Reflections on the Ethics of Investment
with Particular Reference to TIAA-CREF
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I have found it necessary to reflect upon the ethics of investment with particular reference to TIAA-CREF. The moral foundation for my concern comes from my understanding of the tradition of Catholic social thought. I take as normative the following passage from Centesimus Annus, paragraph 36 (emphasis as per original):

It is not wrong to want to live better; what is wrong is a style of life which is presumed to be better when it is directed towards "having" rather than "being," and which wants to have more, not in order to be more but in order to spend life in enjoyment as an end in itself. It is therefore necessary to create life-styles in which the quest for truth, beauty, goodness, and communion with others for the sake of common growth are the factors which determine consumer choices, savings, and investments. In this regard, it is not a matter of the duty of charity alone, that is, the duty to give from one's "abundance," and sometimes even out of one's needs, in order to provide what is essential for the life of a poor person. I am referring to the fact that even the decision to invest in one place rather than another, in one productive sector rather than another, is always a moral and cultural choice.

When I initially read this paragraph, I was struck by what I took to be the Holy Father's call for Catholics to give serious consideration to the moral and cultural consequences of investment. In the years since then, I have tried to discern the implications of this call for my own financial situation. Through conversations with several colleagues, I have begun to assemble a set of general principles that seem to me ought to govern such matters. What follows is a sketch of these principles. I do not pretend that this is a scholarly discussion. On the other hand, such matters are of everyday concern and cannot be left to specialists. My concern is to articulate a set of principles by which I can live in good conscience. Beyond this, I would be pleased to...
contribute to the beginnings of a more extensive inquiry into the ethics of investment by the Society of Catholic Social Scientists.

_Why Consider the Morals of Investment At All?_

Among those with whom I have spoken about the ethics of investment, the most common initial point of view is that it is not necessary to worry overmuch about these things. Let me make this more precise. Most Catholics today recognize that the majority of American joint-stock corporations engage in one activity or another that conflicts with the Catholic faith. Many will therefore boycott certain corporations, Disney being an obvious example. But then some will take the confused position that while a boycott of products may be advisable, divestment might not be. How is this position reached? There seem to be two ways. The first is that the typical investor today would not think of investing in anything other than mutual funds, which shield investors from the ethical issues because they hold from several dozen to several thousand discrete investments. The second reason requires a bit of teasing out, but is of foundational importance. It stems from a failure accurately to consider the essence of the transaction involved in investment. The Catholic holding this position states that involvement in the modern economy comes with a great number of irreducible moral problems, that the conscientious Catholic should be sure his intentions are good ones, but that he should not be concerned with these larger realities he cannot change. So, if a pension plan dictates investment in TIAA-CREF and the individual cannot change this, he simply goes along with what will best provide for the future well-being of his family, intending this good and accepting as a foreseeable but unavoidable consequence that some evil may result. I think this is an inappropriate invocation of the principle of double effect stemming from a failure to consider the formal nature of an investment. When one buys a bar of soap, one intends to wash oneself, and the corporation's use of a portion of the profit to support Planned Parenthood is, from the point of view of the consumer, unintended and unavoidable. But when one invests, one purchases stock in a corporation. This means that one is, ontologically and legally, an owner of the corporation. When one owns stock in a corporation, it seems to me, one is in a real sense responsible for the policies of that corporation: not because one holder of a thousand shares can in fact change those policies, but because that shareholder, like it or not,
that are the object of genuine human needs and those superfluous or luxury goods that fulfill mere desires. It seems evident that resources should be allocated primarily to the former. Moreover, it also seems evident that superfluities and luxury goods are often productive of the vices of intemperance and concupiscence. Corporations that provide these kinds of superfluities would not be appropriate investments for Catholics. We need not employ a misguided puritanism here. Common sense suffices to guide us.

Thus, national brewing companies such as Coors or Anheuser-Busch, which pander to vice in advertisement and derive a large portion of their profits from alcoholics, are not appropriate investments. A local brewing company, however, such as the Old Dominion Brewery, would not fall under the same proscription. Unfortunately, many such local businesses are not joint stock corporations. Gallo wine falls under the same prohibition, for it derives a significant percentage of its profits from Thunderbird, a product designed for the sole purpose of inebriation.

