Is Greed the Problem with Capitalism?

Steve Suranovic
The George Washington University

<Suranovic, S. (2011). Is Greed the Problem with Capitalism?. *Liberty, April*, *19*, 2011.>

With the opening of Money Never Sleeps, the sequel to Wall Street this month, Americans will again be subjected to Hollywood's version of how the economic system works: big business is evil and greed is at the heart of our economic problems.

The original Wall Street movie was released in the heady times late in the Reagan administration during what was to become several decades of almost uninterrupted economic expansion during the post war period. Nonetheless it offered a stern warning about what to expect from greed run rampant. The villain of the story was Gordon Gekko (Michael Douglas) who played a powerful head of a mergers and acquisitions firm. Towards the end of the movie he makes a now well-known speech about why "greed is good," that is meant to highlight the arguments made by businesses and free market advocates. Gekko tells a group of shareholders of a company he is trying to acquire that,

> "Greed, for lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, (for) knowledge has marked the upward surge of mankind."

Of course, true to Hollywood form, in the end Gekko winds up implicated in a major fraud revealing the true moral of the story, which is, of course, that "greed is bad!"

Ironically, with the advent of the current economic crisis, it was an opportune time for Hollywood to make money with a new film highlighting the immorality of greed. For many observers it was greed by the managers of financial institutions that led to easy loans with little to no down payments; greed by homeowners that led to purchases of houses they couldn't afford; greed on Wall Street that led to the creation of clever new financial instruments like mortgage-backed securities and credit default swaps; greed by CEOs that led to corporate extravagances and ridiculously high executive compensation packages; and greed by consumers that led to excessive use of credit cards to buy things now, rather than wait till they earned the money to pay for it.

Tom D'Antoni in the Huffington Post declared that, " …. the concept that "Greed is Good," is dead. It rose to its despicable zenith in tandem with the rise of Reagan, and has been the guiding principle of industry, finance and government ever since. …. Greed brought us to this place...unregulated, untrammeled, vicious greed. Greed has no morals or ethics. Greed has no regard for others. Greed feeds only the greedy and feeds on every thing and every one within grasping distance."[1] John Steele Gordon, author of a book on financial history wrote "… there is no doubt at all about how we got into this mess. … Greed, as it periodically does when traders and bankers forget the lessons of the past, clouded judgments."[2]

Religion and Greed

The world's religions, almost unanimously, contend that greed is morally repugnant and evil. Although not explicitly proscribed in the ten commandments, greed is implicated in the command not to covet one's neighbor's property or spouse. The Bible contends that "the love of money is the root of all evil."[3] Later in 590AD Pope Gregory declared greed to be one of the seven deadly sins, along with lust, pride, gluttony, sloth, envy and wrath. Among the seven though, greed is considered by many to be one of the worst, if not, *the* worst of them, mostly because greed can be instrumental in inspiring many of the other sins.

Indeed in almost every major religious tradition and in the writings of religious leaders, greed is condemned unequivocally. The Koran states, "whoever is saved from the greediness of his soul, these it is that are the successful"[4] The Tao Te Ching states, "when there is no desire, all things are at peace."[5] In the Bhagavad Gita, the Lord Krishna declares, "There are three gates leading to this hell—lust, anger and greed. Every sane man should give these up, for they lead to the degradation of the soul."[6] Finally, Sulak Sivaraksa, a leading Buddhist writer, states that "corporatism depends on greed … and is … an anathema to the goals of Buddhism."

With respect to the recent economic crisis, Dr John Sentamu, the Archbishop of York, attacked exploitative money lenders who pursued "ruthless gain" and urged banks not to "enrich themselves at their poor neighbours' expense".[7] Pope Benedict in his 2008 Christmas message said, "if people look only to their own interests, our world will certainly fall apart."[8] The Dalai Lama asked, "what is the real cause of this sort of economic crisis?" His answer: "Too much speculation and ultimately greed."[9]

---

[1] D'Antoni, Tom, "Finally the Death of Greed," The Huffington Post, http://www.huffingtonpost.com/tom-dantoni/finally-the-death-of-gree_b_150406.html

