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Ricardo F. Crespo [a] & Irene van Staveren [b]

[a] IAE (Universidad Austral) and CONICET, Mariano Acosta s/n y Ruta 8, Pilar, B1629WWA, Argentina

[b] International Institute of Social Studies of Erasmus University Rotterdam, P.O. Box 29776, 2502 LT, The Hague, The Netherlands

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Would we have had this crisis if women had been running the financial sector?

Ricardo F. Crespo[1]* and Irene van Staveren[2]
[1]IAE (Universidad Austral) and CONICET, Mariano Acosta s/n y Ruta 8, Pilar, B1629WWA, Argentina
[2]International Institute of Social Studies of Erasmus University Rotterdam, P.O. Box 29776, 2502 LT The Hague, The Netherlands

The two main ethical approaches, utilitarianism and deontology, have not been able to prevent some of the behaviours underlying the financial crisis. A third ethics, the ethics of care, might have been more effective than the other two in preventing the last financial crisis. The ethics of care is a feminist ethical theory concerned with relationships. It can be applied to a wide variety of relationships and has been tested in experimental settings, suggesting that women tend to behave more in ways that can be understood in terms of relationships, whereas men tend to behave more in terms of rules. Using these ethical theories, we analyse the crisis pointing at what are its causal behavioural attitudes and institutions.

Keywords: deontology; ethics and economics; ethics of care; financial crisis; utilitarianism; women

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1. Introduction

The purpose of the article is to unveil the ethical dimensions of the financial crisis. We will do so by taking an economic–ethical approach in which we make explicit the ethical dimensions of the crisis and analyse these with the help of theories of ethics, in particular the ethics of care (Held, 2006; Peil and van Staveren, 2009). The ethics of care is a feminist ethical theory concerned with relationships which can be applied to a wide variety of relationships, including market relationships. The theory of care has been tested in some experimental settings, suggesting that women, on average, tend to behave more in ways that can be understood in terms of relationships, whereas men, on average, tend to behave more in ways that can be characterized in terms of rules. Using this theory, we will analyse the financial crisis, pointing out what are causal behavioural attitudes and institutions. However, in this article, we will not provide empirical data: the aim is only to analyse the crisis from three ethical theories, showing how the ethics of care may have been more effective than the other considered ethical approaches in preventing the crisis. Empirical results will be presented in further papers. In the next section, we will describe the crisis showing its ethical connections. Then, the following two sections will briefly analyse the crisis from the point of view of utilitarianism and deontology. The next section will deal with the ethics of care and link that to financial behaviour. Finally, we will conclude.

2. The ethical dimensions of the financial crisis

The meaning of the term 'crisis' in the economic literature is not without ambiguity. As a general feature, macroeconomic crises are events marked by 'broken promises' that shatter the expectations that many agents had entertained about their economic prospects and wealth positions. The large change in the economic (and possibly also social and political) environment naturally leads to reappraisals of the views of the world upon which agents had based their expectations, plans and decisions, and to a reconsideration of theories and models on the part of analysts. Crises are 'memorable' events with potentially long-lasting consequences on attitudes and beliefs. They require a reinterpretation of past experiences and a re-statement of propositions concerning the way in which the relevant systems are assumed to work.

Concern for the study and understanding of crises is actually older than macroeconomics as an established discipline and has operated historically as a strong motivation to investigate in the field. Modern macroeconomic theory, on its side, has become increasingly committed to a set of analytical and procedural presumptions, which lead one to looking at representations of macroeconomic behaviour as the result of well-coordinated (except for some noise, which acts as an additional

*Corresponding author: *E-mail*: rcrespo@iae.edu.ar

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constraint) optimal decisions of agents, equipped with rational expectations, that is, with a knowledge of the probability distributions relevant for their plans. These research criteria, sometimes elevated to the rank of methodological prescriptions, can be seen as the outcome of past debates on the theory of macroeconomic fluctuations and inflation, which generated dissatisfaction with earlier theories. At the same time, their application to the study of crises, as if they could claim a universal range of validity, has been subject to paradoxes and problems in the interpretation of salient facts, which seem to call for new searches. The crisis has been the acid proof leading one to discard, or at least critically reconsider, these theories. If the expectations were rational, we would not have had a crisis. As Krugman (2009) has maintained, 'when it comes to the all-too-human problem of recessions and depressions, economists need to abandon the neat but wrong solution of assuming that everyone is rational and markets work perfectly'.[1] Then, the analysts begin to discern other kinds of reasons embedded in the process:

