Department of
Economics and Finance

Economics and Finance Working Paper Series

Working Paper No. 16-18

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Ethics and Banking: Comparing an Economics and a Christian Perspective

October 2016

http://www.brunel.ac.uk/economics

ETHICS AND BANKING: COMPARING AN ECONOMICS AND A CHRISTIAN PERSPECTIVE

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Abstract: In this article, we seek to challenge the common approach of economics to ethics in banking, which can be characterized as pursuit of self-interest, even if it is realistic. We contend that widespread teaching of this approach, and its popularization, has been an important factor in the genesis of the financial crisis, albeit not the only one. In this we concur with Benedict (2009), that "business ethics risks becoming subservient to existing economic and financial systems rather than correcting their dysfunctional aspects". The approach of biblical theology, we contend, offers much greater challenges to unethical behaviour and hence deserves to be assessed seriously. There remains a difficulty of how the approaches that theology commends can be promoted in banking. Approaches could include the power of example, as well as enshrining the approach in remuneration mechanisms.

Keywords: Global financial crisis, banker's ethics, economics, biblical theology
JEL Classification: D63, D64

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Introduction

The issue of bankers' ethics came strongly to the fore in the financial crisis of 2007-9 when a wide range of unethical practices were revealed. This has led to a wider exploration of the causes of such practices, evolution of regulation to counteract the related incentives (such as Basel III) and wider discussion as to whether regulation is sufficient to eliminate them.

We contend that regulation is necessary but not sufficient to "make banking good" and that a deeper multidisciplinary assessment of factors underlying behaviour is needed. Accordingly, in this paper we seek to address bankers' ethics from two contrasting points of view. First there is the economic perspective which in effect underlies the assumptions in standard finance textbooks. Then there is an approach founded on biblical theology (see also inter alia Friedman and Adler (2011) and Kim et al (2009)).

As an introduction, we contrast briefly the general positive and normative approaches of economics and biblical theology, highlighting the dominance but also the shortcomings of the former. We then go on to outline in more detail the approach of economics to banking ethics, before going on to note a contrasting and broader approach drawn from biblical theology. Finally, before concluding, we seek to assess various ways in which banking ethics could be broadened by reference to a biblical approach overlaying extant approaches (see Davis (2012) for a wider assessment including household and public debt and more detail on the worldviews of economics and theology).

1 Contrasting worldviews of economics and biblical theology

We contend that economics is the ruling paradigm of today, which policymakers use most commonly to justify their decisions and which is taught widely in universities and business schools. So for example, Hobsbawm (1994) states "economics, though subject to the requirements of logic and consistency, has flourished as a form of theology – probably in the Western world, the most influential branch of secular theology," while Nelson (1991) states that it "offers a set of principles and understandings that give meaning to, define a purpose for and significantly frame the perception of human existence." Britton and Sedgwick (2003) in a Christian analysis of economics, point out that there is "not much in economics that can be demonstrated beyond reasonable doubt" even though it is an "impressive body of reasoning, extremely influential in contemporary culture, providing one type of insight into the way modern society works." Along with other social and physical sciences, it has in effect removed religion and spirituality from modern forms of institutional organisation such as banking. This in turn is part of the post-Enlightenment shift to modernism based on empiricism which excludes the concept of non-physical reality, including reference to God (Kim et al 2011). And of course Post-Modernism goes on to exclude the concept of absolute moral principles entirely.

As a social science, economics understands human actions in terms of motives, and not simply cause and effect. Economics is inevitably "normative" i.e. it asks how things should be, as well as "positive", examining how things are. This is because values cannot be readily separated from facts when human nature is the subject matter.

For mainstream "positive" economics, human motivation is based on rational self-interest, be it in terms of personal achievement, material possessions or status. Accordingly, there is no intrinsic value to community life, relationships or ethical goals like poverty relief.

"Normative" economics typically asserts that given a distribution of assets in the economy, the pursuit of self-interest will lead to an optimal outcome for all. Taken to its extreme, such an approach leads to laissez-faire policies and tends to exclude considerations of justice. (To include considerations of justice economics requires some element of political theory such as that of Rawls (1971)).

Interestingly, this self-interested perspective was not wholly shared by the founder of economics, Adam Smith (2002), to whom it is commonly attributed (the invisible hand of the pursuit of self-interest leading to general benefit). He believed that "society cannot subsist among those who are at all times ready to hurt and injure one another". He also argued that: "Man . . . ought to regard himself, not as something separated and detached, but as a citizen of the world, a member of the vast commonwealth of nature and to the interest of this great community, he ought at all times to be willing that his own little interest should be sacrificed" (Freidman and Adler 2011). Furthermore, there is good evidence that he believed the invisible hand to be directed by God himself , drawing for example from Augustine ("the invisible hand of God that heals and makes whole") (Harrison 2010).

Economics and its view of humanity offer a good diagnostic analysis of policy issues and economic development. Yet it is weak normatively due to its focus on efficiency and not values; in its view of the economy as a technical matter, autonomous from the rest of social relations and the moral sphere. Whereas virtues such as trustworthiness and honesty are vital for the smooth running of the economy, irresponsibility and immoral behaviour can only be condemned ethically in the economics framework if they are "irrationally" contrary to the self-interest of the individual perpetrator, or possibly to the efficiency of the corporation.

Like economics, biblical theology looks both at how things are and how they ought to be. Humanity, although made in the image of God, is fallen. Therefore, choices and actions are indeed often determined by self-interest, relationships can be spoilt by power and fear, humanity may exploit nature, and work can become toil. A biblical view of humanity is more rounded than that of economics, with community life seen as crucial and not just individual fulfilment. While wealth is celebrated at times as indicating God's blessing, it is the relationship with God that a Christian sees as central to well-being.

Being made in the image of God, humans have free choice but also responsibility. Choices may entail money becoming an idol, and the economic system pervaded by "structural injustices", which disadvantages those with least resources. Indeed, the strong normative element of the Bible has justice at the core. Accordingly, Christianity offer a critique of economics, with underlying concerns focused on aspects such as stewardship, useful work, protection for the vulnerable, and preservation of family life. Equally, whereas the state is ordained by God to keep the peace and administer justice, its decisions should still be monitored critically.

Economics and the market-based economy have provided considerable benefits to society, but there remains unease also in the economics profession with the lack of moral foundations of economics, including its narrow view of what it is to be human. Sen (1987) for example notes that "economics has been substantially impoverished by the distance that has grown between economics and ethics". Summers (2003) pointed out "the irony of the market system that while its very success depends on harnessing the power of self-interest, its very sustainability depends upon people's willingness to engage in acts that are not self-interested. What you have seen at Enron, at the New York Stock Exchange, and in too many other

places suggests that there have been failures in inculcating the right values". Furthermore, as argued in Benedict (2009) economics as usually taught ignores the issue that "every economic decision has a moral consequence" and singled out financiers who had not been building their work on an ethical foundation (Friedman and Adler 2011).We see these tensions illustrated as we examine the incentives of bankers.