[2] http://freakonomics.blogs.nytimes.com/2008/09/22/john-steele-gordon-on-the-financial-mess-greed-stupidity-delusion-and-some-more-greed/

[3] Timothy 6:10

[4] The Koran, The Mutual Deceit, C 64, v16. http://quod.lib.umich.edu/k/koran/browse.html

[5] Tao Te Ching, Chapter 37,

[6] Bhagavad Gita, 16.21, http://www.bhagavad-gita.us/categories/The-Gita%3A-Chapter-16/

[7] Religious leaders blame bankers' greed for financial crisis, http://www.telegraph.co.uk/news/newstopics/religion/3949359/Religious-leaders-blame-bankers-greed-for-financial-crisis.html

[8] Church leaders offer comfort but little joy in lessons on economy, http://www.timesonline.co.uk/tol/news/politics/article5397933.ece

[9] The Dalai Lama blames "greed" for financial crisis, http://www.neurope.eu/articles/90974.php

Greed as a Necessity

Greed is an easy target. It is not hard to convince most people that greed is the primary source of many of our economic woes. But is it really? Stephen Pearlstein pointed out what many economists believe. He wrote, “In a capitalist economy like ours, the basic premise is that everyone is motivated by a healthy dose of economic self-interest -- … Without some measure of greed and the tension it brings to most economic transactions, capitalism wouldn't be as good as it is in allocating resources and spurring innovation.”[10]

This is the central idea behind Adam Smith’s oft-quoted line about the butcher, the brewer and the baker in the Wealth of Nations,

> “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith WoN, : B.I, Ch.2, Of the Principle which gives Occasion to the Division of Labour in paragraph I.2.2)

Smith is arguing that the economic system provides for our wants and needs because, first and foremost, people are trying to help themselves, and they do so by producing and selling meat, beer and bread to others. These market outcomes are not achieved because of charity. We do not appeal to other peoples’ *humanity* when we seek our sustenance, but rather to their self-interest, their *greed*. Nonetheless the modern economist’s acceptance of greed as a positive force in society has not been readily accepted especially given centuries of moral teachings to the contrary.

Seeking a middle way

Is there a resolution to the greed paradox? Is greed evil? Is it a necessary evil? Is greed something that humankind should seek to eliminate, perhaps replacing it with altruism? Or is greed something so ingrained in the human psyche that there is no hope of eliminating it? Perhaps we simply need to learn how to live with greed. Perhaps there is a middle way, a method of channeling greed in positive rather than negative ways.

Aristotle argued that, “ …virtue is concerned with passions and actions, in which excess is a form of failure, and so is defect, while the intermediate is praised and is a form of success.”[11] It is the middle way that is the goal. Indeed, dictionary definitions of greed highlight not only self-interest but an “*intense*, selfish desire”[12] or “an *excessive* desire to acquire or possess more than one needs or deserves.”[13]

---

[10] Pearlstein, Steven, Greed Is Fine. It's Stupidity That Hurts, http://www.washingtonpost.com/wp-dyn/content/article/2008/10/02/AR2008100203633.html

[11] Nicomachean Ethics, Book 2, Chapter 6. http://www.constitution.org/ari/ethic_00.htm

[12] New Oxford American Dictionary

[13] American Heritage Dictionary of the English Language, 2006.

Greed is usually not implicated if someone's desires are average or if one achieves a moderate standard of living.

Religious writings themselves sometimes take account of this. Thus, one hadith, a saying of the prophet Muhammad, states, "eat what you want and dress up as you desire, as long as extravagance and pride do not mislead you"[14] In Judaism too, one Midrashic interpretation asserts, "were it not for the yetzer hara (the evil urge), a man would not build a house, take a wife, beget children, or engage in commerce."[15]

Returning to the issue of our current financial crisis, some observers recognize that greed cannot be eliminated. Michael Lewis and David Einhorn of the New York Times write, "'Greed' doesn't cut it as a satisfying explanation for the current financial crisis. Greed was necessary but insufficient; in any case, we are as likely to eliminate greed from our national character, as we are lust and envy."[16] Robert Sidelsky also writes that "(John Maynard Keynes) believed that material well being is a necessary condition of the good life, but that beyond a certain standard of comfort, its pursuit can produce corruption, both for the individual and for society."[17]

