

Book review

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Lessons from the banking crisis: towards an ethical capitalism for the common good

In his engrossing book *Good Value*, Stephen Green addresses the forces that have shaped the world as well as existential issues: the very nature of human existence, including the imperfections of globalization and of human fallibility--original grace and original sin, as he puts it. He is, after all, not only the Chairman of HSBC, a bank that has weathered the financial storm far better than most international banks, but also an ordained Anglican priest. Moreover he has recently donated his entire incentive bonus to charity.



Stephen Green

One of his core messages comes in the middle of the book: “If we are to restore trust and confidence in the markets, we must therefore address what is at root a moral question. Trust and confidence cannot be restored overnight, and they cannot be restored by fiat: the process of renewal has to begin with a recognition of the moral dimension of what has happened.” He knocks on its head the notion that “if the markets will bear it, if the law allows it, if there is a contract, then no other test of rightness need apply.” He goes on to say: “Yet we would not (or should not, at least) live our private lives this way. So why should it be acceptable in business?”

We have suffered from “the sin of compartmentalization,” he said. “The truth is that the value of our business is dependent on the values with which we do our business.” He spells out what he means by compartmentalization: “dividing life up into different realms, with different ends and subject to different rules” which, he says, is “the besetting sin of human beings. We all want to present many versions of ourselves in different moods or at different times”. Unlike Christ, who could read what was in a man and his motives, we put on faces for different people and different situations. We lack consistency and therefore wholeness.

Compartmentalization therefore, Green says, allows us to avoid, if we are not careful, the moral and spiritual questions, including at work--“seeing our work life as being a neutral realm in which questions of value (other than shareholder value) or of rightness (other than what is lawful) or of wisdom (other than what is practical) need not arise.” By what star does our inner self navigate? And would it even know when it is off course? “Compartmentalization helps to shut such question out.”

It is as if a herd or gang mentality takes over. People do in the collective what they would never dream of doing individually. It takes a courageous whistleblower to expose what is wrong. And we have seen what is wrong in the collapse of Enron, WorldCom and, more recently, at Northern Rock, Lehman Brothers and HBOS.

Responsibility for the culture of organisations lies at the very top, with their management boards, Green insists--the so-called “tone at the top”. “There is no other task they have which is more important.” It is their job “to promote and nurture a culture of ethical and purposeful business throughout the organization.” And the good news, Green says, is that “the vast, vast majority of those who work in these organizations want this. They want to be able to look at themselves in the mirror and feel confident that they and their business are making a contribution. The raw

material for an ethical capitalism is present in abundance in real life. So boards and managements that take this challenge seriously will find themselves pushing on an open door.”

The herd mentality is also addressed by Gillian Tett in her erudite insights into the derivatives and “debt equity swaps” world of banking, in her book *Fool’s Gold*. She is an assistant editor of the *Financial Times* and comes to her subject with a Cambridge doctorate in social anthropology. So her story of the mathematical whizz kids at J P Morgan, who developed the complex trading instruments of investment banking, is like studying a closely knit tribe who live in their own closed world, she says. But even the J P Morgan team were appalled to realise the risks that other banks such as Goldman Sachs were taking in the sub-prime mortgage market.

She concludes that what is needed is “a wider rethink of the culture of finance. For too many years bankers have treated ‘credit’ as merely an isolated game of numbers. The roots of the word, though, come from the Latin *credere*, meaning ‘to believe’. That is a concept centred on wider social relations, which financiers forget at their peril. After all, if there is one element, above all, that is now needed to restore sanity to banking, it is that policy-makers, bankers and politicians must adopt a more *holistic* vision of finance. In essence, what is needed is a return to the seemingly dull virtues of prudence, moderation, balance and common sense.”

Such virtues are also highlighted in James Featherby’s excellent booklet *The White Swan Formula*, published by the London Institute for Contemporary Christianity, which looks at how banking and businesses can deliver “the common good”. Featherby has spent over 25 years in the City where he is a corporate lawyer at Slaughter and May law firm, involved with mergers and acquisitions.

“G20 summits and increased regulation cannot and will not deliver business for the common good,” he asserts. “The personal decision of each of us can. There is no given path for what happens next. We have no divine right to a comfortable future. The future is what we, with God’s grace, choose to make of it. We can, as individuals and as businesses, continue to choose the road of self that, as we have seen, eventually leads to nowhere. Or we can together engage in business for the common good. On the foundation of the values that underpin business for the common good we can have a hope that is not misplaced optimism.”

All three publications give an excellent overview of the banking and economic crisis, but above all they emphasize the moral, ethical and even spiritual virtues that are needed if capitalism is to be rescued from its worst excesses. Capitalism may be the only show in town to deliver goodness and justice rather than gross exploitation. But for that to happen, capitalism, after all, needs a conscience.

Michael Smith

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Good Value: reflections on money, morality and an uncertain world, Stephen Green, Allen Lane, ISBN 978-1-846-14236-9

Fool’s Gold, Gillian Tett, Little, Brown, ISBN 978-1-4087-0164-5

The White Swan Formula, James Featherby, LICC, ISBN 978-0-903452-42-7