crony capitalism received much attention from scholars working in the area of Catholic social thought. This, I'd suggest, is strange for two reasons. First, as I hope to illustrate in these brief remarks, crony capitalism is not a new phenomenon. Second, as I'll try to show, crony capitalism does enormous damage to the reputation of business; it corrodes confidence in the executive and legislative branches of government; and, even more particularly, it facilitates and it solidifies significant injustices in economic life.

So what’s crony capitalism? The term is used a great deal today, so let's be clear about what I have in mind. On one level, it is similar to what is often called “corporate welfare.” Crony capitalism goes, however, beyond direct handouts from government to business. The expression “crony capitalism” first emerged as a partial explanation of the 1997 Asian financial crisis, and the role played in that crisis by government decisions that favored “cronies” of politicians and state officials.1

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Now I want to stress that crony capitalism is not necessarily criminal activity or outright corruption—though it sometimes verges on, and often enters, these spheres. At its essence, crony capitalist behavior concerns the hollowing-out of market economies and displacing the workings of free exchange within a framework of rule of law in favor of what might be called “political markets.”

In political markets, the focus is no longer upon prospering through creating, refining, and offering products and services that people actually want at competitive prices. Instead economic success depends upon your ability to harness government power to stack the economic deck in your favor. While the market’s outward form is maintained, its essential workings are slowly supplanted by the struggle to ensure that governments, legislators, and regulators privilege you at other people’s expense. In that sense, crony capitalist behavior certainly constitutes a form of redistribution: but away from taxpayers, consumers, and those enterprises focused upon creating wealth, and towards those businesses who are politically organized, politically powerful, and politically connected.

So who are crony capitalists? Obviously it includes businesses who lobby governments and legislators for privileges: such privileges might include monopolies, regular subsidies, access to “no-bid” contracts, price controls, regular bailouts, tariff protection, preferential tax treatment, and special access to government-provided credit at below-market interest-rates.

Invariably such privileges are premised on the claim that a particular business or a certain industry somehow merits special treatment, instead of being subject to the discipline of free competition that the rest of us accept as a spur to greater creativity, innovation and efficiency. A very prominent American Catholic, former Treasury Secretary late William Simon, once recalled watching with incredulity as businessmen ran to the government in every crisis . . . Always, such gentlemen proclaimed their devotion to free enterprise and their opposition to the arbitrary intervention of the state into the economy. Except of course for their own case, which was always unique and was justified by their immense concern for the public interest.²

Speaking of those who dispense the favors—legislators and other public officials—they obviously want something in return. A common payback to politicians comes in the form of campaign donations and other forms of assistance at election time. As for regulators, the astonishing number of government employees who secure jobs in the industry they once regulated is well documented.³ And make no mis-
take: playing the crony capitalist game can be very lucrative. Back in 2012, the Italian-born University of Chicago economist Luigi Zingales pointed out “Seven out of the 10 richest counties in the U.S. are in the suburbs of Washington, DC, which produces little except rules and regulations.”

If you want to see what crony capitalist behavior looks like, historical and contemporary examples abound. In many ways, the mercantilist system that dominated Europe between the 16th and late 18th centuries and relied heavily upon government patronage is a forerunner of crony capitalism. This is one of the reasons why Adam Smith, the great author of the Wealth of Nations, was so critical of the businessmen of his time. Why? Because they focused heavily upon securing privileges from governments.

Looking at more contemporary examples, some would suggest that the dominance of many Latin American economies by a small number of often family-based companies is maintained in place through collusion between these families and the governments of these nations, especially in Central America. Similar expressions of crony capitalist behavior are very apparent in China and South-East Asia. Indeed, the persistence of crony capitalism in East Asia arguably constitutes the single biggest risk to the remarkable economic growth that’s resulted from the region’s opening to the global economy, an opening which has substantially reduced global inequality in clear, real and statistically measurable terms as millions in East Asia have been freed from back breaking poverty.

Softer versions of crony capitalist behavior prevail in much of Western Europe. In many respects it is encouraged by the corporatist economic structures that, as the Nobel Prize economist Edmund Phelps illustrated in his recent book, Mass Flourishing, provide numerous opportunities for collusion between governments, established businesses, and trade union officials—arrangements help to account for the low entrepreneurship levels in many Western European economies and their increasingly uncompetitive character.

But though crony capitalism is perhaps less present in what might be called the “Anglosphere,” it’s certainly alive and well in this part of the world. In 2012, for instance, corporate welfare in America in the form of direct loans, bailouts, and subsidies for large corporations, small businesses, and industry groups accounted for almost $100 billion of federal government spending for that fiscal year. And that’s just federal government spending. It is paralleled and some cases dwarfed by a great deal of corporate welfare dispensed at the state and local level. Even more worrying is the fact that all this direct assistance is even more overshadowed by more subtle forms of crony assistance, such as exemptions and tariffs.

We also know that many of the businesses and industries enjoying such assistance have close relationships with federal and state politicians. This was exemplified by the Troubled Assets Relief Program (TARP) created in late 2008 to aid financial institutions in extremis. In a study analyzing the allocation of TARP funding, two University of Michigan economists found a strong correlation between the possibility of receiving TARP funding and a company’s level of connectedness to members of congressional finance committees. Coincidence? You decide.