For the same reasons, one should avoid investments in various entertainment corporations, Playboy and casinos being two obvious examples; one might also include Blockbuster Corporation. Based on this principle, some avoid investment in corporations that make profits from cigarettes and firearms. This is the practice of the evangelical-run *Timothy Fund*. Others might extend this principle to avoid investment in fast food chains, on the grounds that their foods are unhealthy and that they cater to a desire for oily and sugary food that breeds vicious eating habits.

Finally, it is obvious that Catholics are bound to avoid investment in corporations that produce birth control and abortifacient drugs.

2. *Capital should be employed to serve the good of the corporation, which is not limited to the profits of the shareholders, but includes the good of the workers.* I have two overriding concerns under this heading. The first is the proliferation of slave labor in the third world, especially in textile, home furnishing, and toy industries. There is simply too much testimony about women, children, and men working in slave-like conditions in China, Pakistan, India, and elsewhere in the Far East for this to be ignored. Why do Chinese products cost so much less than comparable American or European ones? The answer is not simply the lower quality. There are a great many corporations whose central business practices are deeply involved in this kind of activity, Nike being only the most famous.

The second concern is plant closings in North America. Many corporations are guilty of this sort of activity: most in fact pride themselves on it as a variety of corporate downsizing. The negative impact on the life of the worker is difficult to imagine, so great is it. Beyond these concerns are the perennial problems of the laboring class. I realize that there are macroeconomic issues involved here. However, I do not think these put the management policies of major corporations above scrutiny.
3. **Capital should avoid profits from usury.** The Church’s prohibition on taking interest on loans has been relaxed over the centuries but never dismissed. In fact, the relaxation is really an allowance not for interest as such, but for other fees related to what might be called the transaction costs incurred by the lender. These fees are justified by the risk of loss, the loss of productivity, and, as some Catholics have argued in our inflationary age of central banks, a hedge against inevitable inflation. Certainly this is a complicated topic. Nevertheless, we ought all to be able to agree that the common practice of charging 18% interest by banks and other lenders is far in excess of what traditional Catholic thinking about money can allow to be licit.

Even if one were to balk at this reasoning, there remain the ominous social consequences of usury. First, the high debt rate and high rate of interest contribute to the several causes prompting many American families to have both parents working outside the home—surely not a condition Catholics want to support. Second, the growth of personal bankruptcy and even suicide from debt should not be overlooked. Third, the tactics of credit-offering companies to entice consumers to accept usurious loans are, as we all know, very powerful. Who has not received in recent months one of those tantalizing offers: sign here for a $7,500 loan, pre-approved? The encouragement of vice and indebtedness in this way is itself a social evil. Finally, surely it is a vice to entice consumers to purchase superfluous goods on credit, knowing that one’s profit will be derived not primarily from the good itself, but rather from the interest charged upon it.

This matter should bar Catholics from a wide variety of investments. Take for example department stores and, a classic offender, Circuit City. Then there are the banks themselves, most of which are involved in credit card businesses. There are also major corporations deeply involved in such practices. In this regard, I recently learned from the *Washington Post* Business Section about the great successes of GE Capital over the past two decades. Thanks to the tremendous credit rating of GE, America’s largest corporation, GE Capital, a wholly-owned subsidiary, receives massive loans at the most advantageous rates from banks. In turn, GE Capital loans the money back out at higher interest rates through mortgages, personal loans, and, especially credit cards. GE Capital is so successful that it now accounts for 40% of the profits of GE as a whole. So, GE makes almost as much profit from usury as from lightbulbs: how many other corporations are in a similar position?

4. **Capital should avoid contributing to cultural decline and anti-Christian propaganda.** Catholics who invest in Disney, the *Washington Post*, Time-Warner, or the *New York Times* are making profits off anti-Christian propaganda. The immorality of this seems clear.