1. An excessive liberalization of the banking rules and the financial sector regulation (lower capital requirements, no limits to joint ventures and mergers and acquisitions leading to banks with extremely large assets on their balance sheets) facilitate irresponsible loans, mortgages and investments. As Schneider and Kirchgässner (2009, p.1) maintain, 'the subprime crisis resulted from the tendency of financial normalization and innovation to run ahead of financial regulation'.[2]
2. The Central Banks' controls fail, partly due to lack of knowledge of new financial products (securities), partly due to limited international cooperation and partly due to too close connections with banks (see Schneider and Kirchgässner, 2009, p.2).
3. The provision of wrong incentives through disproportionately high bonuses to bankers, traders and managers of the financial sector based on short-run profits, ignoring high-risk and long-run viability of financial institutions, clients and whole economies, as well as through golden handshakes even in case of bad performance (see Narayan et al., 2008; Hart and Zingales, 2009).
4. The moral hazard role of the government which tends to save big banks and firms because they are too big to let them fall: bankers and entrepreneurs know this and therefore take excessive risks.
5. Technical problems such as difficulties in understanding the technicalities of mortgages operations or systems of financial evaluations.[3]
6. A tendency to hide risky positions in the accounting proceedings. This, for example, was the case for Lehman Brothers, which was factually bankrupt half a year before its fall, thanks to accounting tricks.
7. Failing rating agencies that provided too rosy assessments of banks.
8. A monetary and fiscal policy that fosters consumerism through low interest rates and taxes (see Schneider and Kirchgässner, 2009, p.2). For some analysts, the monetary excess is the main cause of the crisis (see, e.g., Taylor, 2008; O'Driscoll, 2009).
9. Finally, some scholars assign a crucial cause of the crisis to a reason pertaining to a 'meta-level': 'the systemic failure of the economics profession' (see Colander et al., 2009). They maintain that economists may have contributed to the crisis 'with risk and derivatives models that, through spurious precision and untested theoretical assumptions, encouraged policy makers and market participants to see more stability and risk sharing than was actually present' (p.249). Economic models tend to ignore the systemic risk factors for the sake of simplicity. However, in this way they are misleading and produce a *control illusion*. In fact, the mortgage-backed securities that brought down the banks were (illusionary) very well rated.

The above summary list entails reasons that are beyond narrow economic rationality: among them we can find psychological, sociological and moral reasons. According to Max Weber's Classical Classification ([1922] 1978, pp.24–25), we can distinguish four types of rationalities guiding social actions: instrumental, value–rational, affective and traditional. Instrumentally rational action is the action aiming at allocating means for the attainment of the actor's ends. When this allocation is the best possible, we have a specific kind of it: maximizing instrumental rationality. Value–rational actions are determined by conscious beliefs in the intrinsic value of some behaviour: they follow moral criteria. Affective actions are the actions guided by the actor's affects and feelings, that is, psychological springs. Traditional actions are determined by ingrained habituation, by mainly sociological reasons. Economic rationality is an instrumental maximizing rationality. However, Weber argued that, although one specific form of rationality might prevail in a specific action, rather all human actions are oriented by various types of rationality. This is thus the case of economic actions and instrumental maximizing rationality: this rationality prevails in economic events, but it often goes jointly with other forms of rationality. As all social phenomena, economic phenomena are complex and we may analyse them from all four Weber's perspectives of rationality: instrumental, moral, psychological and sociological.

We can detect the presence of these rationalities in phenomena by the ordinary discourse used to describe them. Descriptions are rarely pure descriptions. They frequently bear connotations going beyond mere description. We can find some of these connotations in the list above.[4] Although we are not able to evaluate the exact impact of the moral aspects of the crisis, it seems that various moral terms are intertwined in the list.

In effect, the list includes terms with moral resonances. For example, 'to hide risky situations', 'excessive liberalization', 'extremely high bonuses', 'irresponsible loans', 'failing control', 'wrong incentives', 'moral hazard', 'too rosy assessments' and 'consumerism' add qualifications to the economic facts including but also going beyond economic analysis. It was remarked that during the crisis, we had cases of fraud or greed;[5] but most often, we had laziness, a tendency to close the eyes when performing risky actions and to irresponsibly go on without reflection when something wrong was hinted. This refers to what we have labelled as 'broken promises' at the beginning of this section. It is clear that in this crisis there was much mediocrity, work badly done, disregard for others and complicity with egoist or short-run pragmatic concerns. There is also laziness and irresponsibility in economists resigning themselves to over-simplified models. Moral decline influences people's psychology: when the crisis was triggered, partially due to inadequate ethical conduct, people lost trust in the economic sector's modes of operating and its financial systems.