American history is in fact littered with examples of collusion between business and government, ranging from the Credit Mobilier scandal of the 1870s, the influence-peddling that marred the Department of Housing and Urban Development in the 1980s to the $3.7 billion in financing received by the Enron Corporation from government agencies such as the U.S. Trade and Development Authority and the Export-Import Bank.

Invariably many of these provisions are publicly justified by the givers and the receivers as somehow being for the common good. But here it is worth recalling what Adam Smith once wisely said about such claims: “I have never known much good done by those who affected to trade for the public good.”

So what’s the price for all this collusion? By injecting extra-regulatory costs into the economy, undermining the workings of free prices, and shifting incentives towards cultivating politicians and regulators, the process of wealth creation becomes compromised. But beyond the economic costs, what should matter at least as much for Catholics is that crony capitalist behavior also facilitates significant injustices.
Crony capitalist arrangements create, for instance, distinct groups of insiders and outsiders. If you are a young entrepreneur with a new idea, product, or service but you lack political connections, you are automatically disadvantaged in such a world. Many a principled but frustrated entrepreneur who refuses to play crony capitalist games is reduced to seeking out areas of the economy that crony capitalists have not yet got their hooks into, or, may decide to migrate to a less politically charged environment. In fact, there’s considerable evidence that private investment tends to gravitate away from crony capitalist environments. That’s good, but the same evidence suggests that the same environments also tend to drive those already in receipt of corporate welfare to seek even more.17

In those extreme cases in which an economy becomes dominated by crony capitalist arrangements, the good news is that, like mercantilism, such arrangements are economically unsustainable. After all, an economy based on crony capitalist political markets assumes there will always be some people actually creating the wealth rather than engaging in rent-seeking. Once, however, the wealth-predators outnumber the wealth-creators, it’s hard to avoid a steady drift toward crony-capitalist corporatist debacles such as Cristina Kirchner’s Argentina.18 But until they disintegrate—and, like mercantilism, that could take a very, very long time—economies dominated by cronyism will continue to foster some of today’s least-justifiable forms of inequality. That’s bad news for everyone, but especially the poor. The wealthy and the powerful—especially those who rotate between the political, lobbying, and business worlds—can always take care of themselves in a crony capitalist economy. They are crony capitalism’s nomenklatura. But those without access to government power are at a perpetual disadvantage.

Now I want to be specific: I’m not suggesting that any form of government assistance to business whatsoever is unacceptable. Nor am I arguing that businesses should be prohibited from representing their interests to legislators or the executive branch. As citizens and communities of persons respectively, business leaders and businesses have as much right as anyone else to make representations to elected officials concerning the likely impact of legislation. Indeed, they’re likely to possess insights that may well improve the legislation but which would otherwise go unnoticed by legislators and regulators.

This, however, is very different from asking to be given something—to be given an economic privilege—which, by definition, isn’t accorded to other people in the same industry or to people who may want to enter that industry as new competitors.

So now I’d like to turn to the second part of my remarks: what can Catholic social teaching say about this subject? Well, one positive step for Catholic social teaching would be for it to actually state that crony capitalist behavior and crony capitalist economies are in fact deeply unjust. Regrettably, at present, there are no such references to this subject in official Catholic social teaching, despite the fact that crony capitalist behavior isn’t new. The only document that comes close to addressing this subject was the Pontifical Council for Justice and Peace’s 2012 text on the vocation of the business leader. Here the Pontifical Council directly referenced the need for business leaders to examine their consciences and ask themselves whether they were in fact engaged in the work of wealth creation, of helping to unfold God’s Original Creative Act; or, by contrast, whether they were engaged in just another form of rent-seeking or anti-competitive practices.19

Another set of issues concerns possible policy responses to crony capitalist behavior. Many solutions have been proposed. These include efforts to identify and eliminate laws that are framed ambiguously to allow legislators to exercise discretion in the way they allocate funding. A second is to pay very close attention to regulatory proposals emanating from those industries most prone to cronyism. According to the Economist’s 2014 Crony Capitalism Index, these include gambling, defense, investment-banking, oil and gas, infrastructure and pipelines, mining, utilities, real estate, and construction.20

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But while policy matters, it’s generally not the business of Catholic social teaching to enter into the details of formal policy issues or to make specific policy recommendations. Most such issues are overwhelming prudential in character. And they are also for the most part, as the Second Vatican Council reminds us, the direct responsibility of Catholic laypeople rather than our pastors. Here, however, I’d like to offer some suggestions about the ways in which Catholic social teaching’s commitments to liberty and solidarity can guide lay Catholics as we wrestle with this problem.

Catholic social teaching, at least throughout the 20th century, has formally recognized economic initiative and liberty as a right: not obviously as an absolute right, but rather as an expression of the biblical and anthropological truth that man is made to be creative, including in the economy, and therefore needs the space to be creative, again, including in the economy.

