The Financial Crisis as a Religious Crisis

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Abstract

Among the important factors in the financial crisis of 2008 and 2009 was a large ethical breakdown in the financial sector that preceded it. The sources of good ethical behavior are multiple but religion ranks high among them. In thinking about the role of religion, most people think first of Judaism, Christianity and other traditional religions. The concept of religion should be extended, however, to include "secular religions" which were among the most powerful religious influences of the twentieth century. This paper argues that many people on Wall Street once believed in an American "civil religion" that was grounded in a deep faith in the redeeming benefits of economic progress and political democracy. Working on Wall Street thus was not simply a matter of making as much money as possible individually, but was also seen as playing a key role in a national economic system that served a transcendent purpose. Indeed, the efficient allocation of capital by the financial system was especially critical to this core American religious project. By the twenty-first century, however, the American civil religion was fading. This waning faith and the lack of any new commonly accepted substitute contributed importantly to the large ethical failures of Wall Street and other participants in the U.S. financial system during the 2000s.
At both the popular and scholarly levels, the understanding of “religion” is being extended today to encompass other belief systems besides Judaism, Christianity, and other historic faiths of the world. A 2014 Poll by the Pew Forum on Religion and Public Life, for example, found that those who declared themselves to be “religiously unaffiliated” had grown rapidly in the United States from 15 percent in 2007 to 23 percent in 2014.1 As the Pew Forum noted, however, “we emphasize that the absence of a religious affiliation does not necessarily indicate an absence of religious beliefs or practices. On the contrary ... most of the ‘nones’ say they believe in God, and most describe themselves as religious, spiritual or both.”

Most current professionals on Wall Street would no doubt find such observations puzzling in terms of opening an exploration of the causes of the financial crisis of 2008 and 2009.3 It is likely that few of them would regard the financial crisis as a religious crisis.4 But that is precisely the argument I propose to make in this article.

In order to understand my argument, it is important to understand that in recent years there has been a growing recognition that many of the belief systems conventionally described as “secular” in the twentieth century actually had a powerful underlying religious foundation.5 Indeed, they are best regarded as actual forms of religion, even if their adherents do not believe in a traditional God. In his 2005 commencement speech to Kenyon College, the great American novelist and essayist David Foster Wallace told the assembled students: “Everybody worships. The only choice we get is what to worship.”6 The potential objects of religious worship can be economic outcomes such as material progress and the economic systems that achieve such progress -- accompanied by the belief that economic progress will

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6 David Foster Wallace, This Is Water: Some Thoughts, Delivered On A Significant Occasion, About Living Compassionate Life, at 100-01 (Little, Brown and Company 2009).
save the world in non-material as well as material respects. In 2016, the Harvard theologian Harvey Cox would write of one form of such belief in “The Market as God.”

Although he died in February 2013, the distinguished legal philosopher Ronald Dworkin had completed by then *Religion Without God.* Recognizing that the “secular” is often religion in a different form, Dworkin now considered that “expanding the territory of religion improves clarity by making plain the importance of what is shared across that territory” of religion in its full modern diversity of expression. As Dworkin writes, we can thus speak, literally, not just metaphorically, of “religious atheism” as one form of actual religious belief. Such secular forms of religion share with traditional religion the objective to inquire “more fundamentally about the meaning of human life and what living well means.”

Well before Dworkin, a leading theologian of the twentieth century, Paul Tillich, said much the same about developments in twentieth century religion, that they took a wide variety of forms, sometimes not even explicitly recognized as religion, but nevertheless belonged in the category of religion in that they dealt with matters of “ultimate concern.”

Many modern religions, moreover, implicitly substitute secular forces in this world for the traditional role of God in Judaism and Christianity. The omnipotent role of the “economic laws of history,” for example, takes the place of God in Marxism. The American sociologist Robert Bellah famously wrote of the American “civil religion.” George Washington was its “Moses” and Abraham Lincoln was its “Christ” figure who gave his life to save the Union. Such secular religions might even be described as new forms of Judaism and Christianity in disguise – or for the more devout, they are new Jewish and Christian heresies. No assessment of the religious history of the twentieth century will be complete without an understanding of the rise of secular religion and its deep roots in traditional religion.

Many people, moreover, have compartmentalized their religious beliefs. They look to traditional religion at certain moments such as marriage and death. They look to secular religions, however, to answer ethical and other issues that arise in public life. Indeed, in the public arena the various denominations of “economic religion” -- the American civil religion being one of them -- were the most important religions of the twentieth century. In the world of public policy, economic “efficiency” and “inefficiency” became the new operative standard of “good” and “evil.” Towards the end of the century, however, economic religion

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10 Id. at 5, 12, 9.


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was increasingly challenged by “environmental religion,” which substituted “natural” and “unnatural” as a more valid understanding of “good” and “evil.”

Religion and Wall Street

Although religion is not usually considered a main motivating factor in financial system decision making, some observers have noted at least its implicit presence. The Secretary of the Treasury during the first Obama administration, Timothy Geithner, wrote in 2014 that, looking back over his interactions over the years with the former Federal Reserve Bank Chairman Alan Greenspan, he appeared to have been driven by an “almost quasi-theological belief that markets were rational and efficient.” The longtime economic columnist for the Financial Times, Martin Wolf, wrote in 2014 of Greenspan that the “rational pursuit of self-interest is the core ideology of the free market economy. But at the height of the [financial] crisis [in October 2008], Greenspan stated [in testimony to the U.S. Congress] the loss of his faith that self-interest would deliver financial stability. It was as if the Pope declared that he no longer believed in the Resurrection of Jesus Christ.”

More recently, the former head of the Bank of England during the events leading up to and including the financial crisis, Mervyn King, described the modern banking system as a contemporary form of “alchemy.” When he asked the former chairman of the U.S. Federal Reserve Bank, Paul Volker, for his single most important piece of advice, Volker replied that it was to be sure to maintain a powerful sense of “mystique” around the workings of central banking. Indeed, mystique is often essential to the success of a religion; when former Washington Post editor William Greider wrote a 1989 book about the Federal Reserve Bank, he described the Federal Reserve as “The Temple.”

In the 1990s, as King considered, central banks took on a role as “financial idols” within the world of the “cult of finance.” King described the top private bankers as becoming “the gods of finance.” The success of the banking system depended on the moral standards, levels of trust, and other features of “the culture of banking.” Unfortunately, in the 1990s and 2000s, as King himself observed at close hand, this culture had been characterized by a growing “delusion and greed.” Wall Street behavior might not have been due to any fall in a mythical ancient garden, but the results now often looked surprisingly similar to the old biblical consequences of original sin.

21 Id. 175.
23 King, supra note 20, at 99, 117, 148, 289.
Many people might think the frequent use King made of religious terms to describe the 2000s world of finance -- a world that he knew as well as anyone -- was only metaphorical, a way to enhance his message with the use of especially colorful adjectives. Even when he is not using explicitly religious terms, however, the thrust of his 2016 book, *The End of Alchemy*, is the large role in the U.S financial system of human ignorance and irrationality, the widespread recent mass capitulation to private selfishness, the breakdown of common moral standards, the loss of mutual trust, the pretense of certainty in face of the unknown, the intellectual abdication of responsibility and other failures of economists and other supposed “experts” on the financial system, and other growing dysfunctions in the overall culture of the financial system since the 1980s and 1990s, culminating in the financial crisis and the Great Recession.

In the events leading up to the financial crisis, King found that there had been “an erosion of ethical standards. ... Almost all the major banks have been dragged into one or more misconduct scandals.” J. P. Morgan in the United States settled with the Justice Department on a compensating payment of $13 billion for its misconduct contributing to the financial crisis and the Bank of America agreed to a payment of $17 billion worldwide. King reports that the total fines paid by banks since the banking crisis ended in 2009 had amounted to the immense sum of $300 billion. Ultimately, a moral breakdown on this scale, as King agrees, reflected a mass breakdown in the “culture” of American and world banking. As David Foster Wallace said about matters of individual religion, one can also say that every culture is grounded in a religion, the only choice a society has is what religion it will be.

Religion thus has had a more powerful influence in American public life than most economists and other social scientists of the twentieth century recognized. In one case, as this paper will argue, the role of religion -- broadly understood to include secular forms as well as their predecessor traditional religions -- has had a large role in the workings of Wall Street, and was a significant contributing factor to the events leading up to the financial crisis of 2008 and 2009. The financial journalist Roger Lowenstein writes of the dot-com bubble in the late 1990s, that “in the autumn of 1998, there ignited the bizarre frenzy for dot-com stocks, a speculative mania so unhinged from ordinary logic it seemed the product of some medieval sorcery -- a cloistered theology rather than modern math.” If we understand “theology” to encompass secular beliefs, the study of the workings of Wall Street becomes in part the study of “religion” -- and as such thinking is formally developed the study of its “economic theology.”

I. TEN COMMON CAUSES GIVEN FOR THE FINANCIAL CRISIS

There are by now at least several shelves of books attempting to explain the causes of the financial crisis. Rather than an overall problem of a cultural failure in the financial...
system driven by religious developments, many explanations attempt to place the greatest blame on one or another of the key actors in the American financial system – the government regulators, the Wall Street firms, the Federal Reserve, the home mortgage originators, the rating agencies, the U.S. Congress, the economics profession, the innovators of brand new financial instruments (the “quants”) and others. Reviewing this literature, the most commonly asserted leading causes include at least the following ten:

1. The shift of Wall Street ownership of the leading investment banks from the 1970s to the 1990s from a partnership form to public ownership by stockholders. This significantly altered the incentives for top management in favor of taking greater risks that might offer very large financial benefits to them in the short run, while they might have minimal losses imposed on them in the event of failure in the longer run. As financial journalists Bethany McLean and Joe Nocera write:

   Goldman Sachs went public on May 4, 1999, ending a 130-year partnership and ushering in a new era with shareholders to answer to, a board of directors to provide oversight, and a chief executive officer. ... The $3.6 billion the company raised in the offering made it the largest IPO ever. ... Hank Paulson, who would become CEO within days of the IPO, had a stake worth $289 million.

   The IPO was a critical turning point for Goldman Sachs. Over time, the culture did change, as the company became focused on such measures as return on capital, stock performance and growth.

   [Wall Street trading] can mean treating clients fairly or “ripping their faces off,” as traders sometimes put it. It can mean trading plain vanilla bonds or peddling complex derivatives. Competitors [in the 2000s] began to whisper that Goldman had become increasingly ruthless, increasingly cutthroat, and increasingly concerned only about its own bottom line – and its bonuses. “They’d cut your ear off for a nickel, rip your throat out for a quarter, sell their grandmother for a penny, and sell two grandmothers for two pennies,” groused one private equity executive.29

2. The introduction in the 1980s, and continuing into the 2000s, brought many new financial instruments of rapidly growing technical complexity. This required the hiring of new personnel with mathematical and other expert skills, but who were otherwise ignorant of key aspects of capital markets, and the emergence of a new dangerous divide between these experts and financial firm management that lacked the requisite technical skills to fully understand the products that even their own banks were now selling. Wall Street Journal reporter Scott Patterson explains that:

   The Great Hedge Fund Bubble [of the mid 2000s] – for it was a true bubble -- was one of the most frenzied gold rushes of all time. Thousands

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29 Bethany McLean and Joe Nocera, All the Devils Are Here: The Hidden Story of the Financial Crisis, at 51-153 (Portfolio 2010).
of hedge fund jockeys became wealthy beyond their wildest dreams. One of the quickest tickets to the party was a background in math and computer science. In their quest for alpha, the quants had unwittingly primed the bomb and lit the fuse for the financial catastrophe that began to explode in spectacular fashion in August 2007.