Economic rationality only considers the best way of achieving preferences, regardless of their specific content and whether harm to others may be done without backfiring. The characteristics of the conducts assessed above – for example that are hiding, that the liberalization is excessive, that the bonuses are extremely high, the loans irresponsible, the incentives wrong, that we are falling in consumerism or that we are lazy, egoistic or pragmatic – are preferences or individual maximizing strategies that have become largely irrelevant to economic analysis. However, as John Stuart Mill (1874, p.97) has highlighted, although the highly abstract character of political economy helps one to understand economic affairs, given that life is complex, it often has little empirical relevance. Mill actually maintains that we have to consider other motives if we want to know the motives of real-world facts. In fact, as Andrei Sheleifer (2004) shows, not always economic rationality and ethics go together. The inevitably thick descriptions of the facts of the crisis indicate that we have to consider the ethical dimensions in our economic understanding of what happened and why it could have gone so wrong. As John Roemer (2009, p.1) claims, 'changing the social ethos is the key'.

The moral aspects lead us to the next three sections in which we will analyse the crisis from various ethical perspectives. Given that there are various different ethical theories, this analysis will pay attention to the corresponding different ethical approaches to the crisis. Our question is: could the actions leading to the crisis have been prevented by the principles of each ethical theory, or would they be fostered by them? We will try to answer these questions from the point of view of three ethical theories: utilitarianism, deontology and the ethics of care. It is important to note that as the space available to discuss the three types of ethics is limited, we cannot do justice to the many varieties and interpretations of each ethical perspective. Nevertheless, we will try to discuss in a somewhat balanced way the main features of each perspective, and for the first two ethical approaches, utilitarianism and deontology, the main ways in which they have been taken up, implicitly or explicitly, in economics.

3. Utilitarianism and the crisis

The ethics on which the financial sector and policies of financial liberalization have been built is the same one that underlies neoclassical economics, namely, utilitarianism. In utilitarianism, the end and moral good is utility, or also referred to as happiness, well-being, or more descriptively, as preference satisfaction. Thus, as explained by the founder of utilitarianism, Jeremy Bentham ([1970] 1789), an action is considered morally just if and only if no alternative action generates greater happiness for those involved. It is therefore a consequentialist ethics: the good is evaluated in terms of consequences, whether it is measured at the individual level, through utility maximization by individual agents and firms, or at the aggregate level, through measures such as GDP or surveys of people's subjective levels of happiness. In the aggregate, utilitarianism considers everyone's utility as equal; hence, it applies the impartiality criterion. The content of the good, however, remains hidden in the black box of preferences when individual agents are concerned, while it is every (legally allowed) strategy that maximizes profits when it concerns firms (Graafland, 2009). Thus, at the individual level, utilitarianism is a subjective and individualist ethics, which allows for preferences that may do good or bad to others, to society or the environment, and even to the individual's long-run objective well-being, as is, for example, the case with altruism or, alternatively, addictions (van Staveren, 2001). At the level of firms, utilitarianism is an ethics driven by markets: it is the competition on unregulated markets that dictates firms' strategies for profit maximization, through innovation, cost reduction, economies of scale and related strategies, often selected through cost–benefit analysis. Hence, the ethics of utilitarianism is subjective and may involve rules, as in rule-utilitarianism (Broome, 1991). These may include behavioural rules in finance, which, when the same rule is followed by more agents at the same time, may result in self-fulfilling prophecies driving financial values quickly in the same direction without much correction by the market. Apart from such rules, in economics, preferences are generally assumed to be given and utility maximization is then generally utility maximization of given preferences, which implies the following of an algorithm in a competitive environment.[6]

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The length of the time period over which utility is maximized depends on the individual's or society's time horizon and discount rates. Long-term consequences may or may not have an important weight through the preference ordering or discount rate for calculating costs and benefits when comparing alternative courses of actions. Following a long tradition that probably started with Hume, preferences are supposed to be a matter of feelings, not of reason, and hence, they are subjective (David Hume, [1739–1740] 1968, pp.415–416 – II, iii, 3). For this tradition, reason only comes in instrumentally, namely in the means–preferences matching process, not in the decision making about specific preferences, which are generally considered to be exogenous. It is important to note that utilitarianism is not necessarily self-centered: interests of others can be taken into account, as enlightened self-interest, when this is necessary to maximize one's own utility. Or one can derive utility from increasing someone else's happiness, in order to get a warm glow, for example. But in both cases, utility maximization remains selfish in the sense of individual happiness orientation: what matters in the end is one's own utility, for which someone else's utility may or may not matter. In economics, this has been introduced in neoclassical economics by Jevons and Edgeworth as 'hedonistic egoism', leading to the assumption of perfectly self-interested individuals who aim to maximize their individual utility in exchange (Guidi, 2009).

