Moral Capitalism and the Great Financial Meltdown of 2008

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America's growth and economic well-being depend on robust capital markets. Goldman Sachs, Morgan Stanley, Merrill Lynch, Bear Sterns, and their predecessors brought companies to life by raising capital for them. Without capital markets, there would have been no railroads, steel mills, General Motors, Ford, Boeing, Microsoft, or any of the other *Fortune* 1,000 and smaller companies that ever sold stock or debt securities to finance their businesses. Yet imprudent decisions on the part of United States and European investment banks, banks, mortgage brokers, insurance companies, and consumers have plunged the global financial network that sustains global capitalism into crisis. This is not the first time that market capitalism has failed. Less than a decade ago, global markets lived through the bust of the dot-com and telecom bubble in equities and then the accounting scandals of Enron and WorldCom. Before that, world financial markets were upset by currency collapses in Thailand, Malaysia, Indonesia, and Russia. And even before that, the United States lived through the savings and loan/ junk bond bubble and bust of the late 1980s.

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The current crisis represents the latest, and arguably most severe, fallout from a systemic erosion within the corporate world of ethics and responsibility standards in business decision making. Ideological commitments to laissez-faire free-market fundamentalism and shareholder primacy at the expense of other stakeholders have divorced business leadership from standards of good faith, wise stewardship, and care for the public interest.

Capitalism's "immune system" of market discipline fails every so often and the cancer of "irrational exuberance," greed, and narrow self-interest metastasizes. The object of reform should be either to eliminate this deep cancer within capitalism once and for all or to boost society's market "immune system" of accurate pricing, risk management, and valuation transparency.

WHAT WENT WRONG?

In addition to poor regulatory oversight, two problems lie at the heart of the current crisis. First, risk was imprudently assessed and managed. And second, valuations were poorly analyzed. These two processes, risk assessment and valuation, are interrelated: risk assessment shapes the parameters of valuation, and valuation takes into account future risks. In short, the higher the future risk, the lower the present—otherwise known as "real," or "fundamental"—value of an asset.

The drivers of poor judgment were greed and shortsightedness, which could be considered the structural curses of financial markets. To some extent, financial markets are always driven by speculation—betting not on the underlying enterprise but on perceptions held by others of where prices will go. Speculators and traders do not care what the long-term future is nor what real values are—they just want to play off what other people *think* values are. If market players think sub-prime mortgages have value, brokers will sell them what they want to buy, take a fee, and walk away leaving all future risk with the buyer.

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Therefore, financial markets have a bias toward shortsighted profit-taking, when what successful capitalism actually needs is farsighted "patient" capital. This is the continuing contradiction between financial markets and the good of responsible capitalism.

THE CAUX ROUND TABLE APPROACH

Overcoming the functionality of greed and short-term self-interest is the goal of those advocates in business ethics and corporate social responsibility who promote responsible decision making in business. Greed's relation to human nature has long been a concern of religious and moral leaders and moral philosophers such as Plato, Kant, Confucius, and Mencius.

The Caux Round Table (CRT) published a set of ethical principles for business in 1994, the first such set of principles for the guidance of global business and the only set of such principles yet designed by experienced business leaders. The CRT is an international network of experienced business executives that seeks to employ ethical principles in business decision making. It met for the first time in 1986 in Caux, Switzerland, to bring together executives from Japan, Europe, and the United States to find a common position on doing business without protectionism.

The 1994 CRT Principles for Responsible Business provided a warning that the behaviors that accelerated the financial crisis of 2008 were inconsistent with sustainable business practices. If these principles had been infused in the strategic and tactical decisions of financial institutions, the crisis could have been avoided or at least mitigated in scope and intensity. Thus, the current massive disruption of financial markets initially brought on by the collapse of the sub-prime mortgage market in the United States provides an opportunity to assess the relevance of the CRT Principles for Business.

Providing Value and Quality

First, let us consider the implications of the first CRT Principle for Business: "The value of a business to society is the wealth and employment it creates and the marketable products and services it provides to consumers at a reasonable price commensurate with quality. To create such value, a business must maintain its own economic health and viability." Because the crisis encompasses the failure of major financial houses and banks such as Bear Sterns and Lehman Brothers, the sale of Merrill Lynch and Washington Mutual, and government rescue of Freddie Mac, Fannie Mae, AIG, Fortis, and others, we can conclude that these companies failed to meet the ethical requirement of maintaining their own economic health and viability.