The result was the biggest, fastest and strangest financial collapse ever seen, and the starting point for the worst global economic crisis since the Great Depression. Amazingly, not one of the quants, despite their chart-topping IQs, their walls of degrees, their impressive Ph.D.'s, their billions of wealth earned by anticipating every bob and weave the market threw their way, their decades studying every statistical quirk of the market under the sun, saw the train wreck coming.\(^\text{30}\)

3. The "dot-com" stock market bubble of the late 1990s, fueled by investor enthusiasms and carelessness in light of 20 years of advancing stock prices, which created an economic crisis when it collapsed in 2000, resulting in a desperate attempt of the Federal Reserve in the early 2000s to avoid a deeper economic contraction by sharply lowering interest rates, thus helping to stimulate a housing bubble that did in fact succeed for many Americans in significantly compensating for their earlier asset losses in the stock market, and postponing the reckoning. The economics staff writer for the New Yorker magazine John Cassidy explains:

[A] displacement is what gets the speculative process [of a bubble] going. ... In the case of the housing and credit bubble, the displacement came in the form of a drastic reduction in interest rates. From a peak of 6.5 percent in 2000, the Federal Reserve cut the federal funds rate – the rate at which banks lend to one another – to 1.25 percent in November 2002.

By keeping the funds rate below 2.5 percent from November 2001 to February 2005, the Fed ensured that most other [interest] rates fell to record, or near-record, lows. The result, not surprisingly, was a borrowing binge on the part of homeowners, consumers, businesses, and speculators. Between the end of 2002 and the end of 2006, he total amount of debt outstanding in the United States went from $31.84 trillion to $45.32 trillion, an increase of 42.3 percent.\(^\text{31}\)

4. The mistaken confidence in the late 1990s of top government officials such as Alan Greenspan, Robert Rubin, and Larry Summers – then extending through most of the Bush administration -- that the self-regulatory capacities of free markets carried over to the special circumstances of a private financial system that often dealt in non-exclusive flows of information as its unconventional main commodity, whose workings were too complex for

\(^{30}\) Scott Patterson, The Quants: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It, at 12 (Crown Business 2010).

\(^{31}\) John Cassidy, How Markets Fail: The Logic of Economic Calamities, at 221-223 (Farrar, Straus and Giroux 2009).
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many outside — and quite a few inside as well — observers to understand, and some of whose key players were “too big to fail.” As the Federal Judge (and prolific social commentator) Richard Posner comments:

Alan Greenspan, the chairman of the Federal Reserve from 1987 to 2006, was an economist held in high regard by the economics profession. In concert with Robert Rubin and Lawrence Summers, successive Secretaries of the Treasury between 1995 and 2001, Greenspan pushed through and executed the policies that set the stage for the depression [of the financial crisis and its aftermath]. The triumvirs refused to restrain lending, either by raising interest rates or by tightening the regulation of bank’s capital structures; to bring the [complex] new financial instruments under regulation; or to prick asset-price bubbles, as the Federal Reserve could have done (and eventually did — too late) by raising interest rates further. [Ben] Bernanke, a brilliant academic economist, succeeded Greenspan and continued his policies. Both missed the warning signs, and Bernanke, who became chairman of the Federal Reserve in 2006 ... was slow to accept that there would be no soft landing and that the Federal Reserve would have to trundle out its most powerful artillery to stop the slide. Had the Federal Reserve acted sooner, the bubbles would have burst with less force and the depression would probably have been averted. ...But I have to acknowledge that there are political problems with pricking asset-price bubbles and the Federal Reserve cannot maintain its political independence if it ruffles too many feathers.32

5. The growing pressures exerted at the end of the Clinton administration and subsequently by members of Congress such as Barney Frank and Chris Dodd to extend home mortgage opportunities to poorer and riskier home buyers, leading to the creation of large numbers of “sub-prime” mortgages, and eventually the collapse of the housing bubble. Political scientists Nolan McCarthy, Keith T. Poole, and Howard Rosenthal write that:

The administrations of both Bill Clinton and George Bush both pushed the idea of maximizing homeownership (although for different reasons). ... One of the major pushes during the Clinton administration was to require that Fannie Mae and Freddie Mac increase the share of their loan portfolios dedicated to mortgages for low and middle income families. In 2000, Andrew Cuomo, then the Department of Housing and Urban Development (HUD) secretary with oversight responsibilities for these government sponsored enterprises (GSEs), increased the required percentage of low and middle-income mortgages from 42 to 50 percent of their portfolios. Moreover, he dramatically increased requirements for the GSEs to buy mortgages from underserved areas and those of “very-low income” [home purchasers]. Partly as a result of such pressures, Fannie Mae’s portfolio of

subprime loans grew to $15 billion in 2002 from a level of just $1.2 billion in 2000. To diffuse any potential political backlash against GSE purchases of risky loans, Cuomo’s HUD also exempted the GSE’s from additional reporting requirements on their high risk loans. The GSEs also purchased private-label subprime and close to subprime Alt-A residential mortgage-backed securities to the tune of $253 billion.33

6. Bowing in part to such pressures, the recklessness of Fannie Mae and Freddie Mac in shifting from their traditional acquisitions of higher quality mortgages to the acquisition and packaging for resale of sub-prime mortgages, operating with implicit federal guarantees, while enriching top managers such as James Johnson and his successor in 1999, Franklin Raines, whose real expertise were not housing finance, but politics. The leading New York Times business reporter Gretchen Morgenson and Joshua Rosner conclude that:

James Johnson’s command-and-control management of the mortgage finance giant [Fannie Mae] and his hardball tactics to ensure Fannie Mae’s dominance amid increasing calls for oversight are crucial to understanding the origins of the worst financial debacle since the Great Depression.

Little known outside the Beltway, Johnson was the financial industry’s leader in buying off Congress, manipulating regulators, and neutralizing critics. ... His strategy of promoting Fannie Mae and protecting its lucrative government association, largely through intense lobbying, immense campaign contributions, and other assistance given to members of Congress, would be mimicked years later by companies such as Countrywide Financial, an aggressive subprime mortgage lender, Goldman Sachs, Citigroup and others.

Johnsons manipulation of the company’s regulators provided a blueprint for the financial industry, showing them how to control their controllers and produce the outcome they desired: lax regulation and freedom from any restraints that might hamper their risk taking and curb their personal wealth creation.34

7. The failure in the mid-2000s of federal and state overseers of financial markets such as the Federal Reserve and the Securities and Exchange Commission to exercise due diligence in investigating the many large ongoing changes in housing finance, and to take appropriate regulatory actions to respond to these developments. According to Sheila Bair, who served on the governing board of the Federal Deposit Insurance Corporation from 2006 to 2011:
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Looking back, one of the saddest things about the financial crisis is that it could have been avoided so easily with a few commonsense measures [by federal regulators]. If we had raised capital standards during the good times, we would have averted many failures, particularly among the investment banks. Instead, the leverage of the investment banks and European institutions grew dramatically, and the FDIC had to fight a lonely battle to prevent the same thing from happening with the banks we insured. If the Fed had imposed lending standards for bank and nonbank lenders, so much of the mortgage lunacy could have been averted. And if Congress had not tied the hands of the CFTC [Commodity Futures Trading Commission], SEC, and state insurance regulators to impose some basic, commonsense regulatory controls on credit default swaps, the trillions of dollars of trading losses would have been much reduced.

This is not to excuse the conduct of the industry and place all the blame on the regulators. It was because of industry pressure that capital standards were lowered, mortgage lending standards were blocked, and regulators were barred from overseeing the derivatives market.\(^\text{35}\)

8. The similar failures in the mid-2000s of Standard and Poor's, Moody's and Fitch, the three key rating agencies, to exercise due diligence in investigating such housing market developments in light of the large number of new mortgage backed securities coming to them for ratings, and to respond appropriately by introducing new rating methods for these securities. The former Wall Street mergers and acquisitions banker and business writer, William Cohan observes that:

By spring 2006, investors were probably not aware of the growing internal doubts of analysts at S&P and Moody's about the mortgage backed securities they were rating. For instance, at a weeklong housing conference, held on Amelia Island, Florida in 2005, two S&P credit analysts noted that the housing market seemed to be getting a little frothy and that the financial risks to the industry were ratcheting up, as housing prices skyrocketed and lending standards deteriorated. “Despite these risks,” explained Ernestine Warner, a director in S&P’s residential mortgage-backed securities surveillance business, “there just isn’t any performance information on any of these products just yet because they are still very new to the market. Due to the time lag associated with delinquencies and losses in RMBS [residential mortgage backed securities] pools, and the nature of the risks, it will be several years before the product performance is tested.”

[Despite this] S&P kept slapping investment-grade ratings on soon-to-be-shaky new issues. ... [An observer at rival Moody’s later commented that]

\(^{35}\) Sheila Bair, Bull By the Horns: Fighting to Save Main Street from Wall Street, and Wall Street From Itself, at 356 (Simon & Schuster 2012).
“What happened in 2004 and 2005 with respect to subordinated tranches is our competition, Fitch and S&P, went nuts. Everything was investment grade. It didn’t really matter [what the mortgage-backed security was like].”  

9. The unwillingness or inability in the mid 2000s of Goldman Sachs, Citicorp, Morgan Stanley, J. P. Morgan and other Wall Street commercial and investment banks to address obvious signals of growing distress in housing markets and housing finance, and equally important to take actions to protect their customers, especially those investing in mortgage-backed securities, and to use their large political influence to seek a stronger governmental response in Washington. *New York Times* financial columnist Andrew Sorkin explains:

Financial titans believed they were creating more than mere profits. They were confident [in the 2000s] that they had invented a new financial model that could be successfully exported around the globe. “The whole world is moving to the American model of free enterprise and capital markets,” Sandy Weill, the architect of Citigroup, said in the summer of 2007.

But while they were busy evangelizing their financial values and producing these dizzying sums, the big brokerage firms had been bolstering their bets with enormous quantities of debt. Wall Street firms had debt to capital ratios of 32 to 1. When it worked, this strategy worked spectacularly well, validating the industry’s complex models and generating record earnings. When it failed, however, the result was catastrophe.

The crowning example of liquidity run amok was the subprime mortgage market. At the height of the housing bubble, banks were eager to make home loans to nearly anyone capable of signing on the dotted line. With no documentation a prospective buyer could claim a six-figure salary and walk out of a bank with a $500,000 mortgage, topping it off a month later with a home equity line of credit. Naturally, home prices skyrocketed, and in the hottest real estate markets ordinary people turned into speculators, flipping homes and tapping home equity lines to buy SUVs and power boats.

At the time, Wall Street believed fervently that its new financial products—mortgages that had been sliced and diced, or “securitized” [into a multitude of “tranches”] had diluted, if not removed, the risk.  


10. The intellectual failures of the economics profession and business school students of the financial system, self absorbed in their own internal professional discussions, seldom taking the trouble to learn enough about the real world, more concerned to seek the social prestige of physics through the use of mathematical methods, culminating in economics in a prominent new professional literature emerging not long before 2008 explaining why in recent decades a lasting "Great Moderation" had replaced the previous cyclical instability of the U.S. economy, attributing this to the large advances of economic science and the wisdom of professional economic policy advice. University of Middlebury economics professor David Collander (and his co-authors) write that in retrospect:

The global financial crisis has revealed the need to rethink fundamentally how financial systems are regulated. It has also made clear a systemic failure of the economics profession. Over the past three decades, most economists have developed and come to rely on models that disregard key factors—including the heterogeneity of decision rules, revisions of forecasting strategies, and changes in the social context—that drive outcomes in asset and other markets. It is obvious, even to the casual observer, that these models fail to account for the actual evolution of the real-world economy. Moreover, the current academic agenda has largely crowded out research on the inherent causes of financial crises. There has also been little exploration of early indicators of systemic crisis and potential ways to prevent this malady from developing. In fact, if one browses through the [past] academic macroeconomics and finance literature, "systemic crisis" seems to be an otherworldly event, absent from economic models. Most models, by design, offer[ed] no immediate handle on how to think about or deal with this recurring phenomenon. In our hour of greatest need, societies around the world are left [today] to grope in the dark without a theory. That, to us, is a systemic failure of the economics profession.38

A Free-Rider Problem

In considering these ten important causes commonly given for the financial crisis, one might suggest that the burden of responsibility falls on "no one" because it actually falls on "everyone." Even if they might have individually recognized the various developing problems of the public and private institutions of the financial system, effective action would have required collective action. With other institutions failing to provide leadership, individual institutions in each area of the financial system continued to act from the point of view of maximizing their own institutional interests (following the seeming mantra of free market religion). As one might say, the healthy functioning of the overall financial system is a collective goal, not only for participants in that system, but of national significance, yet all the key participants in the system in the 1990s and 2000s increasingly behaved like free-

riders.\textsuperscript{39} In its own way, the financial system now offered another example of "the tragedy of the commons."

