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Who Bears Responsibility for the Financial Crisis?

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The philosophy stream of the FinCris project has asked (a) how ascriptions of responsibility can be made coherent in the context of the financial crisis, and (b) in light of this analysis how responsibility for the events of the crisis and the harms that it caused may be legitimately assigned.

It is not the aim of this work to conduct a witch hunt. Rather, it is to use theoretical philosophical analysis to address genuine barriers to understanding the financial crisis and reaching conclusions regarding the best course of action for the financial sector and financial sector regulation going forward. One such barrier is that our everyday notions of responsibility and accountability are best suited to analysing small scale, interpersonal interactions but often struggle to make sense of large scale events like the crisis. Another barrier is that, in such events, events can be recounted from many different perspectives. The result is a wealth of seemingly conflicting claims about where responsibility should fall and what should follow from this.

Our findings start from the observation that, despite the rhetoric, it is generally possible that different accounts of responsibility in cases like the financial crisis are not mutually exclusive. That is, there are many different narratives of the crisis that are compatible with each other, each illuminating a different aspect of events. In principle, then, leaders of financial organisations might bear a special kind of responsibility for the failure of their institutions, without financial sector employees more broadly being entirely exonerated for their roles in events. Consumers of financial products may be implicated for irresponsible borrowing behaviour, while governments may also be on the hook both for a failure properly to regulate financial markets and for policies that unbalanced the global macroeconomy. While this point may appear unsurprising, its acceptance means that any account of responsibility must be assessed on its own merits – it cannot be defeated simply by arguing that someone else bears responsibility.

Together with the authors with whom we have collaborated, we offer a number of specific accounts of where responsibility may lie. One of these focuses on the leaders of financial sector institutions. It argues that large financial institutions should be considered to form part of what John Rawls termed the 'basic structure' of society - that set of institutions that is most fundamental to the distribution of the benefits and burdens of social cooperation.

The fact that banks affect distributive justice not only makes the consequences of the actions of senior financial sector figures morally significant; it also fundamentally changes the standards to which those actions can be held. This account argues that posts at the top of big banks were, if not public roles, roles with a significant 'public aspect', leading to the claim that many leaders of systemically important banks have a significant share of responsibility for the crisis. This conclusion justifies much of the focus since the crisis on ‘fit and proper person’ tests, and the personal accountability of senior leaders.

Two further accounts focus on financial sector employees more broadly. These accounts both argue that the financial sector is under a particular obligation to manage risks well, especially the financial risks that are at the heart of its business and the role it plays in the wider economy. Moreover, both these accounts argue that cultural failings in the sector led to a failure to fulfil this obligation. On this understanding, a culture is something that is created and maintained not by a few individuals, but by groups of people.

One conclusion drawn from this is that all members of such groups, of which the broadest is the financial sector as a whole, may participate in collective responsibility for its effects. A further conclusion is that, to the extent that individuals engage in practices that support and nurture an inappropriate culture, they may bear individual responsibility. These conclusions suggest the need for wider reflection within the sector on how practices and attitudes should change.

A fourth account addresses the thought that the proper bearers of responsibility are a diverse collection of individuals, institutions, and less well defined entities such as systems. This wider range of potential subjects needs to be considered since, on this view, a successful ascription of moral responsibility depends on showing that the internal action mechanism of the thing in question is defective compared to some normative standard. Since all these kinds of things can possess an internal action mechanism of the appropriate kind, and we can identify standards against which they may be assessed, they can all be held responsible. This leads to a complex picture of collective responsibility in which the proper reshaping of the way our institutions and systems function is as important as policing the conduct of individuals.

This perspective is developed in the final account offered through this stream, which calls on the financial sector to reflect on the valuable contributions that it makes to society. It argues that, because of these contributions, the sector acquires collective responsibilities (a) to reform corrupted institutional mechanisms which no longer fulfil the valuable ends for which they were designed; and (b) to act according to these reformed institutional mechanisms to realise their collective ends. This account supports the post-crisis emphasis on enforcing obligations to ensure institutional integrity in cases such as the LIBOR and Forex fixing scandals.

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