A major take-away lesson from this financial crisis is that, at any given time, markets are not necessarily the best judges of business success.

Today's profit may only be a chimera to vanish in tomorrow's losses and bankruptcy. Over time, when proper information is available, markets weed out poorly performing enterprises. Enron—which was liquidated within three months from the time when markets realized the company's true financial situation—should serve as a stark reminder that markets may misjudge the future and that some asset bubbles are unsustainable. Some standard of behavior is therefore needed as a corrective to market "irrationality" when it occurs.

The decision making of the companies noted above was wrongheaded in the accumulation of too much debt and in setting imprudent values on certain financial assets such as sub-prime home mortgages and collateralized debt obligations (CDOs). In their collapse, these firms caused a contraction of markets, thus erasing wealth and employment in violation of what the CRT advocates as the primary obligation of business firms. Such imprudence cannot be justified by short-term profits made while debt was being assumed or bad valuations were being passed on to others. The duty of a firm to create wealth must be measured over many quarters of financial results, not just a few. If the profits made during the good years are smaller than the losses caused in the long run, then the enterprise has failed in its first duty to society. One hopes that today's profitability and wealth creation will be sustainable, but myopia must be avoided in coming to such a judgment. CitiCorp, for example, made several billion U.S. dollars in profits from CDOs and trading in credit default swaps (CDSs), but then lost much more than that in shareholder equity when the market collapsed.

Second, the current crisis was caused by a failure to provide quality products at a price commensurate with their inherent worth. Sub-prime mortgages were priced inappropriately for many borrowers. Excessive and imprudent loans were offered to prospective homeowners. In the many cases where credit standards were waived or overlooked, lenders and mortgage brokers knew or should have known that the borrowers were highly likely to default if economic conditions changed. Borrowers were effectively sold defective financial products. And because these mortgages were also sold in excessive quantities, these conditions gave rise to an asset bubble, which in turn created perverse incentives on the part of homebuyers to assume unreasonable risks of future default and foreclosure.

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Similarly, the terms of many CDOs sold were not of the value that was represented to buyers. They carried more risk than was reasonable for the investment goals of those who purchased them. They were also issued in excessive amounts that undermined their long-term value.

The CRT principles reinforce this requirement to serve customers with respect for their needs to ensure that businesses "provide their customers with the highest quality products and services consistent with their requirements." The first CRT Principle also holds that: "Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created." This Principle holds that businesses should put themselves in the shoes of their customers and not sell them goods or services that directly or indirectly undermine the quality of their lives. Under older rules of buyer-beware trading, the burden was on the customer to ferret out the ill-conceived, the dangerous, the polluting, the inappropriate good or service, which theoretically exonerated firms from their responsibility to maintain a given level of quality. Modern requirements are stricter, and quality is the responsibility of the business as much as of the customer. Playing to the shortsightedness and greed of customers, or to their bad habits, draws upon any such business a deserved opprobrium of "slumming" in unethical arenas of human frailty. Such businesses seize upon the moral infirmity of their customers and profit from it.

Improving Social Conditions

The second of the CRT Principles provides an international dimension to a business's responsibility for improving social conditions, holding that "businesses should contribute to economic and social development ... also in the world community at large." The over-leveraging of mispriced financial assets that caused the 2008 financial meltdown was global in scope. Financial instruments were sold in global markets, and the resulting recession after the collapse of the asset bubble was also global. Those who created the unsustainable markets in sub-prime mortgages and CDOs ignored this principle; they destroyed wealth and harmed the lives of many customers, employees, owners, creditors, and communities.

The current crisis in financial markets was also caused by a lack of sufficient transparency in CDOs' valuations, which eventually undermined the smoothness and efficiency of international markets for credit and liquidity. Financial houses in London, banks in Germany, and the entire economy of Iceland suffered large losses. Global investors withheld

support for American credit instruments and stocks. Again we see the CRT Principles cautioning against such behavior: "businesses should recognize that sincerity, candor, truthfulness, the keeping of promises, and transparency contribute not only to their own credibility and stability but also to the smoothness and efficiency of business transactions, particularly on the international level."