As Elinor Ostrom and others have explained, in the face of a free-rider problem, and without government controls or a formal system of private property rights, effective collective action to manage a commons requires the presence of some strong communal beliefs (the financial system can be seen as a particular form of community).\textsuperscript{40} If such shared beliefs might once had been adequately present in the American financial system (if subject to periodic lapses), they have been eroding with growing speed since the 1980s. To the extent that unifying beliefs are ultimately a matter of a common culture and religion, as broadly understood here, the financial system was facing a spreading religious crisis.

The financial system was admittedly not alone. Indeed, the financial crisis can be seen as a particularly unfortunate symptom of a more systemic set of problems in American public life. These relate to matters such as the steadily growing role of the federal government over the course of the twentieth century that eventually exceeded its administrative capacities, partly owed to the frailties of a political system created more than 200 years ago with a design to distribute the exercise of power widely. The American intellectual class has been shaped by American universities reorganized 100 years ago in the progressive era to provide professional skills for the "scientific management" of American society, even as it has become increasingly evident that the capabilities of expert knowledge to comprehensively understand and "manage" society were much overrated then and now.\textsuperscript{41}

Another factor is that an American leadership class forged in the fire of World War II and the Cold War had passed from the scene, leaving a conspicuous absence of similar leadership capabilities among the professional and other elites that today play a central role in the American system. In one especially important case, American newspapers, television, and other leading media in the 1970s and 1980s shifted from providing valuable information to providing entertainment, abdicating their former significant public leadership role. The American "civil religion" – in which faith in economic progress had a central place -- that once had had such a large part in forming the common values of the American "melting pot," binding the nation together culturally and religiously, has been replaced by a greater pluralism of fundamental beliefs that makes agreement and action more difficult for a nation state as large and diverse as the United States.

The progressive economic religion that played such a large role in American history over the course of the twentieth century looked to the national government to orchestrate the American pursuit of economic progress. By the 1970s, however, there was increasing evidence of the decline of federal government capacities -- and by the 2010s this had become a virtually bipartisan agreement on the "dysfunctional" character of the federal system in Washington. One reaction was the spread of a powerful libertarian and individualistic element in U.S. political thought -- seeking to shift responsibilities from American state institutions to the private market. In providing new theoretical foundations for such


\textsuperscript{40} Elinor Ostrom, Governing the Commons: The Evolution of Institutions for Collective Action (Cambridge University Press 1990).

developments, the University of Chicago dominated the awarding of Nobel prizes in economics -- in the period from 1975 to 2000 at least 17 of the Nobel prize winners in economics were faculty members or were otherwise closely associated with the University of Chicago.\(^{42}\) A critic of this, the celebrated author of a three volume biography of John Maynard Keyes, Robert Skidelsky, would write in the wake of the financial crisis that such Chicago thinking had “brainwashed” -- as one might say, cast a type of religious spell over -- much of the economics profession.\(^{43}\)

The Chicago critique of the failings of progressive economic religion in the United States made a valuable contribution to American public discussion of the limitations of the U.S welfare and regulatory state. It was correspondingly lacking, however, in any clear understanding of the ethical and cultural -- the religious -- ingredients necessary to effective collective action at the level of the American nation state (or even at the level of the financial system).\(^{44}\) Chicago libertarian individualism nevertheless from the 1980s increasingly became a popular religion of Wall Street -- Alan Greenspan early in his life had been an acolyte of Ayn Rand who preached a form of libertarianism (if not the Chicago form of, say, a Milton Friedman).

Wall Street over the past 30 years has been among the leading arenas in which such systemic developments in American life have played out, culminating in one especially important instance in the financial crisis and the “great recession” that began in 2008 and continued through 2009. Some individuals did attempt to stand up to such developments. As a leading chronicler of these developments, however, Lowenstein explains that there was nevertheless a collective moral breakdown by traditional American ethical standards -- to go along with a technical failure of financial insight on Wall Street: “Bankers who took home these enormous paychecks were crafty financiers, but their cleverness served their personal interests first, their clients and shareholders second, and the economy barely at all. The bankers learned to fool the system: to game the rating agencies, to bundle deadbeat mortgages into paper that was triple A and foist it on trusting clients. They fooled their compensation committees and they fooled society, collecting astronomical pay for products (such as synthetic CDOs) that made only bankers richer.”\(^{45}\)

A central part of the story of the financial crisis has been the worsening fate of “economic religion,” the declining conviction that American economic growth and development, eventually abolishing all poverty in the United States, will resolve the historic problems of the human condition; that America is still chosen to be a “city on a hill” for the world. Although this idea is as old as the original Puritan settlers in Massachusetts, it was carried into the twentieth century as the secular national belief in America as the world exemplar of modern economic progress with its transcendent consequences for humanity. For a variety of reasons, this core element of American civic religion since the 1960s has faced growing challenges; accelerating in the 1970s and 1980s, a cultural development that could have a surprisingly large impact even on the American financial system. Mutual trust is important in all areas of economic life, but especially so on Wall Street, thus bringing the

\(^{42}\) Nelson, supra note 7, at 117.

\(^{43}\) Robert Skidelsky, Keynes, The Return of the Master, at xii (Public Affairs 2009).


\(^{45}\) Lowenstein, supra note 28, at 75.
existence of a common set of unifying beliefs prominently into the picture as a key historical basis for the mutual trust necessary to sustain the financial system.

II. WALL STREET AND “RELIGIOUS CAPITAL”

The first common explanation offered above for the financial crisis -- and a key starting point for the others to follow -- relates to the changing ownership structure of Wall Street investment banks. Most investment banks, such as Lehman Brothers and Goldman Sachs, were traditionally partnerships until the 1980s and 1990s. For various reasons, including the need for greater working capital, they then became public corporations with stock holders and a board of directors to oversee the firm. Goldman Sachs in 1999 was the last of such moves to public ownership, now including all the key investment banks (the commercial banks such as J. P. Morgan and Citibank had long been public corporations). As a result, the top management was no longer personally responsible as partners for the financial obligations of the investment bank, becoming employees instead. They were compensated through high salaries and contingent payments, such as stock options. The shift to corporate ownership put additional pressure on the cultural and religious resources that would be required to combat the free-rider problem of the Wall Street commons, and thus, to sustain a healthy financial community for the good of the whole financial system.

While previously operating as partnerships, the top leadership of investment banks traditionally knew each other well. They often came from similar social and religious backgrounds, frequently served for long periods of time together, and had established common bonds that facilitated both trust and the full sharing of vital information. With the shift to public ownership, however, there were serious new “agency problems” in that, with the large numbers of stockholders, most of them did not have the information to evaluate management performance accurately. This was a particular problem in that the potential financial losses from taking large risks that might fail would now fall most heavily on the stockholders themselves, rather than on a set of partners who owned the firm and were personally responsible for fulfilling its financial commitments, making decisions in that light (some the corporate officers did in fact incur large losses but far less cumulatively than a set of private partners would have).

The economic columnist for the Financial Times, Martin Wolf, thus observes that in the circumstances of the financial sector, corporate “insiders can easily exploit in their own interest” the decisions made by their firms. When cultural restraints on self-serving management behavior break down, as they did on Wall Street, large public financial “corporations are ... vulnerable to looting by management.”66 Top management in the financial sector had incentives to emphasize short term results that drove up stock prices (and their total compensation). If they entered into more risky activities that might offer especially high short term payouts, there would be only a small chance of a dire outcome during such a short period. If they happened to be unlucky and to experience large short run business failures, they were most likely to be fired or resign but without having to absorb themselves any of the firm’s financial losses. As Wolf finds, for it to work properly, “a complex financial system” on which the whole national economic system is so dependent is necessarily

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based on a "fragile network of trust" among the participants.47 The determinants of trust and mutual responsibility thus for Wolf become fundamental factors influencing the basic functioning of financial markets.48

Ideally, the various key private and public players in the world of housing finance would have felt a sense of shared responsibility for their actions to the wider society. Working to maximize individual self interest might work well in many areas of American economic life, but the large institutions of Wall Street thus are not one of them. Indeed, it was essential throughout Wall Street that there be a sense of internal personal obligation to uphold professional standards and to serve the needs of customers. If that had been the case, many Wall Street professionals would have been motivated to give closer scrutiny to the full technical workings of the rapidly evolving financial system. Some of them would have shown the courage to warn the wider world of the looming large financial dangers for the whole system that might easily be triggered by unforeseen events. They would have publicly demanded accountability and corrective actions, occurring at the mortgage origination level, within their own Wall Street firms, in the rating agencies, in the federal regulatory agencies, and among those academics who had professional responsibilities for doing research on financial markets.

It might be suggested that the severe shortage of any such Wall Street saints reflected a collective failure of insight, not a failure of Wall Street ethics; but insight comes to those who already have a deep personal commitment to finding answers for the collective good. It would have required strong independence of mind and considerable personal courage to speak out loudly and publicly against the evolving culture of Wall Street in the 1980s and 1990s, culminating in the 2000s. There were a few people who did in fact try, but they were too small in number and influence. Most of the individual members of the financial system remained focused on their own actions and the rewards (money, prestige, power, etc.) that accrued to them individually and to their firms. Then a high level federal financial regulator, Sheila Bair, writes of attending a 2007 Wall Street conference and being told that the members of the finance industry "have a right to make fat profits by any means."49 If challenged, they could, moreover, justify such behavior as simply the pursuit of individual self-interest -- as they might assert, the longstanding foundational ethic of the American free market economic system.

Wall Street, however, is far from a free market. In his memoirs, the economist Henry Kaufman -- for many years the director of research for Salomon Brothers and a prominent Wall Street presence in the 1970s and 1980s -- explains that market discipline does not work in circumstances such as those found on Wall Street, where the leading firms are "too big to fail." Moreover, they deal significantly in information -- such as the predicted profitability of individual firms and the market prospects for individual stocks -- as a main product of Wall Street, even as private property rights to these and other easily communicable forms of information are especially difficult to establish and defend, giving much of Wall Street's knowledge "output" the character of a public good. As Kaufman observes, the largest Wall Street corporations are therefore "less like ordinary business enterprises and more like public utilities." In other nations, organizations, having such critical social

47 Id. at 341.
49 Bair, supra note 35, at 356.
responsibilities, have frequently been nationalized outright, for better or for worse. In the United States, a directly government-run financial sector would almost certainly be for the worse, given the nation's fractured politics and the difficulties of achieving decisive public actions in the U.S. political system (imagine the federal government having to hire the personnel to operate such nationally essential organizations as are found on Wall Street under standard civil service rules and procedures and with tight salary limitations).

As a result, even as they are nominally "private," the larger Wall Street firms, as Kaufman writes, actually possess distinctively "public" responsibilities for the allocation of capital in the United States, a matter fundamental to the workings of the entire American economic system. As he explains, given their "awesome role and responsibilities in the larger society," and the difficulty of imposing outside public control over their internal activities, and if they are to maintain their social legitimacy with the wider American public, the "leading financial institutions must adhere to an unusually high code of business conduct. They must take into account not only their narrow private interests, but also their considerable public responsibilities." All this requires internal restraints grounded in a belief system—a body of "religions capital," as one might say—to prevent individual firms and managers from following their own narrowest personal incentives. The former chairman of the Federal Reserve, Paul Volker, wrote in 2000, similarly, that in financial markets there is a necessary balance for private actors "between the need to compete, to prosper, to grow, and the need to treat clients fairly, to maintain high fiduciary standards, and to respect the broad public interest reflected in regulation and supervision." Wall Street from the 1980s onwards, however, increasingly lacked a powerful set of ethical and other cultural forces to sustain a strong sense of greater public responsibility, a matter that would eventually prove to be of critical national significance.