Utilitarianism, as an ethical foundation of economic theory, has been criticized in several ways, of which we will mention two. First, its consequentialism, which fails to consider the intentions of agents or self-chosen and continuously deliberated ends to pursue. Second, the welfarism implied, evaluating actions only in terms of welfare outcomes and not in other terms such as the agency involved or intrinsic values or social norms or personal relationships (Sen, 1987; van Staveren, 2001). Under the system of a capitalist market driven by shareholder value, and with volatile, unpredictable financial markets, utility maximization's time horizon is reduced to the short run. In such a market, agents and firms can no longer maximize a lifetime utility function but apply bounded rationality to a long series of short-run utility maximizations. This is so because preference satisfaction is only granted in the short run, that is, a series of short runs such as quarters or at most a year, in which financial results are produced, announced and transferred into rewards that satisfy shareholder value. The underlying utilitarian ethics of economic rationality, hence, is also limited to short-term rewards: the good of capitalist markets is expressed by the rewards accumulated over a series of short-run maximization periods, whereas the bads are reflected by the losses incurred, including negative externalities when unregulated markets appear to fail. This necessarily reduces long-run consequences in the serial individual utility maximization routines.

If we would evaluate the financial crisis according to such bounded rational, serial short-run, and rule-utilitarian ethics, we find that individuals and firms who gained in various short-run periods, either because they directly maximized their preferences or they followed rules that helped them to maximize these, did the right thing so to say. However, the crisis brought only a few winners and many losers: those who did not maximize their utility. That may be either through irrational behaviour: not maximizing one's preferences even though the constraints would have allowed for a higher level of preference satisfaction. Or because preference satisfaction and rule-following did not result in utility maximization, due to unforeseen events, even though the behaviour was in line with cost–benefit analysis outcomes based on available information of credit rating agencies, interest rates, financial product diversification, etc. The testimonials in front of parliamentarians and committees of experts have shown that some irrational behaviour was going on, such as households buying mortgages they could not afford in the long run, and too much risk taken by some bankers, much of the financial behaviour can be considered rational in terms of utilitarianism, and hence, of neoclassical economics, because with the given information agents did follow rational rules and were maximizing their preferences. The financial crisis period, however, more often undermined utility maximization, both at the individual level and in the aggregate. This is partly related to the unforeseen dynamics described in the previous section, expressed through the interaction of all individual (rule-) utility maximizing behaviour. This has led to many losers in the crisis period of utility maximization, at least in the period 2008–2010, across the various actors in financial markets:

- Banks that went bankrupt.
- Consumers who took unaffordable mortgages or who had savings deposits in banks that went bankrupt.
- Employees in the financial sector who lost their jobs.
- Employees in other economic sectors who lost their jobs due to the demand squeeze.
- Taxpayers who financed bailouts.
- Investors, both firms and individuals, who lost asset value.
- Pensioners depending on returns from asset investments.

Next to this, there is a category of organizations and individuals who are less affected by the crisis, simply because they did not participate in the game, or who were in finance but chose not to play the same game:

- Cooperative banks, which follow a client-value approach rather than a shareholder value strategy (Groeneveld and de Vries, 2009; Vogelaar, 2009).

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- Employees in the public sector such as education and health care whose jobs and wages have not (yet), or only marginally, been affected by the crisis and crisis policies.

Although a utilitarian analysis of the crisis requires a much more in-depth analysis, a preliminary conclusion may be that the particular utilitarian ethics that operated in financial markets did not seem to have been able to signal that things were going wrong. Somehow, there were some ethical dimensions missing in the consequentialism, welfarism and utilitarian rules, underlying the sequence of short-term utility maximizations by many agents in the financial sector. This takes us to a brief consideration of an entirely different type of ethics.