2 Bankers' ethics from an economics point of view

What could have led to the catastrophic underestimation of risks that preceded the 2008 crisis? The economic role of financial institutions such as banks in the modern economy is a crucial one. Merton and Bodie (1995) suggest that it can be summarized in six functions of the financial system. These are:

- The provision of means for clearing and settling payments to facilitate exchange of goods, services, and assets.
- The provision of a mechanism for pooling of funds from individual households so as to facilitate large-scale indivisible undertakings, and the subdivision of shares in enterprises to facilitate diversification.
- The provision of means to transfer economic resources over time, across geographic regions, countries or industries.
- The provision of means to manage uncertainty and control risk. Banks seek for example to carry out "due diligence" credit analysis in lending, to ensure that the borrower has capacity to repay loans.
- Providing price information, thus helping to co-ordinate decentralized decision making in various sectors of the economy.
- Providing means to deal with incentive problems when one party to a financial transaction has information the other does not, or when one is an agent of the other, and when control and enforcement of contracts is costly. So banks devise contracts that seek to provide incentives for loans to be repaid, overcoming adverse selection and moral hazard.

It is self-evident that widespread bank failure, threatening provision of these functions, is extremely damaging to the economy.

The performance of these functions requires integrity and prudence on the part of bankers in performing their functions – as was repeatedly, perhaps routinely, lacking in many institutions in recent years. For example, financial institutions need to avoid the temptation to provide credit too readily to individuals, firms, and governments in a way that entails excessive risk to their institution. Once underpriced loans had been made, banks were vulnerable to the consequences of default, directly and via securitized claims, when borrowers' financial situation worsened. Equally they need to ensure their institutions had access to reliable sources of liquidity, to avoid the risk of "runs". And furthermore, they need to ensure their institution had adequate capital to cover expected losses. Failure to carry out such "due diligence" – as was the case in the subprime crisis – threatens the economy as a whole and not just the bank concerned, if it is sufficiently widespread.

In this context, it has been widely notes that a dangerous pattern in terms of ethical behaviour may have been created by a **combination of the bonus culture of banks and the "safety net" provided by the government**. Bonus schemes in banks, which may account for as much as 50% of remuneration, often reward the short–term performance of an individual trader or lending officer. This in turn can lead them to focus on raising short–term returns, with no attention paid to the risk of greater losses in the future. Means of obtaining high returns would include, first, lending at high risk, say to sub-prime borrowers (with high

interest rates and also fees attached) without concern for long term default risk. Second, it would include purchase of large volumes of high yielding securities (such as sub-prime ABS) without taking a view of their long-term valuation.

Behaviour of **Chief Executives and other board members may also have been influenced by performance incentives** such as stock option plans and stock bonuses. These incentives may in turn have caused costly strategic errors by managers. These errors include seeking growth of the institution beyond what was feasible with retail deposits via use of volatile wholesale deposits; and allowing capital and liquid asset cover to be reduced and thus boosting profitability at a cost of enhanced risk of insolvency. It also entailed aggressive takeovers of other banks at the peak of the boom when share prices were very high, financed by debt. This left some of the buying institutions (such as RBS and Lehmans) highly vulnerable to failure.

The background to this pattern of behaviour, notably for the strategic decisions of Chief Executives, was knowledge that the authorities simply could not let major banks fail, and would have to support them initially via "lender of last resort" liquidity support and later via recapitalisation and guarantees at taxpayers' expense. The bankers, in effect, had an incentive to hold insufficient capital and liquidity and to under-price risk, partly because of asymmetric payoffs – the profits would accrue in bonuses and option revaluation, the losses in the end to the taxpayers if the **bank is "too big to fail"** so is supported by the central bank and government (Barth and Wihlborg 2016). This is a form of moral hazard, the outcome of a guarantee that generates risky behaviour (by bankers), which is adverse to the provider of that guarantee (the state). The managers would ignore the "external effect" i.e. potential costs imposed on the rest of society from their own failure or a wider banking crisis.

Note that these **incentives are not so favourable for shareholders**, who may lose out in a government "rescue". Indeed, investors lost out greatly owing to the devaluation of banking shares. The shareholder's voice in a limited liability company such as a bank is not a strong one, even for major institutional investors, except in the case of major failures of "corporate governance" or when there are large block holdings (Davis and Steil 2001). This is partly due to lack of sufficiently detailed information on the firm (banks especially are seen by markets as opaque), as well as lack of sanctions apart from selling to a takeover raider, that regulators often would discourage. An additional issue for portfolio index funds that sell themselves on low fees is the desire to minimize costs of intervention. Shareholders were accordingly unable or unwilling to restrain the rush for profitability by taking high levels of risk that banks undertook in the period up to 2007.

Such an **explanation of banker's behaviour as that set out above suggests direct culpability**, with actions of lending officers and managers taken in full knowledge of the related risks. This is consistent with the economic model of humanity as pursuing self-interest. There may also be indirect channels of causality. Notably, there may have been **"disaster myopia", whereby lenders forgot there could be bad times again**. In other words it is possible that lack of insight was a part of the problem, as well as a lack of integrity or prudence (which could however also be seen as a form of moral failure, or "culpable blindness"). As in the run-up to past crises, people start to believe "it's different this time" (Reinhart and Rogoff 2010) (e.g. due to the fact claims were securitized). They forget the lessons of the past, namely that a credit and asset price boom often ends in a financial crisis, as for example in the Scandinavian countries, Japan, the US and UK in 1989-91 (see Davis 1995). This pattern of individual and institutional forgetfulness may be provoked by the same

asymmetry of outcomes for employees/managers and the state/shareholders, making bankers focus on the short term only. It may also be due to loss of corporate memory from replacement of staff who had experienced past crises, while Guttentag and Herring (1984) citing inter alia Tversky and Kahnemann (1982) mention psychological factors that may arise for decision makers under uncertainty.[2] But it is clearly contrary to the mainstream economic assumption of "rationality".

In this context, it can be argued that the **securitized products such as ABS that abounded in the run up to the crisis were particularly vulnerable to abuse** in terms of underplaying of risk and/or disaster myopia. As innovations, the behaviour of ABS under stress was not yet known – like a new drug whose full range of side effects has not been tested. Also there are a wide range of "information gaps" in ABS where those taking decisions did not bear the consequences of poor outcomes, while those who did suffer the consequences did not understand the risk, due to complexity and poor information. For example, those banks making sub-prime loans in the US would sell them as bonds, so passing the risk to others who lacked detailed information on the loans involved. They had much less reason to worry about credit quality than if they held the loans on their books. Furthermore, the "rating agencies" who are supposed to make independent assessments of credit risk actually made excessively optimistic assessments of such risk for these instruments, no doubt partly following their own self-interest in generating fees from the issuers.