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In general, the provision of the financial products that gave rise to the crisis was legal. No laws were violated in lending to sub-prime borrowers or securitizing those mortgages, in packaging their returns together and selling them to investors through CDOs, or in providing guarantees of payment through credit default swaps. And while some individuals are being investigated for fraud in the sale of such products, the products themselves were conceptually legitimate. A sub-prime mortgage may be an appropriate extension of credit to certain borrowers; securitizing many such mortgages propels more capital into housing markets to assist many in becoming homeowners; providing a guarantee of the future performance of another (a credit default swap) is an ancient and honorable transaction. Another of the CRT Principles maintains: "[businesses] should recognize that some behavior, though legal, may still have adverse consequences." Although the current crisis was not instigated by illegality, the adverse consequences of selling sub-prime mortgages to excess on unsustainable terms has become all too evident.

The CRT defines a standard of enhancing community environments and standards of living. Where homeowners go into default when mortgages can't be paid, a community may experience disinvestment as its home prices fall and some homes themselves are abandoned. Had the boards of directors and senior managers of the various investment banks that profited from the issuance of sub-prime mortgage-backed securities and CDOs insisted on products and sales strategies consistent with CRT principles, there would have been less risk injected into the global financial system and fewer unsustainable financial products.

One argument is that "Directors and corporate officers are hired to be agents not just for their fidelity but also for their skill. Their responsibility is to guard against high risk and imprudent courses of action."[1]

Capitalism breeds interdependencies through the specialization of function and the division of labor. One specialist must depend for his or her output on the quality of work and diligence of other specialists in the

complex chain of production or delivery of services. Reliance and trust are essential for capitalism to thrive. Loyalty and due care promote reliance and trust within complex relations of investment, production, and distribution; and the destruction of either reliance or trust often leads to hesitation and disturbances in markets. People lose confidence and withhold their ideas, labor, and capital from productive exchange. The economy then contracts. That is what has been happening for the last several months.

DOES CAPITALISM NEED WALL STREET?

A fascinating set of issues, most germane to business ethics and corporate social responsibility, hovers around the proper role of highly liquid markets for equity securities with an optimal structure of capitalist incentives. Some—largely the efficiency-conscious free-marketers—would put Wall Street's needs as the distinctive measure of good capitalism. Others are not so sure about making Wall Street's values a priority. They prefer to make a distinction between speculation and short-term profit taking on one hand and fundamental company valuation on the other.

"Renting" a stock as opposed to "owning" it is an important distinction: owners commit capital; renters only pay current expenses. Owners take bigger risks associated with longer-term horizons. Owners have more at stake; they are entrepreneurial capitalists. Renters usually are buying an input for current production. Of course, a long-term "renter" often comes to act like an owner in terms of investment thoughtfulness, concern for the effects of depreciation, commitment to renewal and remediation, and using strategic foresight. Renters more typically, however, are in and out of the property, exploiting it for a more narrow set of goals and then moving on to the next opportunity.

In trading markets, a clear conceptual line between owning and renting becomes dim. Even when owning a stock, one still faces the temptation to treat it as would a renter—paying a fee in order to play in a game of chance. We "buy" stocks, so it is said, and we commit our "capital" to the market. Yet when one buys stocks to own and things subsequently don't go our way, one just sells—thus turning oneself retrospectively into a renter of the security.

But what if such language—"owning shares in a company"—is out of date? These terms were created back in a time when stock-holding was not a mass phenomenon and when individuals were long-term owners in the style of Warren Buffett or the owner of a family company. Now, with so many shares in the market moving in and out of great funds on the

command of computerized trading algorithms, what reality remains of the notion of share ownership? Using the word "rent" to describe what is going on in Wall Street is perhaps closer to the economic reality. It points to a system of economic relations that is not fully in line with the requirements of moral capitalism.

"Rent-seeking" for economists is not capital investment bringing new factors of production into the economy, rather it is extracting value from market transactions without making a corresponding contribution to productivity. "Rent-seeking" refers to taking profit out of a transaction or a stream of commerce without doing much more than owning a factor of production like land or equipment. "Rent-seeking" is considered to be more a return to power than to entrepreneurial risk. In classical economics, it was long ago observed that paying rent for land does not bring the land into being; rent is merely a charge paid to the title holder to gain access to that asset. Rent-seeking is the heart and soul of crony capitalism. The crony has access to laws, regulations, special privileges, monopolies, police protection, and so on with which to make a cash profit without taking much risk. Markets are used, but pricing in such markets is limited by non-market restrictions on both demand and supply. Politics and rules have more influence on prices and opportunities than does free competition among buyers and sellers. Rent-seeking is taking advantage of some form of social, political, or legal power. Making money this way encourages irresponsibility and competition for power; and the abuse of the power that can be rented out for cash limits time horizons for earning a return and invites rent-seekers to take short-term risks, leaving the long-term consequences of rash behavior for others to bear. Put another way, rent-seeking can reduce or even eliminate the incentives for reciprocally beneficial conduct.