4. Deontology and the crisis

Deontology is often positioned as an ethical approach that is opposite to utilitarianism. It is an ethics of rights and duties that reflect the good, which is located in non-consequentialist principles rather than in outcomes. The rights and duties are generally concerned with human dignity and tend to be expressed, explicitly or implicitly, through behavioural rules. Kant has formulated such a rule as the Categorical Imperative, stating that one should act according to that maxim whereby you can at the same time will that it should become a universal law. The central role of dignity was also emphasized by Kant and lends to deontology, like it is the case with utilitarianism, an impartial perspective, with equal respect for everyone's dignity. This implies, as Mark White (2009a, p.302) has recognized, that 'each person must recognize the equal dignity and autonomy of every other person, which generates the strong sense of reciprocity inherent in the universalization requirement …'. Deontology works out the same way for individuals and organizations, such as firms, because both can be constrained by behavioural rules that support human dignity in order to do the right thing. Hence, deontology is not an individualist ethics, as is utilitarianism, but a social and universalist ethics; it is concerned with justice, with what is considered as right for a community or society as a whole (White, 2009b).

In the economy, deontological ethics is often expressed as constraints, for example, legal constraints such as the minimum wage or laws against discrimination in the labour market. This is sometimes referred to as negative freedom. However, it may also emerge through deliberate moral duties such as investment in ethical or green funds or through internalized norms that guide behaviour, such as recycling of paper and glass by consumers merely as a good habit. This is more concerned with positive freedom, enabling or even furthering dignity. In economics, deontology has a place in neoclassical economics and heterodox economics. In neoclassical economics, deontology is largely expressed through the legal framework that enables free markets to function 'rightly', for example, through property laws and anti-trust regulation. In heterodox economics, deontology has a wider scope and includes formal and informal institutions, such as a variety of laws, rights and norms, but also redistributive rules and, finally, regulations that prevent or redress market failures. 'For example, moral rules supporting positive freedom imply redistribution in order to ensure a minimum livelihood for all, or to use the Kantian language of human dignity, to guarantee a universal decent livelihood' (van Staveren, 2007).

Deontology also has its shortcomings – we will mention two major points of critique. First, not all moral problems can be reduced to rights and duties: it excludes vulnerabilities of human life that cannot easily be addressed through moral duties. Second, deontology does not indicate how one should act in case of conflicting rights and duties, for example, in the case of opposing short-run and long-run effects of one's behaviour, or effects that are different for different groups of people, such as shareholders and clients.

In the financial sector, deontology is largely reflected in regulation: by Central Banks, governments and as self-regulation by the sector itself. Clearly, deontology failed as moral guidance to prevent the financial crisis:

- *Central Banks*: they failed in the control of individual institutions, partly because of a lack of understanding of new financial products, as well as providing uncritical support for the enormous growth of a few individual banks, well beyond the GDP of the countries in which some of these banks are based, creating the moral hazard in which governments were drawn. Not only did Central Banks fail in the control of their own national banks, but also in the control of foreign banks operating in their countries, as was the case of an internet Iceland bank in various European countries.
- *Governments*: they allowed deregulation by removing laws and loosening up rules; and they bailed out banks that appeared to have become too big to let go bankrupt, the moral hazard created by lack of regulation on bank size by the Central Banks in the first place.
- *Financial firms*: Credit rating agencies are the main self-regulating institutions of the financial sector, and they clearly failed. They evaluated risks too rosy and were probably affected by the power of large banks. There are no significant informal institutions regulating the financial sector, mirroring, for example, the Hippocratic oath in health care or ethical guidelines for field research in some research institutions.[7] Moreover, the banks that defaulted in the US and Europe did play by the rules. The rules that were in place did not stop them from taking too much risk and developing

dangerous financial strategies, whereas the bank itself did not have self-restraining rules in place to check these risks. In contrast, the bonuses and the attitude that losing parties should have been smarter (poor people taking mortgages, governments engaging in credit default swaps) to recognize the risks show that there was no willingness to have any restraining rules in the bank that would reflect a concern for the dignity of disadvantaged clients or for a moral duty towards tax payers.

Obviously, it is not merely the amount of regulation that matters, but the quality of regulation. From a deontological perspective, financial sector regulation should thus be that it is supported throughout the sector, and hence, regarded as just or fair. Regulation failed in particular in terms of two of the moral connotations listed in Section 2: excessive liberalization of the financial market and a failing control of banks. It is clear that the decreased regulation was inadequate to live up to the principles of deontological ethics. Laws and regulations that had come into being after the 1929 crisis had been removed through a strong bank lobby in the US (Igan et al., 2009), and new rules were not yet made for new financial strategies and products, such as short-selling, credit default swaps and derivatives, even though they were being traded increasingly, without also clearly described moral duties for such trading by banks and funds themselves. In conclusion, without a deeper and stronger commitment or 'moral spirit', deontology slides into a formalist and generally insufficient set of legal rules outside of which agents consider that anything is permitted.

