

The financial crisis and the roots of conscience

by Michael Smith reporting from London, UK

The Moral and Ethical Issues Behind the Financial Crisis

Never has a financial crisis had such a potential to affect so many people so quickly. As stock markets have fallen like dominoes around the world, the crisis has had the potential to affect every one of us. As governments pour billions of dollars, deutschmarks, pounds, euros and other currencies into supporting ailing banks, at taxpayers' expense, public sector borrowing rises. Taxes will also rise, without which there will be diminished resources to invest in hospitals, schools, public infrastructure, development aid, environmental and energy saving projects.

And never has a financial crisis focussed so starkly on fundamental moral and ethical issues: the words banded about by economic commentators include gambling and greed, dishonesty and fear, panic replacing confidence, risk versus prudence, and even 'faith' and trust, or lack of them. As Anatole Kaletsky comments in *The Times*, London: 'Banking is always based on faith, because no bank ever has enough ready money to repay all its deposits and debts—and the public's confidence in any nation's banks depends ultimately on faith that the Government will stand behind them.' Which is what Western governments have had to do.

'We Have Run Out of Confidence'

Writing in the same paper, Simon Barnes says: 'It is not that we've run out of money. Rather, we've run out of confidence.' He calls for a new leadership: 'In any crisis of faith you need a great leader, a person who will cause all around to suspend their disbelief, to regain that elusive yet unmistakable thing called confidence.' What happens in the US presidential election in November has, therefore, a great potential to affect market confidence.

Evaporation of Trust

And never have the values of trust and integrity been more needed in the global economy. The US banks that invested in the sub-prime mortgage market did so knowing that those on whom they pressed such predatory loans were not credit-worthy and would have no way of meeting the interest, let alone the premium, on their loans. It was a house of cards waiting to collapse. As one commentator wrote in *The Sunday Times*, as long ago as last March, 'The sub-prime crisis has arisen because the restraints on prudent behaviour broke down.... Some of the trades being made have been simply lunatic, with no conceivable rationale other than to ramp up the risk to create the chance of making a killing now.' As soon as one US bank defaulted, other banks froze their intra-bank lending and liquidity in the markets seized up. There was an evaporation of trust between banks in their lending to one another. Where was the regulation? And where were the banks' auditors in the first place?

Bonanza To Bust

In the UK, thanks to deregulation in the financial markets, building societies (mortgage loan companies) converted to banks and became driven by the profit motive rather than by prudence. One bank, the Bradford and Bingley (based in the city of my birth), invested heavily in the properties-to-let market through what became known as 'liar loans'. Individual borrowers could exaggerate their earnings, no questions asked, and needed no proof of their creditworthiness or collateral. It was fundamentally dishonest and the bank's bonanza has turned to bust.

It may all be healthy in the long run. For the financial crisis is a chance to re-examine fundamental motives. Of course we all want our finances, including our pensions, to be in safe havens. We try to find the best returns on our assets. We move money around.

Just A Little More?

But those who are driven solely by the profit motive and 'the love of money', described Biblically as 'the root of all evil', are now discovering that security placed in material wealth is an illusion. A curious weakness of human nature says that the more we have the more we seem to want that little bit more. When Rockefeller was asked 'How much is enough?' he is said to have replied, 'Just a little more'. Yet the roots of security and satisfaction lie elsewhere, not in megabucks. As the CEO of a big US medical company once told me, 'After all you can only sail one yacht at a time.'

Capitalism and Conscience

So do the excesses of free-market capitalism call into question the capitalist system itself? And what regulates excessive behaviour? It is worth remembering that Adam Smith, the father of free enterprise, was also a professor of moral philosophy. Long before he published the *Wealth of Nations* he wrote *The Theory of Moral Sentiments*. He referred to 'the Impartial Spectator' inside each person which acted like 'a demi-god within the breast'. It was 'there to speak for itself and for others'. And 'in the race for wealth, if injustice is done, the Impartial Spectator changes sides'. In other words, greed and the profit motive could not be condoned if they led to injustice. There were fundamental moral principles at stake. Moreover, Adam Smith described the 'man within us'—in today's language the conscience—as 'the Vice-Regent of the Deity' and we needed to 'co-operate with the Deity and advance, as far as in our power, the plan of Providence'.

So the capitalist system, in Smith's view, could not be separated from notions of conscience and even a divine providence, a guiding hand. Without conscience, it seems that capitalism inevitably leads to a corruption of common humanity. Or as Gandhi is reputed to have said, 'There is enough in the world for everyone's need—but not for everyone's greed.'

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