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"Renting" stocks for short-term exploitation of their legal powers gave rise to the greenmail[2] pressures of yesterday and to the hedge fund pressures of today. Having only such a "renter" mentality was the focus of social criticism of classical landed aristocracies—landlords back then often preferred to rack rents and their tenants became more like indentured servants. The incentives around renting for both lessor and lessee tend to cut off rights from corresponding responsibilities, encouraging cavalier treatment of money and property, whereas ownership tends to

bind property rights to responsibilities, with its incentive of profit over time and the inherent burden of care.

Renting property is not inherent in or essential for capitalism. Renting stocks on Wall Street is also not necessarily a fundamental component of modern capitalism.

The desirable functions of Wall Street's financial institutions are:

- to permit companies to raise money, either to expand a business or to allow founders to realize the wealth they have created for society;
- to help retain staff with stock ownership and options as incentives to stay and build the company for future earnings;
- to provide reputation assurance for customers, suppliers, creditors, and potential employees; and
- to send pricing signals for the efficient investment of financial capital in one company or another, or one industry or another.

These functions are most strongly associated with the encouragement of ownership rights, and they foster industry, thrift, and responsible management of corporate assets and opportunities.

Less constructive functions of Wall Street's financial institutions are those that encourage speculation, short-term profit seeking, and illusory, unsustainable valuations of enterprise. These are more associated with "renting" stocks for a limited time and purpose. If today's Wall Street is more appropriately analogized to "renting" than to "owning" stocks, perhaps regulatory policy should take this into account when imposing costs, hurdles, and consequences on those who are in the markets only to take from others and not to give of themselves.

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ASSET PRICING AND ASSET BUBBLES

In a bubble environment, price signals often do not result in sustainable asset valuations, because rising prices invite speculation, and growing speculation drives prices even higher prices—until buyer's remorse finally sets in at the margin, new supply is not taken up, and the market collapses. If we could better understand the mechanics of how mispricing begins in any cycle of excessive accumulation of assets (especially the contract right assets favored by financial markets), we might be able to eliminate such

erroneous pricing signals. Better pricing, therefore, would tip the odds away from speculators and toward genuine value investors.

Two factors, it appears, contribute to the onset and the maintenance of mispricing. First is the fact that most providers of contract rights (equity securities, debt obligations, derivatives, etc.) take a fee out of the deal on the sale of the right and leave town so to speak. They have no incentive to price accurately for the sustainable long run. Instead, they price to sell in the current market; they feed speculation and they feed off of speculation.

Second, and related to the way in which originators of contract rights get paid, is the fact that those who originate contracts rights to sell in financial markets very frequently assume no long-term ownership risk for sustaining the value of the asset. These originators do not retain an interest either in the tradable contract right sold to investors or in the underlying asset, if there is one, which supports the right to future income that is sold to the investor via the contract.

If the fees charged for selling contract rights became increasingly less profitable as the market for such securities grew, or if ownership responsibilities became more and more unavoidable as the risk of market collapse accumulated, then market-wise, enlightened self-interest would find ways to dampen speculation and to protect asset values.

The Caux Round Table Principles apply to accurate pricing in several ways. First, they demand consideration of the range of future risks and returns that impact any calculation of present value. Thus, asset prices determined "upon the whole" by enlightened self-interest would be less subject to irrational exuberance. As the bubble grows and prices start to become untenable in the long run, consideration of this fact should act to moderate future price rises. Thus, speculative forces would not be given free reign.

The Caux Round Table Principles have other salutary effects on pricing as well. Their requirement of transparency speaks to accuracy in valuation. Their call for quality in products and services speaks to sound values in whatever is made, delivered, or sold, including financial products. And, of course, they do not permit collusion in pricing or excessive rent seeking where no real productive value has been added.