The overall situation was worsened by **the "principal-agent problem"**, which is endemic in financial intermediation and business more generally. The "principal" owns the assets but they get someone else, his "agent" to look after them. For example, the shareholders of a bank like Lehmans or RBS (the principal) mandate the managers of the bank to be the agent and run the company on their behalf. But the problem is, the agent may easily act in his or her own interest and not that of the owner, if they were not trustworthy, being driven by greed. Empire building bankers made disastrous overpriced takeovers that contributed to the ruin of their banks. Some money managers directly defrauded people who had entrusted money to them.

There are at least three ways in economics to deal with principal-agent problems, which is in effect the way the subject deals with a key part of banking ethics. It is assumed that a self-interested person will behave ethically if there are sufficient incentives:

The **first resolution of the principal-agent problem is to draw up a "complete contract"** that specifies the agent's behaviour in every circumstance, or at least seeks to align perfectly the interests of the agent and principal. But this is generally seen as impossible, as witness the difficulty banks have had with annual bonuses. While bonuses are assumed to give rise to appropriate incentives to maximize profits for the institution, they actually led to risk-taking by employees that wrecked some institutions.

[2] The suggestion is that under uncertainty bankers may be characterized by three psychological mechanisms, the 'availability heuristic', the 'threshold heuristic', and 'cognitive dissonance'. The availability heuristic is employed when a person calculates probabilities by the ease with which instances are brought to mind—which depends in turn on the time which has elapsed since the last occurrence and the intensity of the experience. At some point after the occurrence of a previous crisis, the subjective probability of occurrence becomes so low it is treated as zero. This is an example of the threshold heuristic, a rule whereby the scarce resource of managerial attention is allocated. A third factor may be cognitive dissonance, which comes into play when new information becomes available to suggest that, contrary to prior assumptions, a serious hazard does exist. The mechanism protects decision-makers' self-esteem when information arises that casts doubt on the wisdom of past decisions, and leads them to ignore or reject the information.

A **second resolution is to rely on reputation**. If the agent sees their reputation for honesty as an asset, they will be trustworthy because it's in their own interests. People can after all be fired, and institutions can fail or be taken over. Spoil your reputation once, and no one will trust you again – at least for a few years. But this is more effective for a single individual or institution that behaves differently from the rest. In the credit boom, bankers were comforted by the fact that all their counterparts were acting in the same way, and hence, except for the most extreme cases, the risk to reputation from risk taking was small.

And the **third resolution is ongoing relationships**. In economics, people are supposed to act in a trustworthy manner in an ongoing relationship, such as an employment relationship or a link with a client, so as to keep the benefits of that relationship, a capital asset that would otherwise be devalued. But economics sees mankind as totally selfish, so the relationship will be abandoned if the person considers it to be in their interest. The idea of commitment (loyalty, love) is absent from the bulk of economic analysis. Furthermore, the form of banking that developed in the 2000s, with loans being securitized and sold piecewise to investors round the world, is inimical to the form of banking relationships typical of traditional banking, where managers would know their own clients and deal with them on a regular basis. So again the sanction was weak.

We have seen that protection from deposit insurance and the lender of last resort (the government "safety net") offers banks[3] an incentive to take risks. For this reason, economics stresses a need for prudential regulation as a form of protection for the "safety net", as well as for depositors, against banks' risk taking.[4] Banks must be obliged to hold sufficient capital, while liquidity should also be held in spite of the bankers' incentives to minimize it. There might also be supervision of the incentive schemes in banks per se.

But in fact it would appear that **the authorities had neglected** liquidity regulation; the bonus culture was rarely investigated and capital adequacy was not maintained with sufficient rigour (Admati 2016). It can be suggested that the regulators, too, were subject to "disaster myopia", (Davis 2008, 2009) perhaps influenced in part by fear of loss of national competitive position if their regulations were tighter than elsewhere. They also failed to see the presence of difficulties at a system wide level that could cumulate, as opposed to within individual institutions. Hence the calls since the crisis for much tighter regulation, notably of the bonus culture and of banks' capital as well as at a system wide or "macroprudential" level. This has entailed Basel III, EU Directives and national implementation of macroprudential powers, generally to central banks.

To sum up, while economics offers an understanding on the importance of banks and the incentives and motivations for bankers' behaviour, there remain puzzles from the point of view of "rational economic humanity" paradigm. For example, why is there the irrationality implicit in "disaster myopia", which is a huge departure from the paradigms of rationality ? Why did firms invest massively in securities whose properties they did not understand? Why

[3] Although technically only commercial banks should benefit from it, in practice US investment banks also benefited from "safety net" protection, with the exception of Lehmans.

[4] There are various regulations on loans (such as on "large exposures") to prevent the bank becoming insufficiently diversified and thus increasing the risk of insolvency. Prudential regulation also focuses on management and earnings as important to risk management and ability to grow capital, respectively. Overarching these may be "structural regulations" that limit competition between banks and hence limit the degree of risk on the asset side (since competition typically induces banks to seek higher returns at higher risk).

were takeovers undertaken at excessive prices, which threatened the bidding firm's solvency? Equally, economics is silent on the ethical issues of prudence, trust, and honesty that are essential to the functioning of financial markets in the long term. We now turn to a Christian view to see what additional insights are available.

3 Bankers' ethics from a theological perspective

Biblical theology takes a radically different approach to the world from economics, as noted above. Christianity (and Judaism) has to be seen not as a religion or a list of moral guidelines and beliefs but as the account of an ongoing relationship of love between God and his creation where man is called, in the words of Jesus to *"'Love the Lord your God with all your heart and with all your soul and with all your mind. 'This is the first and greatest commandment. And the second is like it: 'Love your neighbour as yourself. 'All the Law and the Prophets hang on these two commandments* (Matthew 22:37b-40)

As noted by Kim et al (2009:119), "scripture is thus a comprehensive understanding of reality such as all life originating from God, the nature of God and man, and life's meaning. Christian ethics requires the use of reason to derive from Scripture certain precepts and narratives that guide human action and bring about certain consequences, primarily to pursue the ideals of love and service to others (Calkins, 2000) and practicing good stewardship of money and resources." This is the task we attempt below with a particular application to bankers' behaviour in the recent financial crisis.

We contend that while the sophistication of the modern financial system is absent from scripture, the underlying ethical issues are not, including those related directly to banking ethics. Nevertheless, it has considerable application to banking and business ethics, with for example over 100 of the 613 precepts in the Pentateuch dealing with economic life and business (Green 1997), and in the Bible as a whole there are 500 passages in the Bible on faith, 500 on prayer and 2350 on money.

