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# A Biblical Critique of Crony Capitalism

Bert G. Wheeler

*Cedarville University*, [wheelerb@cedarville.edu](mailto:wheelerb@cedarville.edu)

Jeffrey E. Haymond

*Cedarville University*, [jhaymond@cedarville.edu](mailto:jhaymond@cedarville.edu)

Jeffrey S. Guernsey

*Cedarville University*, [jguernsey@cedarville.edu](mailto:jguernsey@cedarville.edu)

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# A Biblical Critique of Crony Capitalism

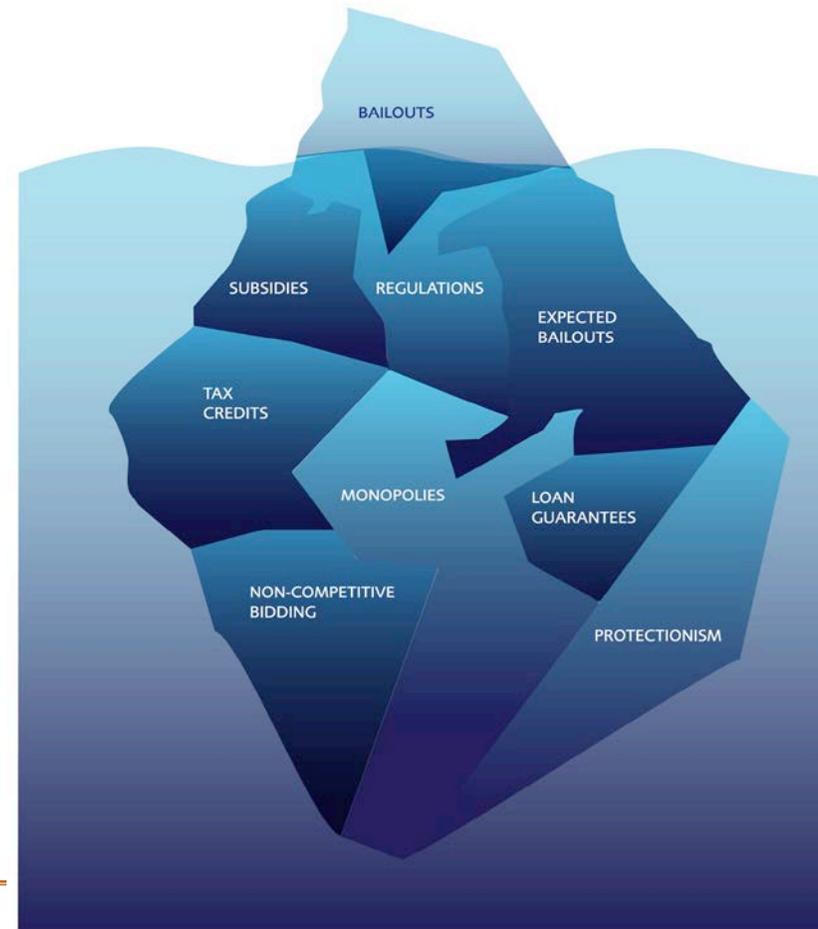
Jeffrey Haymond

Bert Wheeler

Moderator: Jeff Guernsey

# Crony Capitalism: Bailouts are just the Tip of the Iceberg

BEYOND BAILOUTS: WHAT IS CRONYISM?



# A Biblical Critique of Crony Capitalism

- What is Crony Capitalism?
- History/Evolution of Cronyism—From Mercantilism to Rent Seeking
- Biblical Principles & Application
- Discussion



# What is Crony Capitalism?

- Working Definition:

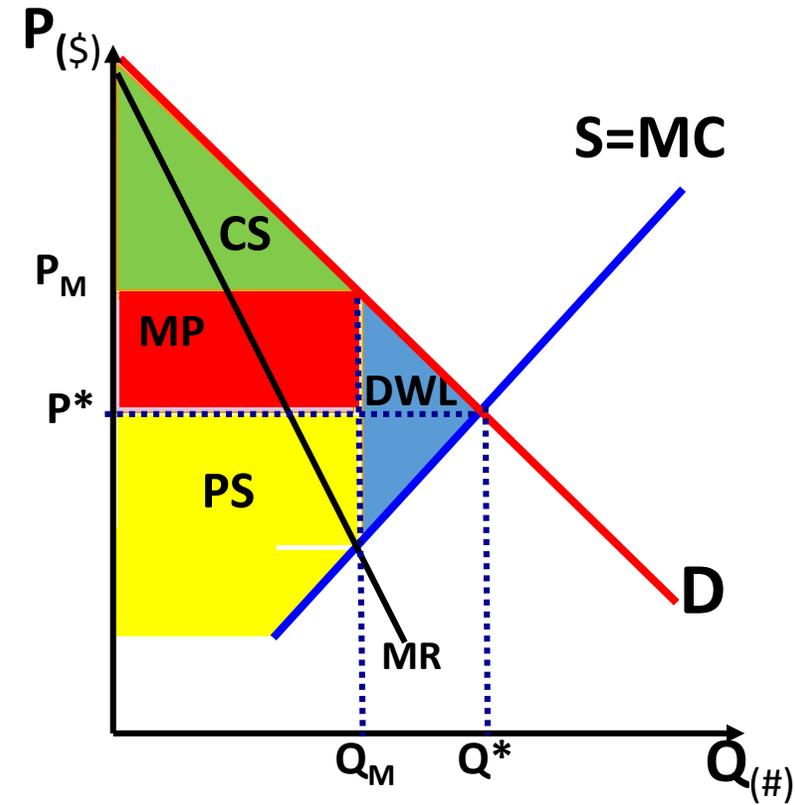
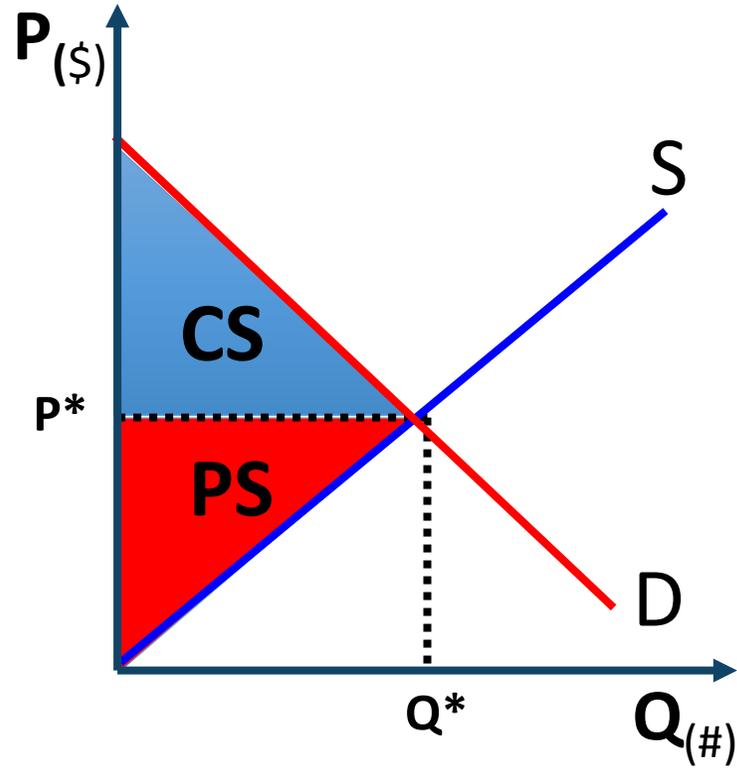
- The Symbiotic relationship between public officials and elite members of society, whereby politically-connected elites receive special favors in the market place, ostensibly on behalf of the greater good, which allow these elites to receive profits above that of the competitive rate
  - Crony Capitalism is zero-sum; transfer surplus from one group to another

- Alternative Definition

- Political Capitalism – an economic system defined by a symbiotic exchange relationship between government and business elites, whereby business elites' profitability and maintenance of status is enhanced by regulation, spending, and design of the tax system and government elites' position and status depends on funding by business elites. There is a level of control of business by government and a level of control of government by business through the development and design of institutions to maintain elite status of both government and business elite defining political capitalism as an economic system.



# The Lure of Crony Capitalism



# History of Cronyism: From Mercantilism to Rent Seeking

- Adam Smith:
  - “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”



# History of Cronyism: From Mercantilism to Rent Seeking

- Adam Smith:
  - **The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens.**



# History of Cronyism: From Mercantilism to Rent Seeking

- Royal prerogatives to raise revenue: Queen Elizabeth 1 & King James 1
  - Darcy v. Allen, 1603
  - Statute of Monopolies
  - Criticized as an infringement on a person's ability to work
- Mercantilism & the East India Trade
  - Boston Tea Party
- American founding and opposition to Monopoly
  - Jefferson vs. Madison vs. Hamilton
  - 14<sup>th</sup> Amendment broadly construed
- Progressive reaction to trusts
  - Concern over monopoly privilege transfers from the sovereign to private capital
- Modern Cronyism relies on rationale ignorance and special interest organization