A more complicated issue is investment in corporations whose non-
essential activities are immoral. Many have argued (and I believe) that Catholics should avoid investing in corporations that regularly make large donations to Planned Parenthood and other pro-abortion and pro-contraception organizations. This will rule out a sizable number of corporations. Lists of such corporations are readily available from pro-life groups.

Also there are corporations that are on the forefront of cultural radicalism in their labor policies, making big news out of benefits for homosexual partners: Levis and Apple computers come to mind. I think IBM and UPS recently entered this category as well.

5. Capital should avoid environmental degradation. There is no need for environmental puritanism here. We need simply follow the Holy Father's words in Centesimus Annus (paragraph 37). I am reasonably convinced that U.S. and Western European environmental regulation is sufficient. But it seems clear that there are international corporations that derive a significant amount of their profit from the exploitation of insufficient regulation in third-world countries. I think the trajectory of papal teaching on how the first world should relate to the third makes it clear Catholics should be worried about this.

**TIAA-CREF as a Mutual Fund**

Turning to TIAA-CREF, I would first note that a cursory examination of the investments held by the CREF stock funds (especially the major one, but also the so-called social choice fund) reveals a vast number of discrete investments that fail to pass the criteria discussed above. I would place the number of objectionable investments of the major CREF stock fund conservatively at around 50%. What to do about this situation?

The first issue has to do with certain intrinsically evil acts that have been criticized most pointedly by the Magisterium. If it is an intrinsically evil act to own part of a corporation that produces birth control devices (many of which are abortifacient), then if such an investment were but .001% of the close to $100 billion held by CREF, it would be illicit to hold CREF stock. Each of the TIAA-CREF funds invests in Johnson & Johnson, the world's leading producer of abortifacient birth control. This is enough to convince me to avoid an investment in TIAA-CREF.

The next question would be whether it is licit for a Christian investor to accept as an unpleasant but somehow necessary reality a certain percentage of morally-objectionable corporations within a mutual fund. It seems to me that this is a morally dangerous argument. I can conceive of no possible criteria for legitimating one threshold or another, that is, 5% versus 50%.

There are further problems associated with the size of the CREF stock fund. At just over $100 billion, it is the largest pension plan or mutual fund in the entire country. It is substantially larger than either of the principal Vanguard or Fidelity investment funds. As a result, with those two funds and
some others, CREF is in a position to exercise its size to effect the market in two different ways.

First, when CREF makes a major investment decision (to shift money from one industry to another or to dump shares in a corporation) the rest of the institutional players in the market take notice. The possibilities for CREF to capitalize on this sort of effect are certainly real. Just recently there has been a fair amount of concern about how Fidelity's Magellan Fund has been managed in this regard. What is at stake here are profits made by the investor that are not truly derived from the profits made by the individual corporations. This kind of speculative gain can in part be morally justifiable. But I do think the way in which TIAA-CREF pursues these gains is dubious.

Second, CREF can influence management practices of corporations in which they hold great quantities of stock. The key issue here is plant closings. When plants are closed, paradoxically, stock prices go up: investors seem to think corporate retrenching is a very good thing. So if CREF wants its annual return to be bumped up several notches, it need only call a few of its principal holdings and put on the muscle for some plant closings, which then follow in rapid succession. Perhaps now we have lived through the era of massive plant closings—it was I suppose primarily a phenomenon of the late 80s and early 90s. Still, I am concerned about this sort of thing—which, by the way, TIAA-CREF boasted about in one of its recent annual reports, I think in 1995, saying something like “Our large position in many investments allows us to push for favorable management practices.” Favorable to whom? Not the worker. And the key here, it seems to me, is a point independent of macroeconomic trends: it has to do with the management of TIAA-CREF as investment cooperative.

The incredible performance of the CREF stock fund has not been innocent. The CREF fund is so large that it seems to encompass, and even to exacerbate, most of the problems of corporate life in America today. I consider myself in conscience bound to insure that my retirement income not come from such a tainted source.

It seems to me that the ethical alternative is either to find a mutual or pension fund that practices proper investment practices or to invest in particular corporations through an individually-managed IRA.