Jeffrey Sachs: Capitalism and Moral Sentiments

In recent days, both Tom Friedman and David Brooks urged us to take our attention away from the trivialities of the AIG bonuses (just 0.001 percent of GDP, sniffed Brooks), to focus on truly weighty macroeconomic matters. Friedman bade us to look forward to, and support, the next mega-bailout of the banks, and Brooks applauded the leadership of Mssrs. Geithner and Summers in leading the G20 to macroeconomic stimulus and a rejuvenation of the International Monetary Fund.

Both pieces had the feel of planted stories, with insider tips about what’s coming next and praise for the economics team as it battles against little minds in Europe and populist sentiments at home. Whether or not the stories came from Washington, both stories are wrong. There is no tradeoff of great macroeconomic themes and attention to little details like AIG and Merrill bonuses. We can focus on both the bonuses and the macro-economy. Indeed, we must. Nor is the concern over the bonuses mere populism. It is, rather, woefully overdue attention to the core issues of reckless greed and arrogance that did so much to get us into the current fix.

During the last 20 years Wall Street has had its way with us. On a bipartisan basis it provided the Treasury Secretaries, filled the regulatory agencies, paid itself unconscionable bonuses, and stuffed the campaign coffers. The greed knew no bounds. The distortions of public policy – right up to Greenspan’s infamous decision to leave financial regulation up to the firms themselves – have wrecked the world economy.

The fascinating thing about this greed is that it is so deeply ingrained that neither the bankers themselves nor our economic leadership understands just how disgusting and dangerous it is. Even after the music stopped, to use Chuck Prince’s now famous simile, the bankers keep dancing - with our money. They continue to grab billions of taxpayer dollars (in Merrill’s case) or at least hundreds of millions of dollars (in AIG’s case) with giddy abandon, in full view and with a straight face. And our economics officials declare that this is unavoidable or too dangerous to curb. Contracts are sacred, unless of course it is union contracts, in which case we should demand that wages and benefits be cut as conditions for government help.

The great scholars of capitalism, from Adam Smith to John Maynard Keynes, understood full well that a functioning economic system depends not on greed, but on moral sentiments and an acceptable social contract between the rich and the rest of society. The rich can make money, of course, but they must not flaunt it or consume it frivolously. Instead, they must invest their wealth for social benefit, whether in business or in philanthropy, or in both as in the case of history’s most celebrated capitalist-philanthropists, from Andrew Carnegie and John D. Rockefeller to Bill Gates and Warren Buffett. It is only the dangerously arrogant rich or the servants of the rich who believe that morals don’t matter in the great matters of finance.

Here is how Keynes famously described the «psychology» that propelled the first successful era of global capitalism in the late 19th century and early 20th century.

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Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect . . . The capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. The duty of ‘saving’ became nine-tenths of virtue and the growth of the cake the object of true religion. Understanding the need for a moral code in the economy will enormously help the economics leadership not only to weather the storm of outrage that has rightly hit Washington and Wall Street over Wall Street’s rampant and continuing abuses, but also to fashion – finally – a successful solution to the tottering banking system. The stalemate over banking has arisen because the economics team has been unwilling to take on the bank shareholders and management. It now reportedly plans to clean up the banks’ assets through a new alliance of hedge funds and taxpayer dollars. That simply won’t happen. The public won’t tolerate such games for another round. The public won’t accept more money going into financial bailouts until the banks are clearly being run for public benefit, not for the private gain of undeserving shareholders, management, and traders. America will not right itself until it regains a moral compass in economic affairs. That will require a new generation of financial leaders who will forswear the abuses of the past generation of Wall Street leaders. The faster that the economics team and Congress heed the public call for simple justice and decency in financial matters, and the more rapidly that translates into a true Wall Street clean up, the faster will come the economic recovery.

Related News On Huffington Post:

Come, Shoot the Messengers!

Let’s take back some 70 odd bonuses and fail on all sides to see the systemic disease that got us here: short-term thinking and the lunatic need for a profit statement this quarter considerably larger than the last.

Goldman Sachs, Obama, Money

Have things changed so dramatically that Obama will have room to dump his biggest campaign contributers overboard? That question will be answered in the coming weeks.

Andrew Ross Sorkin Explains

Sorkin argues that if we do not pay $165 million in performance bonuses to executives at the failed insurer, we risk chipping at the very foundations of the rule of law.

Financial Journalists Fail Upward

If the world of financial infotainment can itself be described as a «market,» it is a market where accountability does not seem to exist.