# Biblical Principles & Application: Condemnation of Exploitation

- Politically & economically powerful are condemned for using position “at the gates” to further their own interests
  - Proverbs 22:22-23, “Do not rob the poor because he is poor, Or crush the afflicted at the gate; For the Lord will plead their case And take the life of those who rob them.”
  - Isaiah 1:23, “Your rulers are rebels and companions of thieves; Everyone loves a bribe and chases after rewards. They do not defend the orphan, Nor does the widow’s plea come before them.”
  - Isaiah 3:14-15, “The Lord enters into judgment with the elders and princes of His people, “It is you who have devoured the vineyard; The plunder of the poor is in your houses. What do you mean by crushing My people And grinding the face of the poor?” Declares the Lord God of hosts.”
  - Amos 5:12, “For I know your transgressions are many and your sins are great, You who distress the righteous and accept bribes And turn aside the poor in the gate.”



# Biblical Principles & Application: Love Your Neighbor as Yourself

- All equally created *Imago Dei* (Genesis 1:26-28)
  - Essentially one human family (Acts 17:26)
- 2<sup>nd</sup> greatest commandment flows from the first
  - Loving God enables us to Love others
  - To the extent we do not love our neighbor, we do not love God (1 John 4:20)
- Impartiality is required of the legal system (Lev 19:15)
  - “You shall do no injustice in judgment; you shall not be partial to the poor nor defer to the great, but you are to judge your neighbor fairly.”
  - Lev 19:15 inserted in the middle of a section on requirements of loving your neighbor!
    - “I am the Lord”
- How can we be sure we love others? Treat them impartially (at a minimum)!
  - God is impartial; calls us to be impartial (Romans 2:11, James 2:1)



# Biblical Principles & Application: Christian Anthropology

- The NT presents Jesus as the image of God in a unique sense (Col. 1:15, 2 Cor. 4:4); thus in Jesus we see God the Father revealed perfectly.
- If one becomes a Christian, the person's new self is described as being "... renewed in knowledge after the image of its creator" (Col. 3:10).
- Adam and Eve denied the image of God in themselves when they chose the fruit of the knowledge of the tree of good and evil (Gen. 3). By breaking fellowship with God the Father Adam and Eve forever altered the relationship they had with God the Father changing themselves, their capabilities and the capabilities of all humanity



# Biblical Principles & Application: Christian Anthropology

- In *A Conflict of Visions*, Thomas Sowell defines two identifiable concepts of human nature. People tend to have opinions that are on the political “right” (constrained) on diverse issues or on the political “left” (unconstrained) on the issues.
- Sowell’s taxonomy of human nature parallels Christian anthropology. The image of God in Man is consistent with an unconstrained vision of human nature. The limitations both imposed on man by God and intrinsic in the fall as the image of God was marred and tarnished reflects a constrained human nature.



# Biblical Principles & Application: Christian Anthropology

- The constrained vision of human nature is consistent with and leads to a free market perspective on social organization.
- The unconstrained vision on human nature leads to a more centralized social organization.
- Christian anthropology indicates that we should not allow a close symbiotic relationship between business elites and government officials.



# Biblical Principles & Application: Role of Government

- Scope of Government
  - Bearer of Sword, Romans 13 & 1 Peter 2
  - Principle of Subsidiarity, Sphere Sovereignty?
- Scale of Government
  - Limited, 1 Kings 21, Deut 17
  - Warnings of Government Growth: 1 Sam 8
    - Not growth *per se*, but rather growth that serves to elevate/enrich the king
    - Transfers of wealth from the politically powerless to the politically powerful



# Conclusion

- Crony Capitalism is not new; it flows out of the fallen nature of man that seeks gain without service
  - Uses the tool of political power against the politically less powerful
- Crony Capitalism violates Biblical condemnations against exploitation and positive commandments to love others
- “Crony Capitalism is statism’s co-dependent wife” Arthur Brooks
  - Limiting government to explicitly biblical functions seems best way to minimize cronyism
  - Effectively remove the Tullock Rectangle



# Discussion

1. Given that one person's "crony capitalism" is another person's much needed public policy, how do we distinguish between the two?
2. Since regulation can be used to restrict competition, enabling crony capitalism, is there a role for government in regulation at all? Are there any principles that can be applied to test whether a given regulatory approach is consistent with a biblical worldview?
3. Since the spirit of crony capitalism has been with us throughout the ages and flows from the wickedness of our hearts, what is the best approach to minimize it?
4. How should business professors address the justice of market institutions?