3.1 A realism about human nature

Ethics issues are apparent already in the Fall of Genesis, as proposed by Higginson (1993), highlighting issues that economics – and regulation – have neglected, but which underlie recent financial difficulties. A first aspect was that of **hubris**, as set out in Genesis 3:5. Adam and Eve were tempted by the serpent to eat the fruit of the tree of knowledge: *"for God knows that when you eat of it your eyes will be opened, and you will be like God, knowing good and evil."* And they found this temptation irresistible. In banking, there can be corruption arising from the desire for power and success, leading to arrogant behaviour, which can entail disaster myopia with risk taking at the individual level (such as excessive purchase of risky securities) or the firm's strategic level (such as inappropriate takeovers). In banking, previous success can feed such attitudes, with a false and hubristic sense of invulnerability leading to serious risks being ignored.

A further issue in the Eden story relevant to banking crises is the **breakdown of relationships** that came with the Fall, entailing power and exploitation. The specific example is that of men and women, where God says to Eve in Genesis 3:16 *"your desire will be for your husband, and he will rule over you."* There is a clear link from such corruption in human relationships to banking ethics, where competition rather than co-operation within firms helped to build up risk, traders competed with one another to maximize their profits and

hence their bonuses. Equally, leadership in firms that should be benign and for the benefit of all can become dictatorial as at Lehmans, in the same way that marital relationships can sour. We saw above that ongoing quality of relationships is one protection against principal-agent problems, but Scripture again shows its limitations.

There can also be **avoidance of responsibility** as in Genesis 3:12-3: *The man said, "The woman you put here with me—she gave me some fruit from the tree, and I ate it." Then the Lord God said to the woman, "What is this you have done?" The woman said, "The serpent deceived me, and I ate."* Here Adam and Eve accuse one another and the serpent of being the guilty party – and Adam implicitly also blames God ("the woman you gave me"). People in business often seek to avoid responsibility, because of its effect on future reputation and employment, although that is dishonest. And when no one is willing to take responsibility for a firm's actions, then the outcome may well be adverse, as many firms found out in the banking crisis.

Furthermore, with the fall there is a curse on work, (Genesis 3:17-19), leading to **stress** consistent with which while Ecclesiastes 2:22-23 says *"What does a man get for all the toil and anxious striving with which he labours under the sun? All his days his work is pain and grief; even at night his mind does not rest"*. This could certainly apply to overstressed bankers and may help explain why they were willing to put their jobs at risk for pecuniary reward, if the work itself was seen as unrewarding.

Pride may lead individuals to overlook risks, as well as to seek financial gain. Moving beyond Eden, the account of Babel in Genesis 11:4 describes individuals seeking to be like God, in their pride building empires for their own glory like the bank conglomerates built during the boom: *Then they said, "Come, let us build ourselves a city, with a tower that reaches to the heavens, so that we may make a name for ourselves and not be scattered over the face of the whole earth."* The expressed desire in that verse is 'to make a name for ourselves', clearly a prideful attitude. Prideful desire to make a name for themselves and the paradoxical underlying insecurity it betrays may underlie the dominance of banks by empire builders who overreached themselves and brought down their institutions. They reportedly refused to hear news contrary to their own views again consistent with disaster myopia. We saw above that desire to protect reputation is one protection against principal-agent problems, but Scripture shows its limitations arising from hubris and pride. There is a realism about human psychology in the Bible that economic theory needs to take more seriously.

The Bible is replete with examples of **irrational behaviour**, such as the Israelites worshipping gods who are mere blocks of wood (Isaiah 44:12-20) as summarized in verse 18 *"They know nothing, they understand nothing; their eyes are plastered over so they cannot see, and their minds closed so they cannot understand."* Hence irrational and idolatrous behaviour for bankers (in the sense of pursuing financial gain for its own sake, as a type of god) is hardly a surprise.

3.2 The bible and work

Despite the fall, there remains a biblical value placed on quality of work, the concept of "secular vocation", which Green (1988) contends sketches out a positive framework that bankers and others should aspire to. Barth (1969) suggests that humanity are called to be servants of God and fellow human beings; our work in this light then entails **sustaining and directing the world**, and seeking the welfare of creation. Consistent with this, Griffiths

(2001) argues that work generally, and market enterprise more specifically, can be seen to have a legitimacy based on the "creation mandate" which is to order creation for mankind's needs.[5] Furthermore, drawing on Martin Luther's concept of the goodness of all human vocations, Weber (2002) produced the well-known sociological analysis of the significance of the 'Protestant work ethic'. Weber's analysis suggests that these biblical ideas have informed Western models of work and leisure, and our ethics of employment, to a significant extent. For example, the idea that **work provides human beings with meaning and significance** is clearly in line with biblical teaching, but is not part of standard economic analysis of work as disutility.

Work should be in effect the fulfilment of spiritual life (Kim et al 2009). This is evident, for example, in the **skilled work** of Bezalel on the tabernacle, which is celebrated in Exodus 31:2-5, and which was accompanied by his being "*filled with the Spirit of God*". This work was not just for the self; but to be passed on as evident from Exodus 35:34: "*he has given both him and Oholiab son of Ahisamach, of the tribe of Dan, the ability to teach others*". Psalm 128: 2 says "*You will eat the fruit of your labour; blessings and prosperity will be yours.*" The "wife of noble character" in Proverbs 31 is **entrepreneurial** and works hard but is also honest and charitable (Friedman and Adler 2011). Jesus' parable of the talents (Matthew 25:14-30) encourages **hard work** in the context of the skills God has given us, while Luke 10:7 says that the worker deserves his wages. This implies it is not wrong biblically for bankers, or any other employees, to strive for better salaries and promotion. On the other hand, Paul says in Colossians 3:23 that we should *"work with all our heart, as working for the Lord and not for men"* In other words bankers should not focus solely on "impressing the boss" for promotion or a bonus when monitored but work hard for God's honour when not monitored also.

Whereas the texts quoted above encourage hard work, which was certainly evident in the financial sector, the Bible also enjoins **integrity**. Virtues such as **honesty** are stressed by the Ten Commandments in Leviticus 19:11-12. Indeed, many of the commands such as *"do not lie," "do not deceive one another," "do not swear falsely by my name and so profane the name of your God,"* and *"do not defraud your neighbour or rob him"* relate to honesty and are particularly relevant to finance.