Finally, Steven Pearlstein suggests a different perspective, that greed may not be about the degree of desire, or how much one acquires, but with *how* one acquires their wealth. He writes, "even before they decided to give away most of their money, nobody seemed to begrudge Bill Gates or Warren Buffett their billions or criticize them for their "unbridled" greed. That seems to have a lot to do with the fact that Gates and Buffett made their money on the basis of their own ingenuity, skill and hard work."[18]

Methods to Satisfy Greed

The American economist Henry George (1839–1897) is mostly famous for his writings about appropriate taxation policies on land, but in his book *Protectionism and Free Trade*, he had a passage that can help resolve some of the tension about greed and profit seeking. He wrote, "is it not true, as has been said, that the three great orders of society are 'working-men, beggar-men, and thieves?'"

---

[14] The Prophet Muhammad, as reported by Abd'Allah ibn Abbas. in Is Your Faith the Greediest?, http://www.beliefnet.com/Faiths/2002/07/Is-Your-Faith-The-Greediest.aspx

[15] Is Your Faith the Greediest?, http://www.beliefnet.com/Faiths/2002/07/Is-Your-Faith-The-Greediest.aspx

[16] MICHAEL LEWIS and DAVID EINHORN, The End of the Financial World as We Know It, NYT Jan 3, 2009. http://www.nytimes.com/2009/01/04/opinion/04lewiseinhorn.html?ref=opinion

[17] Where do we go from here? Robert Skidelsky, Prospect | Wednesday, December 17, 2008, http://www.skidelskyr.com/site/article/where-do-we-go-from-here/

[18] Pearlstein, Steven, Greed Is Fine. It's Stupidity That Hurts, http://www.washingtonpost.com/wp-dyn/content/article/2008/10/02/AR2008100203633.html

Prima facie this passage may seem unremarkable, perhaps even confusing; after all what exactly is an "order of society?" But if we think about it carefully in light of the current discussion, it actually provides the seeds, or kernels, for understanding this issue.

First, let's recognize that what these really refer to are the three primary ways in which people obtain benefits for themselves, or in other words the ways people "profit." As we'll soon argue, how a person ultimately judges profit-seeking activities and whether he or she views greed as good or bad will depend largely on which one of George's "great orders" is believed to be most prominent in society. But first let's discuss each of these profit acquisition methods in a bit more detail, beginning with the last one, "thief."

Theft, or Involuntary Transfers

One of the simplest methods a person can use to satisfy his greed for food, clothing, automobiles, cameras, computers, or the money to acquire these things is simply to take it away from someone else who has the desirable products. Theft has been a part of life in societies since the beginning and it is likely to remain a part of society for a long time to come.

When the rightful owner of something has that item stolen away by another, the thief clearly benefits since he is now in possession of the valued item while the victim will suffer a loss since he does not possess and can no longer receive the benefits from the product. The victim will surely feel that an injustice has occurred and will demand the return of the stolen property and the punishment of the perpetrator, if those responses are at all possible. Regardless of what happens afterwards though, theft involves a transfer of an item from a legitimate possessor to an illegitimate possessor, and the transfer always occurs involuntarily. Thus the term involuntary transfer offers a better moniker for this action, especially because in many situations the transfers may technically not be considered theft, but will have similar characteristics.

Around the world societies evaluate theft in similar ways. It is generally considered bad, or wrong, or perhaps evil, with perhaps only a few exceptions tolerated.[19] These exceptions are rare, though, and societies have put into place an elaborate system of laws that prohibit theft in a variety of situations while providing penalties for those found guilty of having violated these laws. Suffice to say; the acquisition of benefits via theft is unacceptable in all societies around the world. Although this is a seemingly obvious point, it actually forms the basis for most of the cry outs about injustices around the world. In brief, people claim an injustice whenever they perceive that someone is getting "ripped off" in some way.

---

[19] For example, some may accept the necessity of theft in a desperate situation, as when it would relieve a potentially life threatening outcome.

Beggar Man, or Voluntary Transfers

The second of George's orders of society, that is, another main way in which people can acquire the goods and services that their greed inspires, is to be given the products voluntarily by another. A beggar stands on the street corner and solicits money from passersby. That money represents a transfer of goods and services from the giver to the recipient. Although the giver loses, the money obtained by the beggar is not ill begotten because it has been given to him willingly; it is a voluntary transfer.