From the 1980s onwards, Wall Street leadership thus increasingly failed to accept—or perhaps even to recognize—the existence of such wider public responsibilities. At a deeper level, therefore, an explanation for the financial crisis must seek answers as to the fundamental causes of this growing neglect of collective social responsibilities. This is difficult territory for most social scientists because they are accustomed to regarding "values" as given prior to and outside their analysis. Their methods are poorly suited to investigating the determinants of the values themselves, or when, why and how they change. When they do address such subjects, they tend to assume that any new values are determined by other more "real" factors such as the economic events themselves. The concept that ideas and values have an internal logic of their own, capable of shifting significantly over time, which can themselves significantly drive economic events, rather than the other way around, is foreign to most social scientists even today (it disappeared almost entirely among them in the twentieth century). It might take social scientists, as this article will suggest, into matters of religion—in its formal articulation into matters of theology in all its contemporary diversity. But then there is a large problem: most social scientists not only would reject any such efforts

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(as I would say, as a matter of their own religious principals), but have had little or no training or experience doing theological analyses.

A Case Illustration: Moody's

There were many parties who contributed to the events leading up to the financial crisis. But three private firms bore a particularly large burden of responsibility for the Great Recession and all that followed. They are Moody’s, Standard and Poor’s, and Fitch, the three main credit rating agencies. In the way they reached their internal decisions concerning appropriate ratings, each held a key public responsibility to defend the ethics and cultural integrity of Wall Street. They failed abysmally.

At the height of the Wall Street follies, the rating agencies gave high ratings (including the highest AAA rating stating that there would be very low, or even almost a non-existent risk) to many mortgage-backed securities. These ratings proved to be fundamentally inaccurate even for the highest rated securities, as unfortunate investors in them would subsequently discover. Seldom have the sins of so few in American business had such large adverse consequences for so many investors and indeed the whole nation. Rather than J. P. Morgan, Bank of America and other Wall Street institutions, the Justice Department might more legitimately have focused its legal energies after the financial crisis on prosecuting the rating agencies — but then of course they do not have nearly as much money to pay out, and make a politically less attractive target.

One of the better books chronicling the events of the financial crisis is by Bethany McLean (who had personal experience working on Wall Street and was a business writer for 13 years for Fortune magazine) and Joe Nocera (a business writer and editor at the New York Times). In All the Devils are Here: The Hidden History of the Financial Crisis, they include a chapter on how Moody’s was transformed from a notably responsible business organization as late as the mid 1990s to an illustration of all that went wrong on Wall Street in the next decade. A key event, as suggested above, was that Moody’s became a public corporation for the first time in 2000. At around the same time — and partly related -- there was an important change, for the worse, in the culture of the firm.

As McClean and Nocera explain, the historic culture of Moody’s involved taking the firm’s economically critical role in the credit markets seriously as a matter of the fulfillment of a basic professional duty. In the 1970s, Moody’s and other rating agencies first began charging the issuers of securities for doing the ratings, thus tying their own business fate to the satisfying of their new paymasters. It was an obvious conflict of interest but nothing was done to reform the situation as the adverse consequences took time to materialize. As McClean and Nocera write:

In retrospect, the surprise is not that the rating agencies would eventually be corrupted by their business model, but that it took so long to happen. For many years, whatever mistakes they made were the result of misguided

53 Nicholas D. Horner, If You Rate It, He Will Come: Why Uncle Sam’s Recent Intervention with the Credit Rating Agencies was Inevitable and Suggestions for Future Reform, 41 Florida State Univ. L. Rev. 489 (Winter 2014).
54 Nocera, supra note 29.
analysis, not out-and-out craveness. This was especially true of Moody’s, which had a reputation among bond issuers as a “hard ass.” ... The Moody’s culture, introverted and nerdy, was more akin to academia than Wall Street. Analysts would answer their phones after many rings, if at all. Moody’s analysts were standoffish toward the issuers who paid their salaries – a little like journalists during the heyday of newspapers, when they could thumb their nose at advertisers. Credit analysts at Moody’s didn’t worry about the revenue that might be lost if they refused to give an issuer [of a security] the rating it sought. That was someone else’s problem. In the early 1990s, Moody’s actually refused to rate a then popular structured product, on the grounds that a [favorable] rating might lead investors to expect more than they were likely to get.

This last anecdote was recounted in a 1994 article in Treasury and Risk Management magazine entitled, “Why Everyone Hates Moody’s.” After polling ninety-nine corporate treasurers, the magazine concluded that “ingrained in Moody’s corporate culture is a conviction that too close a relationship with [Wall Street security] issuers is damaging to the rating process [and thus unacceptable for a person working for Moody’s].”

McLean and Nocera relate that one important Moody’s employee, Mark Adelson, was a “careful, cautious, somewhat skeptical analyst” in the 1990s. Adelson recognized many of the problems that would lead eventually to the financial crisis. As they put it, “he was always less willing to accept uncritically many of the arguments made for [the] mortgage backed securities” that would later fail on such a large scale. Rather, he argued within Moody’s that “the fact that an asset class like housing had performed well in the past said nothing about how the same asset class was going to perform in the future.” By 2000, however, Adelson was out of step; he quit in 2001.

A good indicator of future cultural developments at Moody’s happened in 2001, when the public corporation Enron went bankrupt, wiping out its stockholders. Moody’s and the other credit rating agencies had failed altogether to anticipate Enron’s downfall, maintaining the rating of Enron’s debt until four days before it collapsed. McClean and Nocera report that at a Congressional hearing “the S&P analyst who had covered Enron confessed that he hadn’t even read some of the company’s financial filings.” But in the end “not a single analyst at either Moody’s or S&P lost his job as a result of missing the Enron fraud.... ‘Enron taught them how small the consequences [on Wall Street] of a bad reputation [now] were,’” said a former analyst.

Economists are skeptical of economic interpretations that depend on the behavior of a particular individual. Hoping to emulate the physical sciences, they seek to discover general scientific “laws” of the workings of economic systems. In the case of Moody’s, the leading agent of change, however, was a single identifiable person, a new hire to the firm in 1991 with a law degree, but little financial knowledge or experience, Brian Clarkson. By 2000, Clarkson had ascended to top management levels, including direct responsibilities for

55 Id. at 114.
56 Id. at 119, 120.
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the ratings being developed by the asset-backed finance division. McLean and Nocera report that:

Clarkson went off like a bomb inside Moody’s. He developed a reputation for being nasty to those who wouldn’t fight back and for never forgetting a slight. “At my level, any water cooler discussion of his management style included the words “fear and intimidation.” ... [He rose at Moody’s partly because] the company’s top executives “recognized in Brian the character of someone who could do uncomfortable things with ease, and they exploited his character to advance their [new] agenda. That agenda was using structured finance to boost revenues, market share, and – above all – Moody’s stock price [and thus management compensation under the new corporate status adopted in 2000].”

In issuing high ratings in the 2000s for many mortgage backed securities, at Moody’s “nowhere in the process was anyone required to conduct real-world due diligence about the underlying mortgages” and the actual risks that some of them might default. Given the absence of such detailed investigations, the ratings had to be developed based on “a series of assumptions,” including that any declines in housing prices “would not be severe” and that declines in one housing market would occur independent of declines in other housing markets in other regions (thus allowing the pooling of mortgages from many regions to reduce overall risk through diversification). The three ratings agencies competed to issue favorable ratings and the investment banking community used its leverage to increase the pressure. McClean and Nocera report of one Moody’s analyst who sought to give more skeptical ratings that “Goldman Sachs once requested that he not be assigned to its deals.”

One Wall Street observer in retrospect would characterize much of what went on at the ratings agencies and throughout Wall Street in the 2000s as a version, as McLean and Nocera write, of a “Ponzi scheme.” Buffalo Law School Professor David Westbrook comments similarly that “investment bubbles have the structure of Ponzi schemes” – a point made much earlier by the economist Hyman Minsky. In the case of the rating agencies, their ability to generate continually rising profits and rapidly climbing stock prices depended on a steadily increasing flow of favorable ratings for which they would be generously compensated.

While he does not use this label, Federal Judge Richard Posner writes of the financial crisis, that it further revealed “the tendency of corporate management to cling to a bubble and hope for the best.” Current debt and payment obligations will be met by incurring new obligations. Indeed, as long as confidence holds, this method will work. As asset backed securities became more popular, their total sales on Wall Street soared from $69 billion in 2000, to around $500 billion in 2006, so there was always plenty of new money coming in. McClean and Nocera observe that “the rating agencies were at the very heart of the madness. The entire edifice would have collapsed without their participation.”

57 Id. at 115.
58 Id. at 116, 118.
60 Posner, supra note 32, at 93.
conclude their examination of Moody’s by acidly commenting that “in August 2007, Brian Clarkson was named president of Moody’s. His compensation that year was $3.2 million.”

Bernard Madoff was discovered a little more than a year after that and went to jail for life for running his own individual Ponzi scheme on Wall Street. But as St. Augustine once famously said, when piracy occurs on a large enough scale, we call it the government (or in this case “Wall Street” with the government acting in a supporting role). It would make an interesting discussion for a college ethics class whether Brian Clarkson, and others of his Wall Street ilk, should have borne more severe individual penalties than they did.

An Anthropology of Wall Street -- Gobbledygook, Silos, and Social Silences

Some of the best accounts of the developments leading up to and causing the financial crisis have been by financial journalists. One such book by the highly acclaimed financial journalist Gillian Tett is Fools Gold: The Inside Story of J. P. Morgan and How Wall Street Greed Corrupted Its Bold Dream and Created a Financial Catastrophe. She writes there of how in in the panic of 2008 “what was driving the price of super-senior risk [such as the highest rated, supposedly risk free “tranches” of mortgage backed securities] was not so much ‘hard’ economic data, which could be plugged into models, but investor fear, which economists had long ignored in their modeling.” In this new circumstance, the “quants” -- quantitative analysts on Wall Street -- who had assumed a newly rational world now “were at sea. It was a terrifying, disorienting landscape, and the banking community was about to suffer a gut-wrenching case of vertigo.”

Tetts covered these events, and then wrote insightfully about them for the London-based Financial Times (in 2009, she received an award as British Business Journalist of the Year for her coverage of the financial crisis). As it happens, she had earlier been professionally trained as an anthropologist and applied that lens as well to the events she was observing.

Three years after Fool’s Gold appeared, Tett in 2012 summarized her overall thoughts on the causes of the financial crisis. At the core, she found three basic “problems in modern finance: the cultural dangers of gobbledygook, silos, and social silences.” As she writes, there is little evidence of “any coordinated, deliberate plot by bankers to conceal their activities or downplay the risks before 2007. Instead, many of the [most damaging] activities were hidden in plain sight.” It was admittedly true that many Wall Streeters “preferred to keep their deals away from the limelight – and the noses of regulators – because that allowed them to boost their [profit] margins (and stop rivals from stealing their ideas).” But the necessary information to understand the situation was obtainable, if admittedly in obscure places such as “rating agency reports, bank filings and other data.”

Indeed, Tett writes, it would have been “possible for outsiders to spot that the system was spinning out of control and [had] become prone to excess.” Doing this, however, would not be easy; it would require diligent – perhaps heroic -- efforts by a person to

61 Nocera, supra note 29.
64 Id. at 45, 46.
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"confront the gobbledygook" that was being generated on such a large scale. The obscurity of expression conceivably could have been intentional, while not doing anything illegal, designed to hide abuses, while still complying with the legal disclosure formalities, or to limit the availability of valuable information to select professional audiences. It was also a product of the tendencies to speak in insider jargon that characterize the very nature of America's professional cultures such as law and economics.