Both honesty and selflessness were absent in many firms in the banking crisis as noted above. A word often used for hard work in the Bible is **"diligence"** as in the rebuilding of Jerusalem's walls in Ezra 5:8. This has a deeper meaning in banking – "due diligence" means assessing correctly all the risks before undertaking a transaction, a virtue sadly lacking in the run-up to 2007. The fact that it was possible to avoid such difficulties is evident from the fact that some institutions either avoided investing in "toxic debt" entirely or withdrew when market conditions began to worsen.

3.3 The bible and wealth

It is clear from Scripture that the Bible has a **positive attitude to wealth**, seen as a reward for some from God for obeying his laws. For example, Abraham, Isaac, Jacob and Job were all very wealthy and are held up to some degree as examples. What is also clear however is that

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[5] *God blessed them, and God said to them, "Be fruitful and multiply, and fill the earth and subdue it; and have dominion over the fish of the sea and over the birds of the air and over every living thing that moves upon the earth.*" (Gen. 1:28 NIV) *The Lord God took the man and put him in the garden of Eden to till it and keep it*. (Gen. 2:15)

the way wealth is used and the attitude of gratitude to God for it is what matters. We should see ourselves as caretakers for the wealth we have which derives from God as in Deuteronomy 8:17-18 *"You may say to yourself, "My power and the strength of my hands have produced this wealth for me." But remember the Lord your God, for it is he who gives you the ability to produce wealth, and so confirms his covenant, which he swore to your ancestors, as it is today*." We are called to share it with the needy as in the Book of Ruth where the crops in the corner of the field are left for the destitute to harvest.

Wealth is good but greed is not. Hence the importance among the ten commandment to not covet which entails greed and lust (*"You shall not covet your neighbour's house. You shall not covet your neighbour's wife, or his male or female servant, his ox or donkey, or anything that belongs to your neighbour."* (Exodus 20:17). Coveting others' bonuses is clearly common in modern financial institutions, leading to breakdown of relationship and temptation to unethical behaviour.

From a biblical point of view it is unsurprising that **even for people who are very highly paid and wealthy, happiness and satisfaction are often absent** as Ecclesiastes 5:11: *"Whoever loves money never has money enough; whoever loves wealth is never satisfied with his income. This too is meaningless."* And it is clear that many bankers are dissatisfied, despite their vast bonuses, with their extremely stressful lives, long hours, and resultant risk of relationship breakdown.

Jesus knew that one could never have a satisfactory life being in love with money.[6] In the context of the bonus culture and high remuneration of bankers, Jesus' **warnings of the dangers of greed** are appropriate,[7] such as in the parable of Lazarus and the rich man (Luke 16:19-31). A rich man was completely oblivious of the beggar Lazarus outside his gates, and his death, and his destiny was perdition**.** In the same way that individuals who operate in impersonal markets can be blind to the individual community, and indeed global consequences of their actions (bankruptcy, repossession, lost savings and pensions). Again, Paul warns that *"People who want to get rich fall into temptation and a trap* (1 Timothy 6:9). Many bankers did exactly this when they proceeded to cut corners in the areas of prudence, diligence, and risk assessment.

3.4 The bible and banking

Turning more specifically to biblical material relevant to banking, **diversification of portfolios** is comparable to the recommendation to hedge risk of disaster by Solomon in Ecclesiastes: *"Cast your bread upon the waters, for after many days you will find it again. Give portions to seven, yes to eight, for you do not know what disaster may come upon the land.* (Ecclesiastes 11:1-2) It was evident that sub-prime ABS's did not diversify sufficiently the underlying credit risk, in the way securitized products are supposed to. In the light of this, banks became vulnerable to liquidity and credit risk when the assets underlying the ABS defaulted, and liquidity in the ABS collapsed. And although on the liability side banks may have used a variety of wholesale funding sources and instruments, they did not allow sufficiently for a complete collapse of the wholesale funding market.

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[6] On the breadth of Jesus' teaching on money, see Goodchild (2005), 2-6.
[7] "The seven deadly sins of banking include greedy loan growth, gluttony of real estate, lust for high yields, sloth-like risk management, pride of low capital, envy of exotic fees, and anger of regulators," Mike Mayo – CLSA, April 6th 2009 (thanks to Paul Mills for sending this quote).

The Bible's warnings about **false weights and measures** could be seen as linked to the inaccurate ratings of the credit rating agencies for the structured products. *"The Lord detests differing weights, and dishonest scales do not please him.* (Proverbs 20:23) These inaccuracies were apparently encouraged by the financial rewards from giving easy ratings to such products as well as resulting from mistakes due to inaccurate models and intense competition between the agencies.[8] The falsification can also be seen as contrary to the second commandment, to treat others as we would like to be treated ourselves.

Traditional Christian teaching regarded all **lending** (except that freely undertaken at zero interest) with suspicion.[9] Calvin said that under the **"law of love" and good stewardship, there could be no objection to loans on reasonable terms between equal parties** with good business reasons to lend and borrow, hence legitimizing banking. As noted by Graafland (2009), Calvin argued that "the productivity of labour is greatly enhanced if it is combined with capital. With the investment loan, the debtor is able to obtain additional income. A trader can, for instance, gain a great amount of money with someone else's money. Hence, it is fair that the lender is compensated. Rewarding the supplier of capital is therefore as natural and fair as paying rent for the use of land or a house." But the law of love and stewardship that Calvin advocates would not permit many of the unjust and exploitative practices undertaken in the boom. These included lending to often poorly-educated and low-income sub-prime borrowers without adequate warning of the risk of homelessness, and without sufficient explanation of the sharp future rises in interest rates once initial low "teaser" interest rates finished.[10]

3.5 Selected teaching of Jesus on finance

An important clue to Jesus' view of the appropriate conduct of the trade of finance is in Matthew 22:17-21 in an encounter with the Pharisees: *"Tell us then, what is your opinion? Is it right to pay taxes to Caesar or not?" But Jesus, knowing their evil intent, said, "You hypocrites, why are you trying to trap me? Show me the coin used for paying the tax." They brought him a denarius, and he asked them, "Whose portrait is this? And whose inscription?" "Caesar's," they replied. Then he said to them, "Give to Caesar what is Caesar's, and to God what is God's."* By arguing to give to Caesar what is Caesar's, and to God what is God's, Jesus is saying that while his followers **must be "in the world" and hence (for example) pay taxes and have jobs in finance, God must have a final say in daily living**. Jesus implies that it is not appropriate to divide the "secular" world, such as work in banking and finance, where we do what we want, from the "religious" part. Rather, Christians must follow God's standards in work and not compromise with the world, for example by being dishonest, greedy or self-centred in what they do.

There is a further relevant aspect of Jesus' response here, since he also highlights that Caesar's head is on the coin – an image that was accompanied by wording claiming Caesar to be "son of a god". Accordingly Jesus is implying that **worship of money via employment is**

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[8] The models of the rating agencies failed to take into account the possibility that US house prices could fall nationally as well as regionally, because it had rarely happened in the past. Furthermore, there were some specific coding errors in the models that came to light before the crisis took place.