From the giver's perspective this action is called charity and the action is held in high esteem in most societies in the world. Charity is not self- serving, but is in the service of others. It is not harmful, but helpful. Charity is encouraged and promoted in all of the main religions. Some, like Mother Teresa, who have spent their lives giving to the most needy in the world, have been made saints to glorify their accomplishments.

Working Man, or Voluntary Exchange

The third order of society that George mentions is "working man." This is another method an individual can use to acquire the goods and services that his greed may inspire. Work generates an income that can be used to purchase consumption goods, but it is important to recognize the underlying process. Work is an activity to produce a good or service that someone else will wish to purchase; a product that is desirable. Through the free voluntary exchange of the product for money in the marketplace, a business generates the revenue that is used to pay its workers. That money, or income, is then used by the workers to purchase other goods and services produced by other workers. In the end, when you strip away the money part of the transactions, what is really taking place via market activity is the voluntary exchange of one good for another. And since both parties to a trade exchange voluntarily, it must be that both benefit from the transaction, for if not, why trade?

Voluntary exchange represents the cornerstone to economic prosperity in the world. The very first lesson in Smith's Wealth of Nations is the principle of the division of labor, which says that productivity can increase as the production process becomes more specialized; that is as labor or workers are divided into more specialized tasks. However the only way to take advantage of these benefits afterwards is through exchange.

Based in part on this fundamental principle, economists have long supported free markets, which essentially means allowing free and voluntary exchanges without impediments. Indeed, societies everywhere generally accept and promote trade both within and beyond their borders. There is no community or society in the world that does not benefit from the voluntary exchanges and market activities that occur in abundance in every day life. In a nutshell then, if greed inspires work that in turn inspires voluntary exchanges in the marketplace, then the outcome is mostly good for everyone involved.

Distinguishing "Good" Greed from "Bad" Greed

In summary then, greed can generate either positive or negative outcomes depending on which great order of society, or in other words which method, is used to satisfy that greed. If greed inspires a person to work long hours in a business providing valuable goods and services to others in order to satisfy the needs of himself and his family, then greed is perfectly acceptable. If greed inspires a person to innovate and create new products that others will desire in the market, then greed is good. In each of these cases greed is satisfied via voluntary exchange. However, if greed inspires a person to acquire that which he desires by taking involuntarily the rightful possessions of another person, then greed is not good. Greed is also wrong when it inspires someone to place roadblocks in the way of others trying to sell their products in the market place. In both of these cases greed is satisfied via involuntary transfers and is rightly condemned. Finally though, if greed for even basic sustenance inspires one to beg for food and clothing, or to seek out the charitable contributions of others, and if those items are indeed given voluntarily, then again greed is satisfied in an acceptable manner. The compassion of those who are charitable, helping those who are less fortunate, engaging in voluntary transfers is clearly unobjectionable.

Under this more carefully delineated definition, there can never be too much greed. We would never portray greed in general, as good or bad, right or wrong. Instead, under this definition, greed can be satisfied in either acceptable or unacceptable ways. The distinguishing feature isn't the presence of greed itself or even the intensity of the greed, but rather the way in which greed is satisfied. Following George's great orders, the greed satisfied by a working man is commendable, the greed of a beggar man is unfortunate but acceptable when necessary, whereas greed satisfied by thievery is the primary source of injustice in the world.

Greed and the Economic Crisis

Many of the criticisms about greed's role in the economic crisis are really complaints about involuntary transfers. Hollywood and liberal democrats look at the current economic crisis and see injustice in the high salaries of CEOs, the excessive loans made to people who could not afford the homes they were buying, the political clout of business insiders who get rules written on their behalf, and the low wages paid to average workers. But the reason they see injustice is mostly because they believe someone is getting ripped off. It may be the consumer, or the taxpayer or the low paid worker at the company, but in any case, their perception is that one group is receiving less because the owners in the company are receiving more.