Thus, utilitarianism and deontology provide important ethical perspectives on economic behaviour in general and the financial crisis in particular. Each of these perspectives, however, seems to be too limited to prevent a financial crisis like the last one. Or, even worse, each of these was clearly operating in the financial sector, through individual agents and institutions, but failed to signal the collapse and is likely to be unable to prevent the next crisis. This brings in the need to reflect upon an alternative ethical perspective, one that until now has remained largely outside the view of economics.

5. Ethics of care and the crisis

The third ethical perspective that we will discuss here is the ethics of care. We will not deal with a better known ethical theory as an alternative to utilitarianism and deontology, virtue ethics. Some scholars consider the ethics of care as part of virtue ethics, namely as an elaboration of the relational virtues, such as responsibility, friendship, love and generosity (van Staveren, 2001). Others argue that it is an ethics of its own (Held, 2006). This article is not the place to discuss whether or to what extent the ethics of care may be part of virtue ethics – we simply suggest that the ethics of care with its concern for responsibility in human relationships is a suitable ethical perspective for analysing what went wrong in the financial crisis.

The utilitarian perspective has shown the failure of the financial system to generate a sufficient number of winners over the long run – the basic criterion of utilitarianism as formulated by Jeremy Bentham: the greatest happiness for the greatest number. The deontological perspective has shown that lack of adequate (self-) regulation on the basis of moral duty has enabled the crisis to occur. However, none of these two perspectives is sufficient to really understand agents' behaviour and firms' strategies from a deeper ethical sense, that is, from the choices being made that affect other people, a perspective of ethical reflection and deliberation by agents and firms and government institutions where they did have the space to make different choices. The ethics of care provides such an ethical perspective, because it is attentive to the interpersonal level, where ethics is concerned with sustaining human relationships and preventing harm to others (Waerness, 2009). In the words of the ethicist of care, Virginia Held (2006, p.15), 'whereas justice protects equality and freedom, care fosters social bonds and cooperation'. And it is here that the other moral terms we have seen in Section 2 will come into the picture, terms concerning the hiding of risk, extremely high bonuses and other perverse incentives, construction of securities that no one understands, too rosy credit ratings and the consumerism implied in extremely low interest rate policies. These moral dimensions of the crisis have much less to do with regulation than with the responsibility of the agents involved, vis-à-vis other agents and organizations. And that is why a relational ethics seems more appropriate to analyze the financial crisis because it goes beyond short-term shareholder value driven utility maximization and beyond the obvious failure of regulation. We suggest an ethics of care perspective for the analysis of the financial sector because, with Virginia Held in her book connecting the ethics of care to globalization, we think that it may not only provide a deeper understanding of what went wrong, beyond the technical explanations, but also of how the context variables of the sector (regulation, products, bank size, incentive systems, investment and trading strategies, etc.) may be adapted in order to make the sector less vulnerable to crises and to enable it to better support the well-being of the actors involved. This may lead to fundamental changes in the sector as a whole, and hence, of the parameters of financial markets, as implied by Held. 'With the ethics of care and an understanding of its intertwined values, such as those of sensitivity, empathy, responsiveness, and taking responsibility, we could perhaps more adequately judge where the boundaries of the market should be' (Held, 2006, p.119). This could

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help us to seek different roles for the government in relation to markets beyond that of the protector of rights or rule maker and keeper, Held argues.

The ethics of care does not take pleasure or rights and duties as the basis of moral reasoning but our responsibilities in relationship to others, and hence, this ethics does not follow impartiality: the other with whom we are related in one way or the other matters to us. Others may be known and closely related to others, whereas they may also be strangers. However, they are never perceived as abstract, generalized others as in deontological ethics – they are always seen as contextualized (Gilligan, 1982; Benhabib, 1987; Friedman, 1987). There are many ways of contextualizing others. In the financial sector this can be done, for example, by recognizing the limited financial means of some people in the short run or the long run, recognizing risks that individuals, families or firms run, or recognizing how certain institutions that emerged, such as systems of reward, may tempt people to behave irresponsibly in the knowledge that this will not be punished. Context, then, refers to livelihood, risk and perverse incentives. In this way, the ethics of care extends beyond close personal relationships – the domain in which the theory was initially developed. 'The ethics of care as it has developed is most certainly not limited to the sphere of family and personal relations. When its social and political implications are understood, it is a radical ethic calling for a profound restructuring of society' (Held, 2006, p.19).