For Tett, an urgent question today is why did "so few people actually ask hard questions at all," including almost all the media. Owing to the lack of deeper scrutiny (why were there so few whistleblowers on Wall Street), the result was that "Western Society allow[ed] finance to spin out of control" -- with disastrous worldwide consequences. As another important factor, Tett finds that the large organizations involved with matters on Wall Street had strong tendencies towards the compartmentalization of knowledge -- to break into distinct "silos" that did not communicate with one another. As she writes, "inside the giant bureaucracies of the modern banks, it seemed that different departments existed almost like warring tribes: although the separate desks, or divisions, of banks were theoretically supposed to collaborate, in practice they competed furiously for scarce resources, knowing that whatever desk earned the greatest profits would wield the most power." Thus, in Tett's view maximum profits were not the end in themselves but a means toward a higher end of "power" -- and one might add the related goal of status and prestige.

Even within the same business firm, she reports, "desks tended to hug information. The right hand of the bank rarely knew what the left was doing in any detail -- nor was the risk management department any better informed." The very highest executives with cross-cutting responsibilities for the entire business simply could not keep track of and coordinate all this; in many cases they did not even understand, or even know about, what some of their own individual divisions were doing. The financial regulatory apparatus of the government was similarly fragmented and with similar results in terms of anyone being able to see the full picture. As Tett comments, federal regulation of Wall Street was "marked by tribal rivalries ... that mirrored (and intensified) those private sector splits."

It seems that there was virtually no one willing to assume responsibility for understanding the cumulative workings of the U.S. housing finance system and its broader consequences for Wall Street, the financial system and the overall U.S. economy. Tett writes that "there were some journalists and some economists who could vaguely sense how the overall patterns were playing out. But trying to get a clear vision of how finance was developing as an entire system was hard. A sense of tunnel vision permeated the system -- hampering bankers as much as anyone else." Tett does not really try to answer the obvious question: why was no one strongly motivated at the time to examine this problem more broadly and to act more effectively to do something about it. Any such inquiry might have taken her into issues of the overall behavioral standards on Wall Street and the seeming weakening of a sense of collective obligations -- to the firm, to the finance industry, to the nation -- among those who worked there. As one might say, it would have required an exploration of the "religious capital" and its rapid "depreciation" from the 1980s onward. (A similar critique might be made of the participants in the American university world which

65 Id. at 46.
66 Id. at 47.
67 Id. at 47-48.
failed in one of its most important functions, providing in-depth and prescient analysis of new key factors impacting on the housing finance system, and, thus, on the broader financial system and then the economy and the whole society.)

As a third key factor, Tett sees a particular problem in what she calls "social silences," drawing on the work of the leading French sociologist and anthropologist Pierre Bourdieu. This is a matter of addressing the question of priority setting within the intellectual elite and "what is not discussed" in a given society. (At least until recently, any connection between Wall Street and religion would have fallen in the "not discussed" category -- along with most other roles of religion in the broader workings of the wider American political and economic system.) Tett observes that in most societies "there is simply a tacit, half conscious recognition that it is better to simply avoid discussing an issue, or that there are cultural disincentives to peering into it -- because it is considered either taboo or 'boring.'" Indeed, except for those who profited directly from them, "back in 2005 and 2006 the topics of credit derivatives and collateralized debt obligations were considered to be incredibly boring, if not downright arcane." 68 For many Americans businessmen, moreover, the basis for ethical standards in business can be an uncomfortable subject -- maybe better not discussed -- because they can find it difficult to reconcile the actual world of business practice that they know from personal experience with the high minded ethical principles that are often preached to them by religious leaders on Sunday.

When Tett and a few other journalists did occasionally write about such matters before 2007, she found that "it was often tough to get these stories on the front page," no matter how fundamentally important they might actually be. This partly reflected the existing lack of public interest which meant that few people would actually read the stories. And adding another cultural factor, many top newspaper editors had become more attuned to the commercial prospects of their publications than to a social obligation (akin to that of the financial system) to serve the wider society. Thus, lacking journalistic intermediaries, and "faced with financial goobledygook," Tett writes, "the general populace found it easier to leave the whole field of finance in the hands of technical experts, particularly since those technical experts were insisting before 2007 that modern finance [as practiced on Wall Street] was a wonderfully beneficial thing" -- a refrain much repeated up to 2007 not only by the technical experts but also by high level Washington public figures such as Alan Greenspan, Robert Rubin, and Larry Summers (not the political conservatives some people might expect but all appointed -- or in Greenspan's case reappointed -- by the Clinton administration).69 It was not only the experts specializing particularly in financial markets but the members of the economics profession as a whole, as explored below, who fundamentally misread the importance of the rapid changes occurring in the area of housing finance with large implications for their own, much broader, economic concerns.

As one might summarize, across a number of important areas of American life, there was a failure of high level "leadership." Much of this can simply be attributed to analytical mistakes, or to other intellectual misjudgments arising among a large number of people. Foolishness and recklessness sometimes played a part. But in the end, there seems to have been a shortage of people who were personally motivated to penetrate the "goobledygook"

68 Id. at 48, 49.
69 Id. at 49.
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described by Tett, who perceived an urgent need on their part to break out of their own comfortable “silos,” and who were individually willing to challenge the “social silences” by which most societies avoid discussion of uncomfortable (and in some repressive societies, literally dangerous) subjects.

There was thus a great shortage of rebels and saints in the United States who were willing to take individual risks for the greater collective benefit. Every successful society needs some such heroes who perform especially valuable functions for which they do not receive any corresponding financial compensation -- or may even be punished. No combat army could ever succeed without a share of such individuals willing to take some risks to get around procedurals rigidities and other obstacles to effective performance. The sources of such catalytic leadership behavior in a society is a difficult subject, although religion is surely an important part of the picture.

By 2007, a dawning awareness of all this was being expressed by a few members of the American leadership class. Gerald Corrigan, the former president of the New York Federal Reserve Bank, wrote to Treasury Secretary Henry Paulson that the banking industry “needs a renewed commitment to collective discipline in the spirit of elevated financial statesmanship that recognizes that there are circumstances in which individual institutions must be prepared to put aside specific interests in the name of the common interest.” But it was hard to know how to revive a spirit of collective sacrifice in a Wall Street banking community where, as Tett writes, “Corrigan lamented that there appeared to be few such bankers left” who accepted any deep responsibilities to the wider American society.

Boston College professor of finance Edward Kane considered in 2012 that little had improved even after experiencing the crisis of 2008 and 2009; top Wall Street managers “are currently exploiting taxpayers to an end.” They do not “see any ethical issues in it. The taxpayer is the sucker in a poker game, and they see no reason to teach them anything about playing cards” in seeking to combat Wall Street transgressions. Also in 2012 the libertarian Charles Murray, normally a staunch defender of free markets, nevertheless observed that in the events leading up to the financial crisis, there had been a major “deterioration of the sense of stewardship that once was so widespread among the most successful Americans. ... Many senior figures in the financial world were appalled by what was going on during the run-up to the financial meltdown of 2008.” Murray observes, however, that most of them remained “silent before and after the catastrophe.” Murray concludes that there has been a breakdown in the American business class of even the ability to articulate its own moral standards: “Capitalists who behave honorably and with restraint no longer have either the platform or the vocabulary to preach their own standards and to condemn capitalists who behave dishonorably.” It is a breakdown in the largest sense of religion in America, as exhibited in this particular case on Wall Street.

If this assessment is correct, the academic world will be perplexed and dismayed because it regards improvements in religion as altogether outside its scope of either knowledge or concern -- there is no “science” to create a “better” religion. Within the business schools, admittedly, there is an emerging growing recognition that the success of

71 Tett, supra note 62, at 229.
American business depends on more than the nuts and bolts calculations of profits and losses. Two prominent professors at Harvard Business School, Michael Porter and Jan Rivkin, in 2012 explained in *Fortune* magazine that every American business “draws on the business environment in ... the communities where it operates,” ranging from nearby local communities to the national community as a whole. Others might use terms such as “civic society” or “social capital,” but Porter and Rivkin label the surrounding environment in which businesses operate as the cultural “commons” -- thus bringing us back to the discussion of how any society can deal with its free-rider problems characteristic of commons situations.

Business has an obligation not only to make money, they say, but to support the broader social and political foundations of American business success. As Porter and Rivkin write, American business “can and should improve U.S. competitiveness ... by stopping self-interested actions that weaken the commons.” This will require the acceptance of new obligations to contribute to the business commons and also of self-imposed restraints that have all too often been lacking in business behavior in recent years. In the end, this pragmatic course of action for American business will also require an ethical rethinking on a large scale. As would most current academics, Porter and Rivkin have little to say, beyond the urgent need, about how such an ethical -- a “values” -- restoration in American business (and society, more generally) might be accomplished. One option, however, is to begin by applying methods of doing “economic theology” to explore such questions, as will be briefly illustrated below.

### III. ECONOMICS AS RELIGION

At least since the late nineteenth century, the religion of American business has not been Methodism, Baptism, Catholicism, or any other traditional religious faith. Americans were too divided in their traditional religious allegiances for any one faith to provide a cultural foundation for the large business organizations that increasingly were dominating the American economy. Under the influence of Darwin and many other social and intellectual developments of the time, moreover, traditional Christian religion at the end of the nineteenth century was seeing a large erosion of its authority in American life. Rather, the twentieth century would become an age of growing authority for secular religions such as -- however appalling the results there would turn out to be -- Communism in the former Soviet Union and National Socialism in Germany. In the United States there was also a “civic religion” -- a far better one, fortunately -- that played a large part in the later successes of “the American century.” This common religion of America was also secular, centered on a conviction -- common to all forms of “economic religion” -- that economic progress will save the world. Americans saw themselves as in the vanguard of economic progress for the eventual greater benefit of all human beings everywhere on earth. From President Woodrow Wilson onward, they took upon themselves the mission to spread the message of economic progress (and associated democratic practices) globally.

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75 *Id.*

The Financial Crisis as a Religious Crisis

As economic progress moved forward, the rapidly growing quantities of goods and services to be produced in the United States would necessarily be produced by business. In the civic religion of America, business thus had a central role. Working for a large American corporation was a matter of earning a good living, but also to participate in a religious cause. It would be the erosion of such religious convictions in the later decades of the twentieth century, as this article suggests, that would eventually play a significant role in the leadership crisis that led eventually to the financial crisis of 2008 and 2009. As the historic deep faith in the civil religion of America waned, nothing religiously took its place in American society as a unifying influence, either across the country as a whole, or in the financial system specifically.

The Old Financial System Faith

Andrew Carnegie, said in 1890 to be the richest man in the world, was not a conventionally devout person himself, but did follow a creed that might be described as a “secular Calvinism,” inherited originally from his own Presbyterian roots in Calvinist Scotland where he was born before emigrating as a child to the United States. The Calvinism of old such as found in Presbyterianism had condemned the pursuit of luxury for its own sake, but had taught that success in a calling – including prominently among such callings the activities of the business world -- was a promising sign of being among the elect. Carnegie adapted this message to a newly secular era, preaching that the successful businessman stood in the good graces of a god of economic progress, helping by his actions to provide the basis for the economic transformation of society. While sometimes necessarily ruthless in the pursuit of business success and thus maximal economic efficiency, such businessmen should renounce any excess consumption of the gains of their own efforts, instead giving their wealth away in philanthropic efforts and other actions to benefit the wider community. Carnegie himself acknowledged a religious side to his message when he preached the “gospel of wealth.” As he wrote:

It becomes the duty of the millionaire to increase his revenues. The struggle for more is completely freed from selfish or ambitious taint and becomes a noble pursuit. Then he labors not for self, but for others; not to hoard but to spend. The more he makes, the more the public gets. His whole life is changed from the moment that he resolves to become a disciple of the gospel of wealth, and henceforth he labors to acquire that he may wisely administer for others’ good. His daily labor is a daily virtue.

