Cowton, Christopher J.

Time for an ethics stimulus package?

Article for The Philosophers' Magazine

Christopher Cowton is Professor of Accounting and Dean of the Business School at the University of Huddersfield, and Editor of the journal Business Ethics: A European Review (Wiley-Blackwell).

Philosophy and the banks – a question of supply and demand

Banks have rarely been popular – except with bankers, especially when a large bonus arrives. Such bonuses have been particularly galling at time when the ordinary taxpayer has been called upon to bail out the banks, while suffering economically as a result of credit crisis-induced recession. Then there are the LIBOR-fixing and PPI scandals, not to mention the mis-selling of endowment policies and pension plans not so long ago. Banks are not only unpopular but also not to be trusted, it seems.

Many commentators have been having their say about what's wrong with the banks and what should be done to remedy their deficiencies and restore trust on the part of the public. Some of what has been said will no doubt prove to be helpful, but some of the thinking has been distinctly woolly or little more than sloganeering. Time for some clear, incisive thinking. What can philosophy contribute?

The philosopher-theologians of the Middle Ages followed Aristotle in condemning the charging of interest, a position most commonly associated with Islamic banking nowadays. Making money out of money, rather than out of something "real", is a traditional reason for banks' unpopularity. Whether modern philosophers are concerned about this is less clear. Indeed, considering their importance, banking and finance have received remarkably little philosophical attention of late.

So why haven't philosophers been standing ready to make their contribution to understanding and solving the problems with banks – surely one of the key issues of our day? To use a phrase that bankers would understand, it comes down to a matter of supply and demand.

On the supply side, philosophers have had other things on their minds. For much of the 20th century, British philosophers were focused on the nature of language and getting clear on what it means to use particular terms. Once that had been done, it was up to others, with more technical expertise, to apply such thinking or fill in the details. When an "applied turn" took place in philosophy in the latter part of the century, it was towards bioethics and matters of life and death – euthanasia, abortion, animals, the natural environment. Business ethics got a look in, but there was little or nothing on finance, including banking. Perhaps it wasn't regarded as important enough – or maybe it was seen as too technical or difficult, or even boring.

However, if a rich set of philosophical insights into contemporary banking had been available, would bankers have been interested? Was there any demand for philosophy in its various guises - including moral philosophy? Certainly not from the practical world of money and credit. With too little regard to their own history, which is replete with failures and crises, the banks grew in size, scope and ambition. Bankers were the masters of the universe and banks were the engines of a surging global economy on a straight, wide highway, with the twists and turns of boom and bust visible only in the rear view mirror. Philosophers have long discussed “hubris”!

Meanwhile, the way in which finance was thought about had undergone a radical transformation. Once taught descriptively, with a focus on institutions in their particular national context, finance thinking became more abstract and theoretical. In particular, it was “captured” by financial economics. And financial economics itself became increasingly mathematical, paving the way for the complex financial products, dreamed up by maths and physics PhD graduates, which have turned out to be worth far less than met the accountant’s eye – the toxic assets that have undermined banks” balance sheets. I’m pretty sure Aristotle and Aquinas wouldn’t have approved of the bundling of assets and securitisation etc, even if they had understood it. Philosophers are well aware that language drives thought, and we been through a period in which, while it deepened in certain impressive technical respects, thinking about banking became increasingly narrow. We are now living with the consequences.

Banks might never be popular, but if they are once again to enjoy widespread trust, they (and the regulators who seek to control them) will need to engage in some clear and different thinking. This is something that philosophers are adept at. It is therefore encouraging that the Arts and Humanities Research Council has recently funded a project at the University of Birmingham under Professor Tom Sorell on “responsibilities, ethics and the financial crisis” (I declare an interest as a member of the Advisory Board). The £700,000 budget might be large for a philosophy research project, but it is a drop in the ocean compared to the mess the bankers have made. Nevertheless, it’s a start. Who knows? Perhaps some bankers will also be prompted to invest their bonuses in rigorous and creative philosophical thinking about the activities from which they have made their money and which have cost their fellow citizens so dear.