GETTING ASSET PRICES RIGHT

Markets are unforgiving; they expose truth and cut out chaff. They have no emotions, shed no tears for losers, and take no pride in winners. Markets refuse to subsidize idealism. Over time, free markets reject fraud, abandon products that have no sound purpose or accommodating price,

and undermine false or misleading valuations. That Bear Stearns with balance-sheet assets worth $80 per share was sold for $2 and then for $10 per share, that Lehman Brothers with billions in assets nonetheless went bankrupt and wiped out owners' equity, and that Enron as an enterprise was gone within months of revelations regarding its true debt obligations and real income flows, all testify to the cruel discipline of markets at work.

True, markets create liquidity and asset bubbles, but then they turn and destroy them. Bubbles inherently can't last forever. But, in the breaking of bubbles, people get hurt, as we have seen happen all around us in the continued destruction of wealth and value flowing from the bubble and bust of the past five years. In one sense, the crisis of American financial institutions was both necessary and just, in that the collapse served as a correction of a past injustice. However, the pain of such corrections usually does not fall proportionately on those who made the mistakes in the first place—those most responsible have likely taken the money and run. One thinks here of the packagers and sellers of securitized mortgages working for the large investment banks who made millions in bonuses, invested wisely and kept much of their gains after the great panic of September 2008 when their companies' survival was in question, but when losses were suffered by so many others.

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The lesson of the current financial retraction is perhaps keener still. It may be telling us that the share of global cash flows appropriated by the financial services industry in general was excessive and unsustainable. The implication is that more of the rewards going to financial services took the form of rent-seeking rather than genuine entrepreneurial risk taking. This value extraction would be inconsistent with the Caux Round Table Principles, because substantial and systematic extraction of commissions from the economy could not last if the financial intermediaries collectively were providing real value added to investors and other players in the real economy.

Perhaps the failed Wall Street intermediaries were not contributing enough to justify their returns. Some coldness is required to let companies like Bear Stearns, Lehman Brothers, Merrill Lynch, and CitiCorp decline and fade away as casualties of poor risk management and imprudent forethought. But such coldness may be required when the companies are not creating sufficient value for society. We should hold the system and its

leaders to the powerful capitalist standard of wealth creation so that the positive synergies of investment and production will flow throughout the economy, improving lives for all. Those who fail to perform do not merit subsidies or the ability to extract non-economic rents. Wall Street in this sense dug its own grave through mismanagement of risk.

If the CRT Principles for Business are to be assiduously implemented, there should be no bubbles at all—*not ever*—just a sustainable rise in valuations, much as a rising tide lifts all boats. Such a sustainable rise would rest on sound business activities that resulted in tangible, non-illusory benefits to stakeholders. The better meaning of corporate social responsibility is one that links the justification of business enterprise to the deepest, most sustaining sources of human well-being in addition to the creation of material wealth and the satisfaction of consumer wants; in a profound and necessary way, business enterprise provides sustenance for human dignity and moral achievement, and this function of business needs to be recognized in theories of the firm and of free-market institutions.

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This deeper meaning of responsibility should not be restricted to business enterprises; a concern for the common good, including global perspectives, provides such a link. Such concern requires the acceptance of responsibility: it is the obligation of all actors to invest in the forms of social and human capital that foster societal cooperation for mutual advantage. Those who create, possess, or use wealth must realize that the right to property carries responsibility. Numerous actors contribute to the capital value of an enterprise and, therefore, those who own or manage this wealth must take into account the interests of these stakeholders in their decision making. This deeper understanding of corporate social responsibility is rendered even more important once the aforementioned tenets are realized.

CONCLUSION

The early years of the twenty-first century have seen a new level of resignation and discouragement, due to perceived disempowerment in the face of a highly complex and fragmented globalized world. This trend is particularly disturbing because it prevents the emergence of those shared

conceptions that inspire us to act for the common good. This trend has been amplified by "short-termism" and opportunism on the part of political and business leaders; however, greed and selfishness on the part of individuals contribute seriously to this avoidance of responsibility for the common good. A moral capitalism requires no less.

The Caux Round Table has offered the following seven points as recommendations to prevent future financial crises:

Require board directors to consider interests beyond shareholders, which may affect the company's success, by codifying the principle of "enlightened shareholder value" in company law.

- Require corporate board directors to disclose all material risks and uncertainties to the future development, performance, and sustainability of the company and its business in the annual report. Specifically, require corporate boards to disclose annually the material risks and impacts flowing from: workplace and employee issues; customer, product, and service issues; supply chain matters; environmental risks; and social and community issues and concerns.