This was not a mere pretense for Carnegie, a public relations gesture; he really meant it. Unlike some people, moreover, Carnegie actually did as he preached, eventually giving away almost the entirety of his vast fortune for a wide variety of public causes, including the building of more than 2,000 community libraries across the United States, and the construction of 7,000 church organs, as well as Carnegie Hall in New York City, thus

touching the lives of millions of ordinary Americans. Carnegie, remarkably enough, spent only about three hours a day on his business affairs, devoting the remainder of his time to various intellectual and other public pursuits.

Carnegie is ranked with John D. Rockefeller and J. P. Morgan as pivotal business figures in the economic transformation of the United States in the late nineteenth and early twentieth century. As his biographer Jean Strouse explains, Morgan believed, much like Carnegie, that government should “let financial experts [such as himself] alone to conduct business in the nation’s best interest.” Indeed, Strouse agrees that, “Morgan had some grounds for thinking that the country ought to leave its financial affairs to him.” From 1860 to 1910, “his bank had helped transform the United States from an economic neophyte into the strongest industrial power in the modern world.” His success was built on his high business skills and analytical intelligence combined with his high personal reputation for trustworthiness. As Strouse comments, in those years “the risks involved in funding the emerging U.S. economy were as enormous as the potential rewards, but investors regarded the Morgan name on issues of stocks and bonds as a warranty” of reliable representation of the risks and returns.

This was, moreover, not a passive role: “Morgan personally took on the role of financial disciplinarian, acting as mediator between the owners and the users of capital.” He had the authority to make sure that his financial customers were not subject to unscrupulous practices when they put their money to work in the financial markets. According to Strouse, “he was building internationally competitive financial and industrial structures, and his power came not from his own wealth but from a record that led other bankers and industrialists to trust him.” Morgan personally organized the successful efforts of a number of leading financiers of the time who banded together to halt the panic of 1907, not based as much on the use of his own personal wealth (which would not have been sufficient), but the great confidence and respect which his financial peers held him and thus were willing to follow his leadership for the greater good of Wall Street and the country. As one might say, Morgan by himself was able to solve the free-rider problem in order to avert a complete financial panic.

If not on the scale of Carnegie, Morgan also put his wealth to public use. He was President of the Metropolitan Museum of Art in New York, spent $60 million in assembling the finest private art collection of his time, acquired an equally distinguished library of rare books and manuscripts, and then eventually donated much of this to public institutions. The Morgan Library remains today in New York a cultural treasure visited by more than 100,000 people each year. In their later years, Carnegie and Morgan both spent almost half of each year in Europe interacting with its leaders and absorbing its culture, leaving the details of their business operations to trusted subordinates with whom they remained in close touch by telephone and telegraph. It is difficult to imagine any leading American business today functioning in a similar fashion.

THE FINANCIAL CRISIS AS A RELIGIOUS CRISIS

The Progressive-Era “Gospel of Efficiency”

The progressive era, typically dated from 1890 to 1920, saw the rise of new sources of authority in American society that would challenge and eventually greatly surpass that of the Carnegies and Morgans. The responsibility for controlling American financial panics would soon pass from Morgan and his Wall Street peers to the Federal Reserve Bank, created in 1913. The central role in leading America on the path of economic progress would more and more be assumed by government experts, many of them the graduates of the American university system which was retooled in the progressive era along its current professional and disciplinary lines. Here again, a secular form of religion -- a “gospel of efficiency” -- played an important part in the new “progressive” design for what would grow steadily over the course of the twentieth century to become the contemporary American welfare and regulatory state (often misleadingly described as “capitalism”).

In Europe and North America, the late nineteenth century and early twentieth century saw an astonishing surge of material productivity. Applications were found for the laws of electro-magnetism and other newly acquired scientific knowledge, giving mankind comprehensive technological powers to control the workings of nature for human benefit. Standards of living rose greatly and many leading intellectuals came to believe that dire poverty, and perhaps even all material scarcity, could fairly soon be ended, thus eliminating the longstanding basis for the many past ills of society. Among the earliest of such progressive utopians was Karl Marx for whom the defining feature of progress was the historical struggle between the haves and the have-nots by which the latter are destined to perennially challenge and eventually overcome their exploitation by the former. An ideal state—a communist state—would finally become possible, however, once the unpropertied proletariat had completely prevailed and established its own rule by means of a worldwide revolution. Making it all possible would be the looming end of scarcity—Marx even saw capitalism in a favorable light as a necessary, but only temporary, part of this final economic advance. A “new man” would be the product of abolishing the intense economic conflicts—the class struggles—that inevitably had arisen in a world of dire material shortage.

Marxism’s apocalyptic route of secular salvation makes it distinctive, but some of its core tenets, including the notion that a new world of complete material abundance will eliminate the presence of sin in the world, were widely shared in the late nineteenth and well into the twentieth century — and underlay the early development of economics as a social science in the United States. Influential in this regard was the Protestant Social Gospel movement, which celebrated the recent great advances in economic productivity, while condemning the self-interested mentality and social inequality advanced by capitalist economics. In focusing on worldly economic outcomes, social gospelers shifted their religious hopes from the attainment of a heaven in the hereafter to the future achievement of a new heaven on earth.

In *Ministers of Reform: The Progressives’ Achievement in American Civilization*, the historian Robert Crunden writes that in the progressive era, despite the rapid spread of secular patterns of thought, “America remained dominated by patterns of religious thought,” if now taking new forms. Some of these remained explicitly religious, “giving rise to what

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became the social gospel movement. Most were implicit, shaping ideas that seemed to be about secular matters.” If now in a disguised way, it was nevertheless still the case that “religion provided the central motivating force ... but the subsequent secularization of modern culture has obscured the importance of religion in forming the minds of even the most secular thinkers.” The progressives did not simply apply their zeal for progress in government matters, but sought to extend its guiding principles of scientific management to the workings of the whole society, including its core business functions.

Following the great disappointments arising out of the death and devastation of World War I, however, the progressive era, as conventionally dated, came to an end in 1920. Professional economics itself increasingly asserted a value-neutral and strictly scientific status. The word economic “growth” supplanted the more value laden term, “progress.” Some leading economists, however, continued to preach fundamental progressive ideals. John Maynard Keynes, for one, was especially articulate in describing the link between future material and future moral progress. In his eloquent 1930 essay “Economic Possibilities for our Grandchildren,” Keynes predicted that in “days not so very remote” we will enjoy “the greatest change which has ever occurred in the material environment of life for human beings in the aggregate.” This “destination of economic bliss” will completely transform society: “the nature of one’s duty to one’s neighbor” will change, and we will finally be “able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us” and blighted so many lives since time immemorial.

Even as fewer and fewer economists were as explicit about all this as Keynes, the progressive religion and its optimistic economic determinism about the future remained central for at least several more decades in shaping the thinking of both twentieth-century economists and businessmen. As recently as 2009, the CEO of Goldman Sachs, Lloyd Blankfein, famously told a reporter that he and other bankers at his firm were “doing God’s work.” Although Blankfein was widely derided for saying this, and later said he was just joking, there was an important element of truth – in the objective he stated at least, if not the actual presence of much “God-like” behavior on Wall Street. For many people in the twentieth century, the pursuit of economic progress offered a path to a new heaven on earth, motivating them to lend their services to a great religious cause -- including many people on Wall Street.

The Waning of Progressive Faith

After a lifetime of working for the advance of the American economic system and, in later years, devoting heroic efforts to advocating the cause of world peace, Andrew Carnegie was confronted by the horrors of World War I with its shattering repudiation of his fundamental beliefs. His wife Louise would later write that Carnegie had been “the most vital, exuberant person imaginable – until August 4, 1914. Then he completely changed. The war practically destroyed him” and his health until he died in 1919. His biographer, David

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Nassaw, writes that "for the past two decades, he had expended every bit of energy and made himself a slightly ridiculous figure in Washington, London, and Berlin, in his futile attempt to forestall the horrors of war. He realized now that he had failed. His faith, that reason and good sense would ultimately prevail," based on a century of previous immense economic progress, that "the nations and peoples of the world were becoming more civilized and less barbarous, had been spectacularly misplaced." Alan Greenspan would face a similar moment of truth in October 2008.

It was not only Carnegie. Indeed, the dark shadows of the twentieth century—two world wars, the prospect of nuclear annihilation, ecological degradation—suggested the possibility that human beings conceivably could even extinguish their presence on earth. Indeed, one of the most influential belief systems of the last few decades has suggested the opposite: that we might be rushing toward hell on earth. This idea, that economic progress is destroying significant parts of the plant and animal kingdoms and could even threaten human existence, is at the heart of a more recent secular religion, environmentalism.

Over a wide range of policy debates—from the fight over DDT to the crusade against nuclear power, from the alarms about the "population bomb," to the grim tidings about climate change—environmentalism has proclaimed that much of the scientific knowledge on which we have founded our project of economic growth is not an unqualified good. Indeed, the progressive goal of the human mastery of both nature and society might be a dangerous delusion. Many environmentalists hold special scorn for the economists who have so confidently promoted economic growth as our highest goal; one environmental philosopher, Georgia Tech professor, Bryan Norton, even penned an article in 1991 on the good reasons "why environmentalists hate mainstream economists."

Environmentalism might be described as a new "secular fundamentalism" that is partly derived from earlier roots in Calvinist fundamentalism -- both, for example, preach abstinence from excessive consumption. Other forms of more traditionally religious fundamentalism were also making a comeback in the last decades of the twentieth century. By the mid twentieth century, the progressive ideals of the social gospel movement had thoroughly penetrated the thinking of mainline Protestant denominations such as Lutherans, Congregationalists, Presbyterians and Methodists. Saving the world in the here and now had replaced for them the old sin and salvation. Another sign of the waning of progressive faith, however, was that it was precisely these mainline Protestant religions that lost much of their membership between 1960 and 2000, while the more evangelical and fundamentalist forms of American Protestantism experienced rapid growth. Similar developments occurred in other places around the world as Islamic, Hindu and other old religious fundamentalisms gained strength at the expense of secular socialist true beliefs. All of these fundamentalisms had in common that they represented a turn away from the formerly dominant religions of economic progress.

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85 Id.
IV. WALL STREET'S CHANGING RELIGION

In the last decades of the twentieth century, the participants in the financial system experienced the same growing doubts about the religion of economic progress as seen in such developments in other American arenas. On Wall Street, however, the various Protestant, environmental, and other new fundamentalisms, did not attract many new followers. With the fading of economic religion (and mainline Protestantism as well), Wall Street, as one might say, experienced a new religious rootlessness. This was a major problem because a widely shared religion was important for asserting a unifying influence and upholding ethical standards within the “community” of Wall Street.