Crony capitalist behavior, by its very nature, unjustly shrinks the scope for entrepreneurship, unjustly seeks to stifle innovation, and unjustly blocks and raises the costs of entry into competitive markets while simultaneously diminishing competition within markets. In other words, the briefest of reflections upon cronyism soon yields the conclusion that it systematically violates legitimate exercises in economic liberty. This suggests that legislators ought to examine regulations carefully, to see whether a proposed restriction on economic freedom is for the common good, or whether it is actually designed to promote particular existing businesses by undermining the freedom of others.

So how might the Church’s commitment to solidarity help to address some of the problems of crony capitalism? Here two steps may be helpful. First, I would suggest that Catholic social teaching could reflect further upon the meaning of solidarity, and dissociate it from the language, agenda, and policies of corporatism, which, as mentioned, have been very influential in shaping much Western European and Latin American economic life. Leaving aside the fact that solidarity doesn’t imply any automatic commitment by Catholics to corporatism (or any other economic system for that matter), it might be argued that corporatism has helped create even more opportunities for the type of collusion I have discussed today, and which is often rationalized by endless invocations of the word solidarity.

Second, and on a more positive note, it’s worth considering that, as Saint John Paul the Great reminded us, solidarity is nothing more and nothing less than the virtue of consistent love of neighbor as oneself. Put another way, when we love our neighbor—and that means always choosing to act in accordance with the requirements of divine law, the natural law, and divine mercy—we can’t help but promote the common good. Hence, with regard to crony capitalism, Catholics could ask questions of themselves and others such as legislators, regulators, and business leaders: questions which revolve around whether they are in fact living out the virtue of solidarity.

Such questions for Catholics in business might include: Do I show my love of neighbor by trying to enlist government power to block potential competitors from entering into markets that I apparently believe I own? Do I show my love of neighbor by lobbying for subsidies in an age of high government indebtedness? Do I show my love of neighbor by seeking a legislated tax break that isn’t accorded to any other business in my industry, state, or nation? Do I show my love of neighbor by effectively encouraging legislators and regulators to sail very close to soft forms of corruption? But crony capitalist behavior, we know, isn’t just about business. It’s also about government, legislators, and regulators and therefore policies, laws, and regulations. Again, the simple asking of questions by Catholics could go some way to altering people’s consciences to the injustice of crony capitalist behavior, and thereby help to limit if not wind back cronyism in an economy.

Solidarity—the virtue of love of neighbor—is core to the Catholic understanding of justice. This being the case, such questions addressed to government officials might include: Is it just for me to legally privilege one business over others simply because the head of that business is my friend and political supporter? Is it just for me to effectively write a form of inequality into the law and therefore unjustly discriminate against those people in an industry who aren’t my
friends or my political supporters, but who I am supposed to love as much as any other of my neighbors? Is it just for me to protect this particular industry from either new competition or from the consequences of years of complacency, poor management, fear of antagonizing over-mighty unions, and a refusal to innovate on the part of that industry? Is it just that I as a legislator effectively tell new and potential entrepreneurs that they must labor under legislated disadvantages simply because they don’t have the same access to me as existing businesses? Is it right, is it just, that I make myself the focus of business leaders’ attention, instead of directing their focus to the millions of people otherwise known as consumers who make up the market economy and who business exists to serve?

Such questions, proceeding as they do, from Catholic social teaching’s attentiveness to the good of freedom and the virtue of solidarity, won’t lead to the very same policy conclusions on every occasion. But while structural, legislative, and policy changes certainly matter in economic life, changes in the economic cultures in which we live, move, and have our being are even more important. And if we are to combat crony capitalist behavior in lasting ways, that means changes in the values, the beliefs, and the expectations that all of us bring to economic life. Underscoring that point in the minds of business leaders and their political counterparts is, to my mind, one of the greatest potential contributions that Catholic social teaching could make to combatting the economic and political cancer of crony capitalism, thereby helping restore integrity to economies today so desperately in need of it. Thank you. ★

ENDNOTES

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5 See, for example, Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (Indianapolis, IN: Liberty Fund, 1981), Book IV.ii. and iii.
10 See Gregg, Becoming Europe, pp.152–156.
12 See, for example, William Freeland, Ben Wilterdink, and Jonathan Williams, “The Unseen Costs of Tax Cronyism: Favoritism and Foregone Growth,” State Factor, July 2014.
16 Smith, Wealth of Nations, Book IV.i.9.
21 See Second Vatican Council, Decree on the Apostle of the Laity Apostolicam Actuositatem (1965), especially no. 7. “The laity must take up the renewal of the temporal order as their own special obligation. Led by the light of the Gospel and the mind of the Church and motivated by Christian charity, they must act directly and in a definite way in the temporal sphere. As citizens they must cooperate with other citizens with their own particular skill and on their own responsibility. Everywhere and in all things they must seek the justice of God’s kingdom. The temporal order must be renewed in such a way that, without detriment to its own proper laws, it may be brought into conformity with the higher principles of the Christian life and adapted to the shifting circumstances of time, place, and peoples.” www.vatican.va/archive/hist_councils/ii_vatican_council/documents/vat-ii_decree_19651118_apostolicam-actuositatem_en.html

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