Frequently they are right. Big business does sometimes engage in fraudulent behavior to get ahead. Consider the recent scandal involving Bernie Madoff. Madoff offered investors better than average returns largely by fabricating them in their financial statements and by using the principal deposited by new investors to pay the returns of investors lucky enough to get out early. His setup was a classic ponzi scheme that inevitably came tumbling down when the financial crash hit and too many people demanded their money back at the same time. Clearly Madoff was greedy, as were the investors who were looking for better returns. However, this case is a clear example of greed fueling involuntary transfers rather than valuable production and trade. Many other prominent examples of insider trading, accounting scams, and many other shady dealings have been uncovered over the years and have resulted in prosecution and jail sentences for the likes of Ivan Boesky, Michael Milkin, Ken Lay and Bernard Ebbers.

Businesses may also be exploitative. Cries of injustice by the general public rang out recently when huge bonuses were announced for executives at the financial firms that were bailed out by the government. After the billions of dollars from the TARP were transferred to these failing institutions, many of the banks were quickly out of trouble and the systemic crisis was averted. However, announcements that these same companies would pay millions of dollars in overdue bonuses to executives touched off a wave of indignation.

The source of the anger is fairly obvious. In the midst of the crisis these institutions laid off a large portion of their workforces and it was their overextended positions on loans and their large size that contributed to the crisis. Since bonuses are typically made to reward good behavior, it seemed especially inappropriate for executives who were implicated in the crisis and who were saved largely due to a taxpayer financed bailout, to be able to walk away a few months later with hefty bonuses. Reward seemed to be disconnected from achievement. Most observers would contend that transfers from taxpayers put these companies back into the position of being profitable and it was not because of the skill and hard work of these executives producing a superior product for its customers. Thus, again there is a sense that involuntary transfers from taxpayers enabled the very high salaries of a few individuals.

The key for high salaries to be viewed as equitable, or just, is that they are deserved. As mentioned earlier, fewer people seem to begrudge the high salaries and enormous wealth of figures like Bill Gates, founder of Microsoft, or prominent sports figures like David Beckham in soccer, or Roger Federer in tennis. In these instances earnings are more likely, though not always, recognized as a result of the voluntary exchange process. Each of these individuals earns money by providing valuable goods and services to a large number of individuals and businesses around the world.

Big business is also heavily engaged in lobbying activities. Robert Reich, writing in American Prospect recently, went so far as to describe this process as political corruption. He writes,

> "If we define political corruption as actions causing the public to lose confidence that politicians make decisions in the public's interest rather than in the special interest of those who give them financial support, the biggest corruption of our political process is entirely legal. It comes in the form of campaign contributions that would not be made were it not for implicit quid pro quos by politicians, bestowing favors of one sort or another on the contributors."[20]

But what sort of favors does he mean? Reich continues,

> "The fights that actually preoccupy Congress day by day, which consume weeks or months of congressional staffers' time and which are often the most hotly contested by squadrons of Washington lobbyists and public-relations professionals, are typically contests between competing companies or competing sectors of an industry or, occasionally, competing industries. … Many of these battles (eg. over health care reform) continue but have moved into the regulatory process, where different companies, sectors, and industries are seeking rules that advantage them and disadvantage their competitors."

Reich is arguing that the business of government has become the provision of rules and regulations that favor some over others. In other words, he is describing a completely legal, but involuntary, transfer process promulgated by government. The winners are those who have more clout among legislators. Often they are the ones who can offer the most in campaign contributions, like big business. The losers are either the unfortunate competitors of the more influential companies, or the taxpayers who must provide funding for the subsidies that are provided, or consumers who pay higher prices due to the taxes or regulations applied. In titling his article "Everyday Corruption," Reich is indicating the unsavory nature of the political process, in which increasingly objectionable involuntary transfers are the name of the game.

The same process is playing out with respect to financial sector reform. Greed has been implicated as the source of the problem, but as we should now see, greed is just a smokescreen. Regulatory reform is imminent because there is a demand for something to be done and an expectation that government must both fix the current problems and implement changes that will avert a similar crisis in the future. Unfortunately, no one quite knows how to do that. Nonetheless, lack of

---

[20] Reich, Robert (2010), "Everyday Corruption," The American Prospect, June 21, 2010, (accessed online at http://www.prospect.org/cs/articles?article=everyday_corruption)

knowledge about what to do won't prevent changes from being made. That's because there are plenty of influential organizations standing in the wings with suggestions. And while all of these suggestions will be presented as being important for the national interest, more often than not, the changes will be particularly helpful to the proposing organization itself.