From an ethics of care perspective, the financial crisis has clearly damaged relationships. It has breached trust, caused harm, enabled and even supported selfishness, all in an unsettling atmosphere of denying and shifting responsibility. Instead, the ethics of care in non-personal relationships can be characterized as preventing harm to others, including nature, countries and other entities, as distant others who deserve their rights being fulfilled or dignity recognized, and their needs being met, even when impartial moral duties cannot be clearly defined (Held, 2006). As we have seen above, in the utilitarian approach, harm is taken into account in the weighing of utilitarian gains and losses, but neoclassical economic theory has rejected the possibility of interpersonal utility comparisons, and therefore, the weighing of harm between individuals and groups. No-harm is then restricted to no interference by the state in individual choices. As a consequence, the free market outcome is then considered as the outcome that minimizes harm, except for negative externalities that may lead to harm. In that case, the state is justified to interfere, as John Stuart Mill has already explained about the harm principle in his book *On Liberty*. But the serial short-term (rule-) utility maximization prevents taking long-run harm into account – to others and even to oneself or the firm at which one is employed.

When the deontological approach is applied to the financial sector, no-harm is shaped as a principle, which underlies rules made by the state, institutions, firms and individual actors. Hence, an economic sector would have rules that minimize harm done by the free market, and therefore it would restrain markets through laws and regulations, including self-regulation. However, in a capitalist economy, rules are generally agreed to be minimized, in order to have markets to play a dominant role: rules are only needed to constrain markets in so far as they are considered to cause harm. This provided precisely the room for the erosion of regulation we have seen happening over the past decade of financial market liberalization. First, banks have lobbied for deregulation (Igan et al., 2009), supported by many economists and politicians in order to have more freedom to invest and lend; second, banks and hedge funds developed financial products for which no regulation existed yet; and third, actors in the financial sector took the credo that anything that has not been (self-) regulated is permitted, based on the premise that everyone is rational and is responsible for making utility-maximizing decisions and choosing a level of risk that fits one's preferences.

In the ethics of care, preventing harm to others is contextualized. It is not abstract, as the rule of non-intervention or a set of rules based on principles, but inherent in the relatedness of actors. Preventing harm to others therefore requires taking responsibility for the consequences of one's actions, not only as an individual but also through institutions, and responsibility for preventing the system in which one functions from turning into an uncontrollable chaos causing harm to all involved. Care also involves sympathy, in the sense of being able to place oneself in the shoes of others, as Adam Smith has already explained – not limited to particular others known to oneself, nor an abstract, generalized other similar to oneself as in the Categorical Imperative – but concrete others whose circumstances are imaginable due to the general information one has about their context (Benhabib, 1987). Thus, preventing harm to others requires contextualization, in order to be able to know how others are in their concrete situation and what our responsibilities to them would be.

This contextualization can also be found in Foucault's notion of care as a contextualized form of self-care, in which the self is engaged in a relationship with oneself, rather than the independent autonomous rational economic man in utilitarianism and deontology (Foucault, 1984, 1998, 2005). In this view, the self acts with critical self-reflection about the contextual norms and relationships surrounding the self. This additional understanding of care as self-care allows for an application of the concept of care to economics at the level of the economic agent. It makes her or his ethical capacities accessible for reflection on decision making in relation to others and to dominant social norms. It therefore allows the agent to act responsibly, for example, in financial markets.

The ethics of care, when applied to the economy, is expressed through efforts to minimize harm in

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day-to-day practices that have possible harmful effects on others, whether these would come from free markets or government regulation or intra-firm self-interested behaviour, power-seeking strategies or any other behaviour in an economic sector. Possible harmful effects of behaviour abound because of imperfect markets, short-term incentives, risk alongside uncertainty and a wide variety of behavioural motives including harmful ones. In particular, it is uncertainty that so much influences financial markets, which goes beyond risk, because the probabilities are unknown. Keynes, of course, already knew this, as Skidelsky (2009, p.75) notes: 'Keynes believed that in many situations market participants face irreducible uncertainty. They have no basis on which to calculate the risks they face in making an investment. They are plunging into the unknown'. And this condition places any economic sector at any time in transition, as Keynes already noted, rather than jumping from equilibrium to equilibrium, whether by free market forces or state interference. And in transition, rules are often not applicable or have not been established yet. Moreover, the standard definition of rational agents does not hold in such a world: there is no clear-cut function to be optimized, certainly not for the long run. As van Staveren (2001, p.43) has already recognized a decade ago: 'Without responsibility, negative external effects would soon restrain the economic process: no one would care about such effects and the suffering they cause .... Moreover, in the absence of responsibility among economic actors, there would be no basis for trust and loyalty to develop between producers and consumers [and] without these values transactions will not happen, or only at high costs'. It is this fragility of economic life and human fallibility in economic decision making under conditions of uncertainty which results in harm and to which government regulation is, although necessary, utterly insufficient (see also Hellwig, 2008, on systemic risk regulation). It is precisely such fragility and fallibility to which a caring attitude responds, by contextual reasoning. And such a contextual reasoning is also what Keynes pictured as the most adequate response to financial crises. He stated, as recounted by Skidelsky (2009, p.76), that the cures 'are not meant to be definitive; they are subject to all sorts of special assumptions and are necessarily related to the particular conditions of the time'.

