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Muddling through with money and morals

By Michael Skapinker*

Mondli Makhanya, editor of South Africa's Sunday Times, recently recalled his horror 20 years ago as he and his friends watched television pictures of Germans chipping away at the Berlin Wall.

"We found it inconceivable that people would be celebrating the end of their socialist utopia and that they were handing themselves over to the evil ways of the capitalist west," he wrote.

He knows better now. "When the Iron Curtain came down, it revealed a dismal world of sad people and cruel rulers. We discovered that the 'propaganda' that the western media had been feeding us about the state of affairs was actually true."

The truth about the horrors of communism had been clear to anyone who cared to know about them decades before the wall came down, of course. But what is interesting is Mr Makhanya's account of what came next. "We simply replaced godless communism with godless capitalism and created an amoral world."

Mr Makhanya is not alone in this view. Ken Costa, once a leftwing South African student leader and now a British Conservative, a committed Christian and chairman of Lazard International, wrote that the root of the financial crisis was a "deficiency in moral and human spirit", and that, while regulation was necessary, the market needed an attitude of "do unto others as you would have them do unto you".

The call to introduce an ethical spirit into the market has provoked a fascinating debate in this newspaper, on FT.com and elsewhere. On one side are Mr Costa and Stephen Green, chairman of HSBC and author of the book Good Value.

On the other are Eamonn Butler, director of the Adam Smith Institute, and Philip Booth, editorial director of the Institute of Economic Affairs, who argue that capitalism's problem has not been a deficit of ethics.

Mr Butler argues that the crisis had its origins in US government policies forcing banks to lend to people with poor credit records. Mr Booth wrote that when central banks held interest rates down, asset prices rose and bad risks began to seem good. Mr Butler and Mr Booth assert it is an unfettered free market that encourages virtue and government regulation that destroys it.

The champions of this view have the advantage that we will never get the chance to disprove it. No government is going to dispense with regulation.

There is a theoretical appeal to allowing the market to drive out malpractice. Pharmaceutical companies whose drugs caused birth defects and airlines whose aircraft crashed would not stay in business long. But the disparity between what the producers and consumers know is too large and the consequences too devastating for these industries to be left unregulated.

*michael.skapinker@ft.com

For decades, consumers have been purchasing unsuitable financial products. The results may not be fatal, but they are damaging enough and no government, in this climate, is going to tell people just to read the small print.

But Mr Costa's view has its problems too. No one, for example, likes their employer being bought by a competitor who might get rid of jobs. An ethos of "do as you would be done by" would mean an end to hostile takeovers – not a comfortable outcome for an investment banker.

Mr Green accepts that capitalism, while an unparalleled generator of wealth and spreader of prosperity, is also cruel. He writes of globalisation's uneven benefits and "how for even the majority who live in relative luxury there is a price to pay for fast cars and flat-screen televisions, the price of loneliness and nagging fear that it may all amount to nothing".

His remedies – that businesses look beyond immediate shareholder return and that the rich heed "the still, small voice of conscience" and give something back – are fine for those disposed to listen. The problem is those who are not.

Mr Green argues that no one will stay in business if they cannot persuade others of their trust and honesty. Yet some manage to live close to the ethical edge and still retire covered in honours. It is odd that someone as clear-eyed about capitalism as Mr Green appears to believe that nice guys finish first.

Is there a way between the "import ethics" camp and the "let markets rip" brigade? Yes. To live as decently as we can, while realising that others may not, either because they do not hear that still, small voice or because they are too busy earning enough to survive.

That is why we need regulation. It is not enough, on its own, to ensure no one behaves badly again. The rules may turn out to be counter-productive. They require constant re-view. Capitalism is about muddling through. The people who were certain there was one answer to everything were the ones who built the wall, after all.

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Notes

¹<http://www.ft.com/cms/s/0/67a2799e-d2e9-11de-af63-00144feabdc0.html>