Or what are perhaps even more likely, good ideas for regulatory reform will be paired with other regulatory changes that serve particular corporate interests. This is one of the reasons so many pieces of legislation are thousands of pages long these days; to buy political support, good legislative changes must be appended with special favors to the more powerful interests. It is no wonder that, after decades of rule writing like this, our regulatory system is a twisted web that requires companies to hire huge teams of professionals and dedicated consultants simply to untangle.

So Is Greed the Problem with Capitalism?

Liberal Democrats and conservative Republicans ought to find these examples of involuntary transfers equally objectionable. However, confusion about the issue arises because of the focus on greed as the culprit. Critics of business and free markets see the greed satisfied through fraud and other involuntary transfers and then condemn all profit seeking activities. But what about the businesses that are making money and paying high salaries to it executives on the basis of the desirable goods and services it is selling to its customers? Doesn't greed inspire these activities as well? And if we could stamp out greed from our psyches wouldn't we also be eliminating a key element that makes the modern economy work? Of course the answer is yes to all of these and it is why supporters of free markets are quick to condemn the greed arguments made on the left.

One other apparent problem is that many of the companies making abundant profits are acquiring those profits by both selling desirable products on the market and by taking advantage of an involuntary transfer process as well. In other words, the two activities are often confounded within the same business. For example executives at Enron perpetrated an accounting scam that prevented shareholders from knowing that the company was sinking deeply into the red. At the same time the company continued to provide its valuable energy services to its customers. Thus although some portion of the riches made by Enron executives before its collapse were fraudulent, some other portion were presumably not. Similarly some companies that use their political clout to gain favorable regulatory treatment that effectively transfers money in their direction, are also producing and selling legitimate products in the marketplace at the same time. Their high salaries and profit in the company, no doubt inspired by greed, are partly due to acceptable voluntary transfers and partly due to objectionable involuntary transfers.

This confounding effect leads to other problems of interpretation. For example, high CEO salaries are often explained using marginal productivity theory;

in other words competition in the CEO market drives the prices for those positions to the levels observed. Under this interpretation, CEO salaries are the deserved share of production in a voluntary exchange market system and thus are acceptable. On the other hand, one could interpret high CEO salaries as the consequence of an exploitative involuntary transfer process, in which case they can be rightfully condemned. Since it is very difficult to measure which portion is attributable to which activity, different interpretations are possible. However, here the disagreement is not based on principle but rather on the interpretation of the data.

Thus, when Hollywood condemns the greediness of big business, they simultaneously condemn the legitimate voluntary exchange activities that are also a part of business and are also motivated by greed. The problem with the popular criticism of greed is that it throws the baby out with the bathwater.

Conclusion

Unfortunately, the right lessons about greed and capitalism are unlikely to be found either in modern Hollywood productions or in modern economic theory. In theory it may be best to revert to the old classics: read Smith's Wealth of Nations and Theory of Moral Sentiments; read Bastiat's The Law, and read Hayek's Road to Serfdom and read Henry George's Protection and Free Trade. In movies it is also best to revert to the classics.

By that I mean a movie from 1954 titled "Executive Suite" starring William Holden, Barbara Stanwyck and Frederic March. This story explores two separate approaches to business; the Frederic March approach is one based on reverence for the bottom line no matter what methods are used to achieve it, whereas the William Holden approach is based on hard work and innovation to produce superior products that the workers themselves can be proud of. The moral superiority of one over the other is obvious by the end of the movie. Clearly greed inspiring hard work, innovation and pride (voluntary exchange) wins out over greed inspiring fraud, blackmail and accounting tricks (involuntary transfers). In America today, we need to resurrect the Holden approach to business. We need to remember how aspiration, inspiration and greed, appropriately directed, can generate a workplace filled with well-treated, motivated, workers striving to produce a superior product for its customers. Indeed, Hollywood can show us a way out of the current economic crisis; only it is not today's Hollywood.