[9] This is also true of Islamic financing. For a recent overview, see Di Mauro et al (2013).

[10] Indeed, Calvin maintained a ban on lending at interest to the poor, on lending that would limit our ability to give charitably, on lending that we would be unwilling to accept ourselves, on lending that does not enable the borrower to make a profit, and finally, he excludes professional lending on the ground that "whoever makes a profession of putting money out at usury, is a robber." (Graafland (2009), 4).

worship of a false god – coin bearing the image of Caesar. Humanity is made in God's image as Genesis 1:27 states: "So God created man in his own image, in the image of God he created him; male and female he created them." Humanity owe him their very lives – and should worship him alone.

Consistent with this, Jesus was opposed to the **intrusion of the commercial and financial world into the sacred realm of worship of God and relationship with him**. This was illustrated in the incident of Jesus driving out the money changers from the temple *"Jesus entered the temple area and drove out all who were buying and selling there. He overturned the tables of the money changers and the benches of those selling doves. "It is written," he said to them, " 'My house will be called a house of prayer,' but you are making it a den of robbers.'"* (Matthew 21:12-13). Jesus, however, seems to **accept as a given practice the trade of finance** in the injunction in the Parable of the Talents where placing money with the bankers appears to be approved (Matthew 25:27): *"you should have put my money on deposit with the bankers, so that when I returned I would have received it back with interest"* though the parable may at a deeper level be seen as an analogy to investing in the Kingdom of God.

Other aspects of Jesus' teaching can be seen as more critical of behaviour typical of the financial sector. It can be argued that one aspect of Jesus' teaching is a **long-term view of life**, for example, the kingdom of God coming to fruition gradually like a plant growing, Mark 4:30-32:*"What shall we say the kingdom of God is like, or what parable shall we use to describe it? It is like a mustard seed, which is the smallest seed you plant in the ground. Yet when planted, it grows and becomes the largest of all garden plants, with such big branches that the birds of the air can perch in its shade."* This stands in contrast to the practices of bankers to focus on short term gain to the detriment of their firms' viability.

The idea of the **servant** that Jesus adopted as his paradigm as in Matthew 20:28: *"the Son of Man did not come to be served, but to serve, and to give his life as a ransom for many."* transposes into the principle that **bankers should put their customer's interests first**. This was clearly not the case for sellers of "toxic debt" who misled the buyers about the quality of the underlying assets. Indeed, linked to **putting others' interests before one's own**, contrary to the assumption of economics. Paul offers the command *"Do nothing out of selfish ambition or vain conceit, but in humility consider others better than yourselves. Each of you should look not only to your own interests, but also to the interests of others.* (Philippians 2:4-5) before memorably citing the example of Christ putting others first in Philippians 2:6-8 *"Who, being in very nature God, did not consider equality with God something to be grasped, but made himself nothing, taking the very nature of a servant, being made in human likeness. And being found in appearance as a man, he humbled himself and became obedient to death—even death on a cross!"*

Jesus was interested in motivations, and thus encouraged **honesty and plain speaking** in business dealings. This is illustrated in his command in Matthew 5:37: *"Simply let your 'Yes' be 'Yes,' and your 'No,' 'No'; anything beyond this comes from the evil one."* That honesty was blatantly absent for providers of "subprime mortgages", who misled both the borrowers[11] and those to whom the loans were sold[12].

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[11] For example, by emphasising the "teaser" rates, i.e. low rates of interest at the start of the loan, which gave a false impression of the long run cost of the debt.

[12] By giving the false impression that due diligence had been carried out in assessing the borrowers' ability to pay when this was often not the case.

On the other hand, Jesus appears to **commend advance risk assessment** in the case of the building of the tower and the preparation for war as for example Luke 14:28-30: *"Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it? For if he lays the foundation and is not able to finish it, everyone who sees it will ridicule him, saying, 'This fellow began to build and was not able to finish.'"* though again the parable also represents an analogy for the Kingdom of God. His followers need to be ready to pay the price in terms of suffering of following him, as he concludes in Luke 14:33, again a form of advance planning: *"In the same way, any of you who does not give up everything he has cannot be my disciple."*

One aspect of the Parable of the Talents of Matthew 25:14-30, suggested by Hoare (2006) is that Jesus **commends informed risk taking** (using the talent to make more money), while the risk-averse individual (who hid his talent in the ground) is condemned. But the risk taking that is commended is ultimately for salvation, and not for financial gain. And the point should not be exaggerated; the wider setting of the parable is not so much to do with risky actions per se as obedience and faith in the context of a relationship with a master. Jesus is using contemporary illustrations to stress the critical importance of repentance and acceptance of himself as Lord of the coming Kingdom.

3.6 The parable of the shrewd manager – the principal agent problem

Some of Jesus' parables contain principles that may be directly relevant to bankers' behaviour, such as the parable of the shrewd manager, which we consider sufficiently important to quote here in full: *Jesus told his disciples: "There was a rich man whose manager was accused of wasting his possessions. So he called him in and asked him, 'What is this I hear about you? Give an account of your management, because you cannot be manager any longer.' "The manager said to himself, 'What shall I do now? My master is taking away my job. I'm not strong enough to dig, and I'm ashamed to beg— I know what I'll do so that, when I lose my job here, people will welcome me into their houses.' "So he called in each one of his master's debtors. He asked the first, 'How much do you owe my master?' " 'Eight hundred gallons of olive oil,' he replied. "The manager told him, 'Take your bill, sit down quickly, and make it four hundred.' "Then he asked the second, 'And how much do you owe?' " 'A thousand bushels of wheat,' he replied. "He told him, 'Take your bill and make it eight hundred.' "The master commended the dishonest manager because he had acted shrewdly. For the people of this world are more shrewd in dealing with their own kind than are the people of the light. I tell you, use worldly wealth to gain friends for yourselves, so that when it is gone, you will be welcomed into eternal dwellings. "Whoever can be trusted with very little can also be trusted with much, and whoever is dishonest with very little will also be dishonest with much. So if you have not been trustworthy in handling worldly wealth, who will trust you with true riches? And if you have not been trustworthy with someone else's property, who will give you property of your own? "No servant can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve both God and Money."* (Luke 16:1-13).

Jesus commends the manager for being alert and generous (albeit with another's money) in his own long term interests, but highlights that his **problem was that he was not trustworthy**. Note in this context that being trustworthy goes beyond obeying rules. It implies being honest and prudent, to be relied upon to make an appropriate judgment in the

interests of the principal or client in varying situations. Similarly in today's world, trust is essential for financial markets. In fact, the root of the word "credit" or "credere" means trust.