Require minimum standards of corporate governance knowledge and expertise for corporate board directors.

- Require corporate board directors to have the skills and expertise to: responsibly execute their duties of trust and profit, given business is not without consequence for society; oversee the full spectrum of financial, governance, social, and environmental risks to the company; and ensure business practices meet minimal ethical standards.

Require corporate boards to have a dedicated board committee responsible for risk oversight across the full spectrum of risks—financial, governance, social, and environmental.

- Require the Board Risk Committee to have an independent chair and a majority of independent directors on the committee. These boards should be required to commission independent assurance reports, on an annual basis, measuring the effectiveness of their company's risk management processes and to disclose the assurance report findings.

Regulate executive remuneration structures to ensure that they are consistent with prudent risk management, align with long-term wealth creation, and do not reward poor performance.

- Corporate board directors should make annual disclosures (and at the time of the appointment of any CEO) detailing: conflicts of interest and other risks embedded in both short-term and long-term executive performance incentives, including how the Board proposes to manage such risks; and the degree to which the remuneration structure aligns executive interests with those of shareholders, including during times of company stress and underperformance. Equity-linked remuneration should be in the form of common equity escrowed for a minimum period of five years, regardless of continued employment. Board members and key executives should be prohibited from borrowing or hedging against the common equity they hold in the company, unless there is full and timely disclosure of all such borrowing or hedging. Termination payments should be capped at one year's remuneration unless there is prior shareholder approval of a higher amount.

Implement stronger and globally coordinated financial and banking regulatory reforms to prevent systemic risk build-up or market manipulation.

- Across the G-20, policymakers should harmonize regulation and cooperation of financial supervisors/regulators, including cross-border supervision of globally significant financial entities, to enhance financial system stability and close opportunities for regulatory arbitrage.
- They should also broaden regulatory coverage to all financial entities and transactional activities that pose material systemic risk to financial stability and they should strengthen capital adequacy of all systemically important financial institutions so that it's in line with each's underlying risk profile. Market products, behaviors, and activities that are not consistent with the principles of market stability, long-term value creation, and a fully informed market should be weeded out or strictly regulated.

Regulate all financial markets, instruments, and investment activities that materially impact on financial system stability and on superannuation and pension system viability.

- Broaden regulatory coverage to all financial entities, products, and transactional activities that pose material risks to financial stability or to superannuation and pension fund viability. Regulators should be enabled to intervene in and control excessive speculation and risk accumulation in all systemically important financial markets and instruments. Market participants, including derivative and hedge funds, should be required to disclose trading and other information necessary to adequately access market and systemic risk. There should also be fully regulated exchanges for credit derivatives and other systemically important instruments.

Require registration and ensure regulatory oversight of credit-ratings agencies whose ratings materially impact on financial and investment markets. Review the practice of paid ratings and consider possible reform to ensure the independence of ratings. Reform and adequately resource the International Monetary Fund (IMF) and other multilateral institutions to ensure they are effective forces for economic and social justice globally.

- The IMF and other international financial institutions and multilateral development banks must be sufficiently resourced to assist emerging and developing economies in dealing with the flow-on from the global financial crisis. Furthermore, the membership in the Financial Stability Forum should be extended to all G-20 members, and its role should be more robust (e.g., via the development of an early warning system for threats to global financial stability). Finally, the World Trade Organization should simultaneously strengthen measures that oppose and prevent trade protectionism and it must renew initiatives that would result in a global free trade agreement.

If trading markets in financial instruments are not reformed, capitalism will still live in fear of an internal, untreated cancer. The cancer will be in remission from time to time, but it will always be in the system of investment, production, employment, and consumption waiting to metastasize on short notice when conditions are right. Those conditions, the circumstances that need to be eliminated by reforms, are a combination of too much liquidity in the form of debt, short-term profit taking around an

illusion of value-creation, and human nature that succumbs to temptation on a regular basis. Unreformed financial markets are a threat to the sustainability of a moral capitalism. Markets, it needs to be remembered, do not reform themselves; they just follow the random walk of aggregate demand and supply. Therefore, leadership is needed to construct the level playing field on which markets can compete.■

ENDNOTES

1 Stephen Young, *Moral Capitalism* (San Francisco: Berrett-Koehler, 2003), 131.

2 Greenmail refers to when a corporate raider would buy up a large block of a company's stock and then threaten to make life difficult for management insiders unless the stock was bought back by the company at a profit.