The waning of the collective progressive spirit probably commenced in the 1960s in the United States — the beginning decade of many great transformations in American life — and in the financial system but a major shift in the culture of Wall Street was becoming more evident by the 1980s. Among other reporters, the events there were chronicled in 1993 in Nightmare on Wall Street: Salomon Brothers and the Corruption of the Marketplace, authored by Martin Mayer, among the most knowledgeable journalist observers of American financial institutions of recent decades, As he assessed matters, the “corruption” of Wall Street in the 1980s was a symptom of a wider American problem: “In the 1980s too much of America lost the fear of shame that used to police behavior; in the 1980s it became fashionable to respect people for putting up with shame — provided they were paid well to do so” — as many were on Wall Street.90

As part of the wider investment-banking trend that would work to undermine traditional Wall Street accountability, Salomon Brothers went public in 1981. Another key change affecting the subsequent ethical problems was the increasing complexity of the financial instruments in which Salomon and other Wall Street firms traded and in which Salomon had been a leading innovator, including in the sale of mortgage-backed securities. As Mayer writes, “many, although no means all, of the swaps, segmentations, caps, and straddles that transformed corporate finance in the 1980s were invented at Salomon Brothers by very bright and competent men (and a few women).” Among a long list of new financial instruments developed at Salomon were “zero-coupon insured term deposits for banks to sell consumers, and tax-exempt financing in London for Boeing to lease airplanes to American Airlines; “COLTS” (Continuously Offered Longer-Term Securities”) for the World Bank and “CARS” (“Collateralized Automobile Receivables”) to package car loans into bonds for sale both in the United States and Europe” (the automobile equivalent of a mortgage backed security). Salomon had had exceptional research capabilities for an investment bank since the early 1960s and, as Mayer reports, this “move to complicated, hybrid, derivative instruments was in hindsight a natural progression” — paving the way for still more complex derivatives and other financial instruments coming out of Wall Street in the 1990s and 2000s.91

The historical ethic of Wall Street was based on trust; as Mayer reports, traditionally “Salomon worked almost entirely on a basis of trust.” Written contracts were not necessary because “people lived up to what they said on the trading floor or on the telephone or at lunch.” But trust was eroding in financial markets as the unifying influence of a common

90 Martin Mayer, Nightmare on Wall Street: Salomon Brothers and the Corruption of the Marketplace, at 256 (Equinox Publishing 2014).
91 Id. at 91-92.
culture eroded. Maintaining trust was also becoming increasingly difficult as the complexity of financial instruments grew – trust is more difficult if the parties cannot be sure that they share the same understandings. As Mayer puts it, “it’s hard to expose incorrect valuation of an interest-rate swap when there are four ways to ‘mark’ such swaps to market, and they give four different results.” Another problem was, as a Federal Reserve official noted in 1992, although “off-balance sheet activities ... must be understood by top management as well as by traders and rocket sciences,” they often did not have such an understanding.

Across Wall Street, as Mayer reports, “it turned out that the youngsters who succeeded to the Salomon name had never learned why there were rules against cheating.” The ethical dangers were greatest in the areas of the new financial instruments because their technical complexity meant that the quants were often operating almost without adult supervision.92 The ethical problem was growing more widespread at Salomon and on Wall Street as the 1980s advanced.93 Surveying the wreckage at Solomon in 1993, Mayer finds that during the decade of the 1980s “the definitions of what constituted ethical behavior would change for the worse throughout the financial markets.”94

Paul Volker, Henry Kaufman, and others had emphasized that, given its great impact on American society and the difficulties of maintaining outside regulatory oversight, it was essential that Wall Street have an internal sense of social responsibility going beyond the mere making of money. That sense of wider responsibility seemingly almost disappeared over the course of the 1980s at Salomon and many other firms. As Mayer found, “very few of those involved in this industry in the 1980s – not the money managers in the institutions, not the leaders of the securities houses, not the CFOs of the corporations – contributed to their economy or to their society anything like what they were paid.”95

By 1988, Kaufman, hired by Salomon in 1961, and an icon on Wall Street during the 1970s and early 1980s for his widely distributed and reported analyses of financial matters, had enough. He quit the firm -- and it proved to be good timing. A top Salomon employee in the spring of 1991 had brazenly violated Treasury Department rules for trading in government securities. The Salomon culture had spun out of control to the extent that it had gone beyond the mere poor treatment of customers – as Mayer writes, there was a steady incoming flow of “new, ignorant players to be fleeced almost every day” -- to outright illegal acts. Ethical standards may have plummeted in the 1980s, but outright illegality crossed a different line. Salomon was soon under investigation by the Treasury Department, the Securities and Exchange Commission, the House Banking Committee and other public and private authorities. John Gutfreund, the head of the firm since Billy Salomon had retired in 1978, and other top managers were forced out. Mayer reports that the new Salomon management team “was squaring their shoulders manfully in preparation for paying out about half a billion dollars in fines and settlements of private lawsuits to seal the record of what the previous management did and failed to do in 1989-1991.”96

94 Mayer, supra note 90, at 99.
95 Id. at 253-254.
96 Id. at 248, 250.
How can we explain what happened at Salomon and throughout much of Wall Street in the 1980s and 1990s -- a precursor to the greater breakdowns of the 2000s? There were, as noted above, a number of factors, but the root of the problem was ethical, cultural and religious. In the new religious and other diversity of Wall Street, there was a large "religious failure." To the extent that any religious agreement existed on Wall Street, the new common "libertarian" religion emphasized full freedom of all religion. Such a religion, however, was too weak to hold the full community of the financial system together.

Wall Streeters had not long ago, in short, been strong believers in the "civil religion" of American, at the heart of which lay the redemptive promise of economic progress. But the generation of Americans that was born after World War II was increasingly skeptical of such traditional American religion -- for them, for example, the implications of the "economic efficiency" of the holocaust could not simply be dismissed as a challenge to the very essence of economic religion. This was the growing religious problem confronting the financial system from the 1960s onwards, accelerating in the 1980s and 1990s, and coming to a climax in 2008 and 2009.

V. A BANKRUPT PRIESTHOOD

It helps to maintain a religion if its priesthood is widely respected and has the full confidence of the members of society. It was thus an important contributing factor to the eroding faith in the American civic religion that the priesthood of economic progress, the professional economists of the nation and the world, was facing its own growing crisis of confidence around the same time that religious common agreement in the financial system was eroding.

As a special issue commemorating its first 100 years of existence, The Economic Journal (the journal of the Royal Economic Society of England, one of the most prestigious in the world of economics) published in 1991 a series of 22 articles on "The Next 100 Years." The articles also provided an occasion for introspective reflection on the record of the economics profession over the previous 100 years. A few of the articles were optimistic about existing economic methods, but the majority suggested that economics had become too narrow and that a major widening of professional horizons and methods and a firmer empirical grounding for the discipline was much to be desired. Dartmouth economist, Andrew Oswald, set the tone in his contribution, describing a sense of malaise that he perceived in 1991 concerning the directions of the profession:

Is Economics going in the right direction? Some people think not. [Former Harvard economist and Nobel economics prize winner] Wassily Leontief has argued that our discipline has deteriorated into a second-rate branch of applied mathematics in which, unscientifically, researchers eschew empirical investigations. [University of Chicago economist] James Heckman says that the subject is "widely perceived to be discredited because it has so little empirical content and cares so little about developing it." [Stanford economist] John Pencavel concludes that economists do not want applied work to be done, because it is likely to
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reveal the irrelevance of their hypotheses and undermine their ability to derive sweeping implications from theoretical models.97

As described by Oswald, it was almost as if professional economics was a throwback to the medieval priesthoods that maintained scholastic orthodoxies by asserting rigorous controls over church writings and admission to the ranks. Mathematics was the new Latin to separate the priesthood from the laity. Frank Hahn, a leading British economist who himself gained fame as a general equilibrium theorist, did not necessarily agree with the view of others that in every case "pure theory is scholastic and so by implication bound to be irrelevant to the world." But the method of pure economic theory admittedly does involve "the activity of deducing implications from a small number of fundamental axioms," often leading for the economist to a powerful sense of artistic "beauty" and intellectual "surprise."98

Another leading economist, William Baumol, found similarly that a "peril" facing economics is that "few specialized students are allowed to proceed without devoting a very considerable portion of their time to the acquisition of mathematical tools, and they often come away feeling that any piece of writing they produce will automatically be rejected as unworthy if it is not liberally sprinkled with an array of algebraic symbols."99 As in the scholasticism of old, demonstrations of great logical skill and elegance were taking precedence. It was another way in which economics was closer to a religion than a science.

As one of the leading economists of the twentieth century, Milton Friedman's views as expressed in 1991 in the Economic Journal are of particular interest.100 Friedman is generally supportive of the turn during the twentieth century of the economics profession towards greater use of mathematical and statistical methods. However, much like Baumol, he finds that things have gone too far. Indeed, Friedman declares in 1991 that the "reliance on mathematics and econometrics" has reached "the point of vanishing returns" (25 years later, it should be noted, little change was apparent in 2017). The use of mathematics is no longer making a contribution to economic understanding, but has become an end in itself. As Friedman comments, "again and again, I have read articles written primarily in mathematics, in which the central conclusions and reasoning could readily have been restated in English."101

Friedman finds that, as recently as 1930, under the editorship of John Maynard Keynes, the entire Volume 40 of The Economic Journal contained one page that included mathematical symbols. But mathematics after World War II became the language by which economists in the twentieth century sought to assert theirpriestly prerogatives. Unfortunately, as Friedman concludes, this has not led to corresponding increases in economic understanding. "[T]o summarize," he writes, "there has been little change in the major issues occupying the attention of economists: they are very much the same as those that Adam Smith dealt with more than two centuries ago. Moreover, there has not been a major sea change in our understanding of these issues." In physics and chemistry, the writings of 200 years ago are a mere historical curiosity. But it is still possible to "read the Wealth of

97 Andrew Oswald, Progress and Microeconomic Data, 101 Econ. J. 404 (January 1991).
101 Id.

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Nations and David Hume’s essays Of Money and Of Interest with pleasure and intellectual profit.” In re-examining old volumes of The Economic Journal, Friedman is struck by how “the substance of professional economic discussion has remained remarkably unchanged over the past century” since the first volume of the journal was published. If the substance was not much different, to be sure, “the language” has changed “drastically.” Displays of virtuosity in the new language of mathematics have become more important for many economists than the development of real economic insight.

Friedman also is pessimistic in seeing little gain in the quality of economic understanding from the nineteenth to the twentieth centuries: it is poor in both periods. He quotes a statement of economist W.J. Ashley in 1907, that “when one looks back on a century of economic teaching and writing, the chief lesson should, I feel, be one of caution and modesty, and especially when we approach the burning issues of our own day. We economists . . . have been so often in the wrong!” Friedman declares that this conclusion from 1907 “can serve as mine in 1990.” The great commitment to formal quantitative rigor in economic methods of the twentieth century, as Friedman concludes, has done little to improve economic judgments. Although few economists listened, his arguments would look prescient by 2008 and 2009.

A leading French economist of the second half of the twentieth century, Edmund Malinvaud, offered yet another pessimistic view. In assessing developments in economics since World War II, Malinvaud declares that these years “were obviously marked first by a wave of optimism, then by the painful realization that most of the initial beliefs were the product of delusion. This applies whether one considers the broad development issues [in poorer countries] or the more modest current problems of industrial countries.” In the 1950s, large numbers of economists believed that their work would soon “lead to international economic order; it will gear development in the Third World; it will show the way to good socio-economic performance in alternative systems to capitalism.” As the events of the second half of the twentieth century unfolded, however, these optimistic beliefs had not been realized. “[T]he beliefs appear to have been mainly unwarranted, following from wishful thinking and from bold or loose extrapolations of what economics really knew.”

In the later decades of the twentieth century, economic professionals had shifted their optimism away from direct government control of production towards the management of the market system. Yet, here again, as Malinvaud found, this more recent neo-liberal trend in economics had yielded “the same sequence of confidence and disappointment [that then] occurred with respect to the role of economic management in market economies, whether it concerned allocation of resources, distribution of welfare or macroeconomic stabilisation.” Part of the problem had been the failure of economists to understand that “public management is never a purely economic matter and cannot be immune from political interference, if only because the notion of an objective to be achieved can seldom be precisely defined beforehand.” Another problem is that “side effects that had been taken as negligible turned out to be determinant” such as popular resistance among the many competitive losers in the dynamic workings of a market process. On the whole, Malinvaud argued in 1991, among professional economists there had been a demonstrated “inability to solve the real problems”

102 Id. at 33, 37.
103 Id. at 39.
that had acted to undermine the earlier high hopes for the economics profession to spread economic progress across the whole world, redemptive hopes that had originally taken shape in the United States in the progressive era.  