In Jesus' parable, the manager wasn't trustworthy beforehand, for he'd been wasting the rich man's assets, with reckless irresponsibility. This parallels the actions of some in the financial sector up to 2007. And he wasn't trustworthy in the story of the parable itself as he gave away the master's assets. That's why Jesus calls him dishonest even as the rich man commends him for his worldly wisdom. And this is clearly relevant to banking ethics in terms of the principal-agent problem of economics as identified above. Jesus appears to be saying that our **trustworthiness is dependent on love and loyalty, and where they are directed**. Our treasure will be where our heart is. The manager was loyal only to himself – he showed no loyalty to the rich man and so their relationship was ruptured. In the latter part of the parable, Jesus is saying – don't be dishonest like him! We can only be loyal to one master. But the manager's behaviour seems very akin to the economic theory model, where love and loyalty simply have no role to play.

Scripture calls mankind to be trustworthy to God, and **we become trustworthy by being honest with money**. God judges humanity on small things and they can have a huge effect on destiny (Luke 16:10-11): *"Whoever can be trusted with very little can also be trusted with much, and whoever is dishonest with very little will also be dishonest with much. So if you have not been trustworthy in handling worldly wealth, who will trust you with true riches?"*

An **example of dishonesty** is the agents selling sub-prime loans to poor people in the US, knowing in their hearts they couldn't repay. They were well rewarded at the time, but their behaviour was not morally acceptable. This introduces a key verse (Luke 16:13): *"No servant can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve both God and Money."* Or in other words, you cannot serve God if your attitude to money is to see it as a goal in life, an end in itself, ultimately an idol that is worshipped, as we noted above in respect of the image of Caesar on Roman coinage.

4 Reconciling the two approaches to find a way forward

It is important at the outset to stress that we consider banks and modern financial markets essential to the modern economy, and the issue, rather than their abolition, is whether they can be made to work better, and their excesses somehow curbed. We contend that the crisis, following the analysis above, has ethical roots and results from individual and structural causes, and both need to be addressed.

4.1 Regulation, values and virtues

The response to the banking difficulties has been a call for **tightening of regulation**, which should reduce the incentives of bankers and their shareholders to take excessive risks. This, together with the threat of takeover for banks that underperform and (for individuals) the threat of dismissal are the means by which neoclassical economics envisages to prevent a recurrence of the current financial crisis. Regulation is typically seen in terms of capital adequacy, an appropriate remuneration system, liquidity, and internal procedures of banks.

For example, the "Basel III" banking regulation envisages inter alia much higher levels of bank equity capital and liquidity in future.[13]

A first point is that while these elements are essential, forms of regulation may be too technical. They should arguably be complemented by regulation **encouraging more basic "values" as benchmarks for behaviour** to be measured against. For example, efforts to avoid regulation by financial innovation, so-called regulatory arbitrage, could be reduced by a form of regulation forbidding actions against their spirit and not merely their letter. Featherby (2009)[14] suggests a series of very appropriate "values" that have been neglected in finance in recent years, and which are in line with the kingdom values outlined above, such as service before self, honesty and not conformity, competition and not aggression, and reward aligned with risk.

Theology, with its realistic view of fallen behaviour, nevertheless raises the issue of whether even this is sufficient. Regulation (and firm culture) promoting "values" may end up with pious lists to write on the wall and ignore, or seek to circumvent. In our view, **a crucial complement is "virtues"**, which Vincent Nichols (2008) defines as "personal capacity for action, the fruit of a series of good actions, a power of progress and perfection." Examples of kingdom virtues are honesty, prudence, courage, justice, trustworthiness, and diligence – the internal conviction of what is right behaviour and determination to follow it through. It means not always following the herd, having an inner guidance based on an external point of view from the Christian faith. It entails the courage to speak up when things are wrong.

Gregg (2010) suggests that the most important of these is prudence "the perfected ability of individuals possessing right freedom and free will to make morally correct practical decisions" e.g. using experience, data, and judgment in the granting of credit.[15] And we highlighted above that this is precisely the behaviour that Scripture requires. Furthermore, there is empirical evidence that belief is positively linked to higher ethical attitudes in the workplace (Conroy and Emerson 2004).

Hence, the question arises **how and whether bankers can be motivated to follow prudence, integrity, and business ethics**.[16] How can banking structures be developed to encourage good people to do the good they want to do? One aspect is that firms could be encouraged to reward such virtues financially wherever they are found. The church can point out that moral behaviour is a sine qua non for the modern economy to function, with all the benefits it provides. Christians in finance can act as examples, especially if they are leaders. For virtue depends on character and character is learnt by example rather than precept.

For example, the global bank HSBC was led during the crisis by Stephen Green, who is a Christian and indeed an ordained Anglican minister. That bank emerged relatively unscathed, which we contend was not a coincidence since his approach clearly was a more prudent one than that of his contemporaries. It is clear that Christians such as Green are not called to leave the financial sector but must become "salt and light" by the virtues they display, in the place where God has called them to his service, "working for the Lord and not for men". The force

[13] Basel Committee (2011).
[14] Fetherby (2009), 17-19.
[15] Gregg (2010) goes on to see the parts of prudence as "understanding of first principles (e.g., 'don't steal'), open-mindedness, humility, caution, the willingness to research alternative possibilities, foresight, shrewdness, and the capacity to form an accurate sense of the reality of situations."
[16] See Green (1988), 120-135.

of example can pay dividends for the firm as well as leading individuals to Christ. In this context it is notable that many modern banks had their foundation in the Christian faith, for example Barclays was founded by Quakers.

Other mechanisms to encourage virtue might include appropriate selection of new employees, induction and training that emphasises virtue; emphasis on the importance of the firms' reputation; emphasising a sense of professionalism; allowing and protecting whistle blowers; design of the firm's architecture of management to ensure oversight of all staff; and reemphasis on virtue through regulation to the extent feasible.

But perhaps fundamental to reestablishment of ethical behaviour may be the resolution of the question of who is the ultimate master, you, the employer or God? Perhaps only when God is in charge of their lives will bankers see the incongruity of taxpayer support for their institutions and recurrence of large bonuses. Then they will see the injustice of it, given taxpayers are on average far poorer than the average banker.

We accept that virtues cannot be relied on alone – some people will always lack virtue and need regulations and values to be measured against. Values are enforceable while virtues are not – so they are needed as a backup. But we contend that a financial system that neither promotes nor rewards such virtue has the seeds of its own destruction.