Now, for the financial sector as a particularly fragile and fallible economic sector, harm done to others may be summarized in three forms:

- excessive risk-taking behaviour;
- strategies contributing to systemic uncertainty;
- shifting risks and burdens of uncertainty to others (moral hazard).

The ethics of care promotes a spirit of concern for the others that would act in the contrary direction. This would express itself through self-restraint, a long-run perspective and a recognition of relatedness to people and organizations concerned with keeping the relationship going. This requires openness to response from others and the system as a whole, a continuous preparedness to adapt one's decisions to changing circumstances as well as to changes in feedback to keep risk reasonable, to reduce systemic uncertainty and to keep risks and burdens of uncertainty where they have been taken.

In order for such an ethics of care to emerge and survive in the financial sector, a cultural change is needed, much more than new or detailed regulation. The cultural change requires caring leadership, client-value orientation and stakeholder value generation, and an incentive system that rewards innovation and long-run returns on investment that reduce the three forms of harm mentioned above. There are examples of such caring finance, in cooperative banking, in green investment funds, in female fund manager styles, in consumer–investor projects and more. It is time that economists learn to recognize such a caring perspective on finance and understand its value addition to the two classical approaches of ethics in economics.

6. Conclusion

In this article, we have first summarized the attitudes that have led to a global financial crisis. We argued that ethical dimensions are embedded in these behaviours. Hence, we then analysed the crisis from the perspective of three ethical approaches. Utilitarianism did not only prevent the crisis but seemed to have even fostered it. Deontology showed to be a valuable but insufficient perspective to avoid the crisis, due to inadequate reflection of rights and moral duties in rules and self-regulation. Instead, the ethics of care, concerned as it is with sustaining interpersonal relations, would more likely have prevented the crisis. We therefore recommend that economists, financial sector analysts and financial sector policy makers begin to learn the ethical perspective of care, and to debate and try out how this may be developed in the financial sector.

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Notes

1. In a paper about the candidate hypotheses for the explanation of the crisis, Crespo et al. (2010) discarded, through an abductive process, all the candidates supposing rational expectations.
2. For a detailed review of regulatory failures, see Nothwehr and Manning (2009). For an interesting and detailed analysis of the behavior of some specific private banks, see Blundell-Wignall et al. (2008).
3. It is interesting to consider the list of possible causes consigned by Jickling (2009): imprudent mortgage lending, housing bubble, global imbalances, securitization, lack of transparency and accountability in mortgage finance, rating agencies, mark-to-market accounting, deregulatory legislation, shadow banking system, non-bank runs, off-balance sheet finance, government-mandated subprime lending, failure of risk management systems, financial innovation, complexity, human frailty, bad computer models, excessive leverage, relaxed regulation of leverage, credit default swaps, over-the-counter derivatives, fragmented regulation, no systemic risk regulator, short-term incentives, tail risk and black swan theory.
4. There is a whole meta-ethical discussion about the nature of moral terms that we will not consider here. However, it is clear that some terms denote a moral consideration of the concerned subject.
5. As Daron Acemoglu (2009) states, 'when unchecked by the appropriate institutions and regulations, it [greed] will degenerate into rent-seeking, *corruption and* crime'. Jickling (2009) speaks about 'rising rates of delinquency and foreclosures' delivering a sharp shock to financial institutions.
6. Not only most economists but also political philosophers tend to limit themselves to standard utilitarianism. For them, this is because rule-utilitarianism, like other refinements of this theory of ethics '… does not take seriously the distinction between persons', as John Rawls (1971, p.27) has formulated it.
7. The Dutch government has obliged banks since 1 January 2010 to follow the guidance of a 'Care Duty', which implies taking care of your customers' well-being when you provide them with financial services, through providing adequate information about risks involved.

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