Economics and the Financial Crisis

Friedman’s and Malinvaud’s concerns in 1991 would prove to be prophetic in light of the financial crisis of recent times. Indeed, for the economics profession, the financial events of 2008 and 2009 and the “Great Recession” that continued to depress growth for many years to follow would prove to be humbling experiences. They offered powerful evidence to back up the many criticisms of the professional economic priesthood (mostly from outside the profession but also including a minority cadre of economist critics within the profession) that had been growing over the previous decades.

Robert Samuelson, a prominent economic columnist for the Washington Post, thus wrote of “an intellectual breakdown. There is a loss of faith in economic ideas – and government policies based on them – driven by most economists’ failure to anticipate the financial crisis and many subsequent events.” Indeed, the lack of confidence in economists’ ability to manage the economy might have become a causal factor in itself, diminishing overall public confidence in the economic future and thus potentially altering ongoing consumption and investment decisions. The events from 2008 to 2016 have been particularly embarrassing because in the period from 1990 to 2008, a number of prominent economists advertised a newfound professional economic ability to guide the American economy on a stable path. In his presidential address to the American Economic Association in 2003, the University of Chicago macroeconomist Robert Lucas (winner of the Nobel prize in economics in 1995) declared that “macroeconomics ... has succeeded. Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades.”

In a similar vein in 2004, the Princeton economist Ben Bernanke, then a member of the Federal Reserve Board who in 2006 became Chairman of the Board, observed in a speech to the Eastern Economic Association that “one of the most striking features of the economic landscape over the past twenty years or so has been a substantial decline in macroeconomic volatility,” a development labeled by Bernanke and other economists as “The Great Moderation,” also taking for granted that it would continue. In seeking to understand the greater macroeconomic stability of the previous 20 years, Bernanke attributed it in part to “structural change,” among which he ironically included as an important helpful development “the increased depth and sophistication of financial markets.” Another second key factor for Bernanke was “improved performance of macroeconomic policies” on the part of the American government. As Bernanke explained, “few disagree that monetary policy has played a large part in stabilizing inflation, and so the fact that output volatility has declined in

105 Id. at 5.
parallel with inflation volatility, both in the United States and abroad, suggests that monetary policy may have helped moderate the variability of [national economic] output as well.\textsuperscript{109} He would of course turn out to be spectacularly wrong.

\textit{The Economic Priesthood Confesses}

After the initial shock of the financial crisis, professional economists began to try to come to terms with its implications. The MIT economist, and then Director of Economic Research at the International Monetary Fund (IMF), Olivier Blanchard, convened a 2011 IMF conference with the 23 papers published in 2012 as, \textit{In the Wake of the Financial Crisis: Leading Economists Reassess Economic Policy}.\textsuperscript{110} There was general agreement that the dominant macroeconomic understandings of the economics profession as of 2006 had essentially collapsed. University of California at Berkeley macroeconomist David Romer wrote of the mainstream of macroeconomics that:

The financial and macroeconomic crisis that began in 2008 has shattered some of the core beliefs of macroeconomists and macroeconomic policymakers:

-- We thought we had macroeconomic fluctuations well under control, but they are back with a vengeance.

-- We thought that the zero lower bound on nominal interest rates was a minor issue, but it has proved central to the behavior of the macroeconomy.

-- We had not paid much attention to issues of financial regulation and financial disruptions, but they too have turned out to be critical to macroeconomic performance.

-- The idea that policymakers would tolerate years of exceptionally high unemployment due to a deficiency of aggregate demand has gone from unthinkable five years ago to fact today.

-- The workhorse Keynesian dynamic stochastic general equilibrium (DSGE) models on which we were concentrating so much of our attention have been of minimal value in addressing the greatest macroeconomic crisis in three-quarters of a century.\textsuperscript{111}

\textsuperscript{109} \textit{Id.}


\textsuperscript{111} David Romer, What Have We Learned About Fiscal Policy from the Crisis? in Blanchard, et al, eds., \textit{In the Wake of the Crisis}, at 57 (The MIT Press 2014).
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A leading American economics journal, The Journal of Economic Literature, in 2012 reviewed the poor performance of the economics profession and other economic writers in the lead-up to the financial crisis and then in offering a cure. MIT Sloan School economist Andrew Lo reviewed 21 prominent books since 2008, about half by professional economists and the other half by leading financial and economic journalists, all of them developing interpretations of the causes of the financial crisis.112 The economics profession, as the article acknowledged, now had to come to terms with its large recent mistakes. A key factor in the financial crisis was the collapse of the housing bubble and, as Lo wrote, it had to be admitted that “despite their eight-hundred-year history, bubbles are still rather mysterious economic phenomena” for the members of the economics profession. Indeed, reflecting the traditional reluctance of economists to confront the existence of such “irrational” economic phenomena, not only have economists been reluctant to study bubbles, but surprisingly many have even expressed skepticism that bubbles really exist at all. Economists have long portrayed the workings of competitive markets as efficient generators and consumers of information, but in the events leading up to the financial crisis, as Lo commented, it was undeniable that “the information-gathering function of the price mechanism was clearly awry.”

One analyst commented that the financial crisis had shown how “markets can remain irrational a lot longer than you and I can remain solvent.” Contrary to the portrayals in economic models, the search for profits on Wall Street was not always a matter of careful calculation and deliberation; rather, as Lo reported, some leading firms such as Bear Stearns had exhibited a “dysfunctional management and aggressive corporate culture — even by the standards of Wall Street.”114 Yet, professional economic writings about the workings of markets in the United States seldom had said much about the importance of corporate culture to the wider economic system. For one thing, saying anything about a matter as “soft” as culture would have required economists to move outside their familiar territory of “hard” analysis of “rational” economic events involving fully informed decision makers in the market. The might have had to face the fact that human psychology had a large impact on major economic outcomes, an area of study traditionally considered outside the boundaries of economic responsibility or expertise. Addressing such matters would have required economists to transcend their own rationalist “economic religion”; their inability to do this was another part of the “religious crisis” contributing to the financial crisis.

As Lo sums up his 2012 review of 21 leading books offering explanations of the financial crisis, “there is still significant disagreement [including among professional economists] as to what the underlying causes of the crisis were, and even less agreement as to what to do about it.” Perhaps even “more disconcerting for most economists;... we can’t even agree on all the facts. Did [Wall Street] CEOs take too much risk, or were they acting as they were incentivized to act?” Lo was concerned that the damage to the prestige and reputation of the members of the economics profession might prove to be lasting. Indeed, Lo suggested that economists might now be “more likely to be thought of as [modern- day]"

113 Id. at 170.
114 Id. at 168.
astrologers, making pronouncements and predictions without any basis in fact or empirical evidence.” If true, it would add another religious dimension to the financial crisis.

An Economist’s View from March 2017

The British economist, Adair Turner, is among the best informed and most thoughtful about the financial system. In September 2008, just as the financial crisis was breaking, he became the chairman of the UK Financial Services Authority. Together with Mervyn King, the head of the Bank of England, and Alistair Darling, the UK finance minister, the three were at the center of devising and orchestrating the UK emergency response. As Turner would later report, walking into his new job, “I had no idea we were on the verge of disaster. Nor did almost everyone in the central banks, regulators, or finance ministries, nor in financial markets or major economics departments.”

So much for the assumptions of perfect knowledge and perfect rationality that long informed the dominant neo-classical economics of the twentieth century. As the 1978 winner of the Nobel prize in economics, Herbert Simon, would write in 1987 of neo-classical economics, “most of its ‘action’ ... derives from the usually untested, auxiliary assumptions that describe the environment in which decisions are made,” yielding an economic methodology that is essentially “tautological and irrefutable.” As Simon had already said in 1986, the contemporary leading practice of economics thus amounted to a “scholastic exercise.” That is to say, neo-classical economics more closely resembled religion than science.

In 2012, Turner looked back on the events of the financial crisis and the following years to draw some conclusions for contemporary economics. He argued that it was first necessary “not only to reject the simplifications of the dominant [professional] wisdom as a perversion of good economics, but also to reconstruct the way in which economics is taught and practiced.” This would include that “economics should recognize the importance of political, philosophical and ethical issues, to which mathematics is incapable of giving precise answers.” Economists must therefore “accept Keynes’ dictum that ‘economics is a moral science’ -- that ‘no part of man’s nature or his institutions must be entirely outside [the economist’s] regard, and the economist should be ‘mathematician, historian, statesman and philosopher in some degree’ -- and I might now add theologian.”

In March 2017, Turner looked back at the response to the financial crisis in the years since 2008. It had been devised by an economic elite that still regarded economics as an essentially technical subject. Turner issued a harsh judgment on the demonstrated results. As he wrote, in seeking to escape from the consequences of the financial crisis, there had been a “profound failure of mainstream economic theory and orthodox economic policy.” As Turner thinks, this failure can be seen as a main cause of the 2016 great shocks to policy

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115 Id. at 173.
120 Turner, supra note 116, at 254.
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making elites, as seen in the Brexit vote in Britain and the American election of Donald Trump.

Whatever the fitness of Donald Trump to be President, as Turner thinks, the American elite was in fact guilty as judged in November 2016 by the voters. The dominant monetary policy emphasis on “quantitative easing” had served to create financial bubbles in the stock and bond markets that enriched the holders of such financial assets -- the already well off members of American society -- while doing little to stimulate rapid growth of the overall economy where ordinary Americans lived. As Turner explains for the similar case of England:

Increasingly too, it has become clear that the austerity plus ultra-loose monetary policy drives increasing inequality. In a June 2016 speech, Andy Haldane, chief economist of the Bank of England, asked the simple question “Whose recovery?” His answer for the UK is that while wealth has increased 40% since 2007, income per capita has hardly increased at all. That was the inevitable consequence of relying on asset price inflation rather than direct fiscal stimulus to maintain economic growth. This unequal policy impact, moreover, has come on top of more fundamental long-term factors driving increased inequality in developed economies. … For some 30 years, a combination of information and communications technology and the globalization of trade, capital and labor flows, have tended to produce huge gains for a small number of high skilled and lucky people but stagnant real wages for the less fortunate. But legitimate concerns about these effects were too easily dismissed by the policy establishment as “luddite,” ill informed, or, in the concerns about immigration, as closet racism.121

It would take virtually a revolution in professional economics to rethink the longstanding mainstream orthodoxies, a religious revolution that is nowhere in sight. The greatest obstacle to a rethinking of economics thus is not technical; rather, it is that economic and other policy elites cling to their existing ideas as matters of religious faith and certainty.

VI. CONCLUSION

The financial crisis on Wall Street of 2008 and 2009 was preceded by an ethical breakdown. Normal social restraints and a sense of a greater public responsibility were all too often missing. A main contributing factor was the erosion among the members of the financial system (paralleling developments in American life in general) since the 1960s -- and accelerating in the next decades -- of the traditional civil religion that promised the salvation of the world through economic progress, democracy, and other main features of “the American way.” Various religious alternatives emerged, such as American environmentalism, but on Wall Street they did not achieve wide enough acceptance to substitute for the historic unifying role of the traditional civil religion of the United States. The financial system, like the country as a whole, thus faced a new pluralism of fundamental ethical and religious

121 Id. at 255.
convictions. In the absence of a unifying common bond of shared belief to fend off its free rider problems, the financial system experienced a massive failure of the commons in the 2000s.

The financial crisis in this respect can therefore be said to have been in significant part a religious crisis. In looking towards the future, however, this diagnosis does not offer a solution. It is unlikely that any of the economic religions of progress of the twentieth century will experience a great renewal. Indeed, it appeared increasingly doubtful over the course of the century that economic progress could be expected to lead to corresponding moral progress. Another critical problem is the loss of public confidence in the legitimate expertise of the professional economic priesthood -- as exacerbated by the events of the financial crisis. Finding the way forward will be more difficult because of the absence of recent skills and experience among the American professional and other elites in discussing in public the larger religious questions of politics and economics. One prediction can be made with confidence: religion in all its traditional and more recent secular religious dimensions will have a central role in shaping the political and economic history of the twenty-first century.