From a secular viewpoint, another way to limit losses via "disaster myopia" is **to retain older bankers with corporate memory and experience of past crises** – otherwise the same mistakes tend to be made again. This has not tended to happen in practice as older bankers have tended to be made redundant, leaving in charge younger individuals with no memory of crisis. The Bible could be quoted in favour of this in terms of the good advice Rehoboam son of Solomon received from his elderly advisors (1 Kings 12), to reconcile himself with his restless subjects by easing their burden of tax and forced labour. In fact rather than taking the elders good advice, he took his inexperienced young friends' bad advice, to "act tough", and prompted the break-up of the kingdom.

4.2 The influence and size of the financial sector

A further policy to pursue is to reduce moral hazard from the "safety net" that generates incentives to act imprudently. It is clear that something has gone badly wrong for banks to in effect create the deepest recession since the 1930s. This raises the question whether banks, which were devised for the good of the community, have become self-seeking and destructive and too influential politically. **Attitudes to banks** may need to change. For example, in the words of the then UK Archbishop of Canterbury Rowan Williams (2008), it is easy to personify the market and capital "as if they were individuals, with purposes and strategies, making choices, deliberating reasonably about how to achieve aims. We lose sight of the fact that they are things that we make. They are sets of practices, habits, agreements which have arisen through a mixture of choice and chance." And so "we expect an abstraction called 'the market' to produce the common good or to regulate its potential excesses by a sort of natural innate prudence, like a physical organism or ecosystem. We appeal to 'business' to acquire public responsibility and moral vision."

Indeed, this is what the Bible calls **idolatry, attributing agency to something we have made ourselves** – and hence there is a need for discernment to avoid the risk of structural evil that such abstraction can lead us to. It can lead to foolish and destructive errors about the

self-stabilizing nature of the economy or financial system, for example.[17] Such idolatry is also a way for individuals to seek to avoid responsibility by blaming the system or the institution when there were alternative choices that the individual could have made. Instead, biblical theology insists on individual responsibility for ones actions (as do secular systems of justice), for example Micah 6:8 “He has told you, O man, what is good; and what does the Lord require of you but to do justice, and to love kindness, and to walk humbly with your God?

Besides our attitude to it, the **size of the financial sector** could also be questioned. Following the point above, there may be greater political influence if the sector is large in the context of the economy – it is less likely to be challenged regarding ethics. Also foreign banks may be less susceptible to ethical challenge. Furthermore, there could remain questions on the value added by banking and finance. The head of the then UK regulatory authority the Financial Services Authority (FSA)[18], Lord Turner, raised the issue of a transactions tax on financial trading that would reduce the scope of speculation, and would likely reduce the overall size of the financial sector. Others have argued to break up the monopoly power of large banks, which also threatens financial stability. This, it can be argued, is in line with the implication of Revelation 18 (see Davis 2012) that the “Babylon” of the financial sector had become too powerful and influential for the economies it should serve.

Some legislation has of course been passed that moves in this direction. In the US, the Dodd-Frank Act imposed inter alia a prohibition on most proprietary trading by U.S. banks and their affiliates, subject to limited exceptions, and restricts covered institutions from owning, sponsoring or investing in hedge funds or private equity funds. The UK government has announced that there will be ring-fencing of retail banking operations from investment banking in conglomerates. This is intended to ensure that if UK banks get into difficulty with their investment banking operations, the bank for ordinary consumers will be protected and the investment-banking arm can be allowed to fail. The UK government has, however, stopped short of breaking up the banks, as was suggested at an earlier stage.

4.3 Relationships and market structure

The impersonality of the market, especially when structured products break the lender/borrower link, suggests a need to make finance again more a **question of personal relationships** – in line with scripture, where the doctrine of the Trinity teaches that God is relational, so human beings, made in his image, are inevitably relational also.. Moral hazard is reduced in close relationships, as in the household of biblical times where people could monitor one another closely – and also in “micro lending” in developing countries, where there is peer monitoring of use of the loan by groups of local people (who get a loan in rotation), and lending to women who are usually more responsible than men.[19] [20]

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[17] Such beliefs, common among economists, are in fact contrary to the teachings of the greatest economists of the past, such as Keynes (1936), 159, who said “Speculation may do no harm as bubbles on a steady stream of enterprise. The position is serious when enterprise becomes a bubble on the whirlpool of speculation. When the economic development of a country is a by product of the activities of a casino (i.e. the financial markets) the job is likely to be ill done.”

[18] The FSA has since been split up and its prudential supervisory responsibility now lies with the Bank of England.

[19] The Grameen Bank in Bangladesh is a key example. See Bornstein (2005).

[20] In this context, after the crisis of the early 1990s, a common belief in Sweden is that banks went astray when “they stopped lending only to those they could see from the church tower.” The downside of lending to relatively few customers with whom one has close relationships, possibly in a small geographic area, is lack of

Some wider issues arise in terms of **market structure and ethics**, largely from an economics standpoint. First, is ethical behaviour more likely under oligopoly or competition? In oligopoly there are wide margins and scope for non-competitive behaviour that could be ethical but also scope for exploitation. In competition, reputation is important and there is scope for customer switching, but also a need to maximise profits (and perhaps cut corners) to ensure survival. Contestable market might be a desirable balance for ethical behaviour, and mutuality as opposed to limited company structure. (Some of the worst failures in the UK were of former mutuals that became PLCs.) Ethics may depend on the time horizon, whereby unethical behaviour by banks may aid short run profit maximisation but affects reputation in the long run and hence customer loyalty It is importance that there is publicity to unethical behaviour and a role for "Consumers Associations" and better consumer understanding of financial products

Indeed, to ensure a "level playing field" between bankers and their customers there is also a need for **enhancing the understanding of financial products** by individuals. This may require regulation of complexity, i.e. not permitting products to be marketed that are judged too complex for retail consumers to understand. It also requires training of all individuals in finance, which could be undertaken by churches as well as in schools.

Conclusions

We have sought to challenge the common approach of economics to ethics in banking, which can be characterized as pursuit of self-interest, even if it is realistic. We contend that widespread teaching of this approach, and its popularization, has been an important factor in the genesis of the financial crisis, albeit not the only one.[21] In this we concur with Benedict (2009), that "business ethics risks becoming subservient to existing economic and financial systems rather than correcting their dysfunctional aspects".

The approach of biblical theology, we contend, offers much greater challenges to what is commonly seen as unethical behaviour and hence deserves to be assessed seriously. There remains a difficulty of how the approaches that theology commends can be promoted in banking. Approaches could include the power of example, as well as enshrining the approach in remuneration mechanisms, appropriate induction, training and emphasis on professionalism, encouragement of whistle blowing and emphasis on the firms' reputation as a key asset not to be put at risk.

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diversification in a bank's portfolio of loans. However, greater stability and lower default rates may more than offset this.

[21] For an overview of various factors underlying the crisis, see inter alia Barrell and Davis (2008) and Davis (2012) Chapter 1.

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