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| **AIG Apologists, Let's See You In Court** |
| Make the AIG apologists who claim entitlement sue for their «contractual» bonuses -- and televise those hearings so we can all know just exactly what the AIG apologists think they did to earn public bonuses. |

| **A Second Act for Spitzer?** |
| There is an attorney who can get to the bottom of our current financial crisis and lay the blame and guilt at the foot of the culprits. Eliot Spitzer, phone home. |

| **Tim Geithner Needs To Answer For AIG** |
| Americans will justifiably ask who got us into this mess. The answer, in part, is the same man who has yet to come up with a coherent plan to get us out of it: |

| **Why AIG and Jim Cramer Matter** |
| The new economy, the one that not only gets us out of this crisis, but keeps us out of the next, will not have a place for either AIG type bonuses or Jim Cramer-type journalism. |

| **A Real Simple Solution to the AIG Bonus Mess** |
| Rather than allow these bonuses to remain intact or to take them away outright, how about deferring them until the companies and their troubled business units turn their financial fortunes around? |

| **Taxing Bonuses: A Matter of Fundamental Fairness** |
| Giving out $18 billion in bonuses at a time when ordinary Americans have seen their life savings collapse is outrageous. To give out these bonuses using federal bailout money is over the edge. |

| **Good Work, AIG!** |
| The bonuses may seem greedy, but look what quality stuff they’re producing!... |

| **Unacceptable Excuse of the Day** |
| The ongoing AIG mess provides us with an interesting sidelight today -- the use of an excuse that is no longer acceptable in the unwired global universe in which we now live. |

| **Bernanke Dodges the Bullets** |
| By fueling anger over AIG bonuses, Bernanke is playing a very old game. By aiming at AIG, he is distracting public anger from the Federal Reserve. He is protecting his reputation and legacy. |
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A Disturbing D.C. Whodunit [Update II]
The mystery over who killed a provision in the stimulus package that would have curtailed bonuses at bailed out companies is a disturbing D.C. whodunit. But even more disturbing is what it reveals about how our government is run.

Defining Extravagance Up
It’s admirable that our leaders now want to be frugal with our money but let’s remember what the taxpayers themselves have been buying with money not rendered unto Uncle Sam.

Enough With The Pitchforks And Head-Rolling
Such knee-jerk populist rage is precisely what gave populist rage a bad name in the first place, whereby a valid democratic outlook is construed as nothing more than an angry-mob uprising.

A Crime to Make Money
It seems to have finally dawned on government leaders that bonus recipients are not the only ones who should be afraid.

AIG, Populist Rage, and the Future of Banks
Lately the torches-and-pitchforks voices have begun to drown out serious discussion. Time to take a deep breath or two: populist rage is a rotten basis for policy-making.

How to Recoup the AIG Bonuses
Let’s get real. This may be a nation of laws, but contracts are not sacred, and employment contracts are less sacred than any.

Why are People Defending the Bonuses?
There was no risk management on Wall Street, there was mostly excessive risk-taking. And it was largely due to outsized bonuses that rewarded risky banking while penalizing minimally for losses.

Tax the Bonuses
Amid all the hand-wringing about whether or not the government has the power to stop AIG from paying bonuses to the very people who helped...

Ain’t I Greedy!
Ever since AIG entered the public consciousness in a very negative way last fall, people have been wondering what the initials stand for.

It’s Gut-Check Time
Right now Obama is trying to walk on an incredibly narrow line with no safety net beneath, but this is gut-check time: he has to decide which side he’s on.
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Smoking Gun Points to Geithner

How long will and should Obama continue to defend Geithner in the face of the smoking gun proof of what he knew about AIG and when he knew it?

Perp Walks Instead of Bonuses

The collusion to save AIG in order to salvage the rogue financiers who conspired to enrich themselves by impoverishing millions is being revealed as the greatest financial scandal in U.S. history.

Missing The Point On AIG Bonuses

It’s easy to get outraged at the announcement that AIG will be paying over one hundred and fifty million dollars out as bonuses, after taxpayers...

A Disturbing D.C. Whodunit

The mystery over who killed a provision in the stimulus package that would have curtailed bonuses at bailed out companies is a disturbing D.C. whodunit. But even more disturbing is what it reveals about how our government is run. «It is the ultimate indictment of what Washington has become,» Sen. Ron Wyden, co-sponsor of the eliminated provision told me. «It’s a place where, again and again, the public interest is deep-sixed without any fingerprints.» Wyden has no idea who killed the provision. And, so far, no one in the administration of a president who promised that transparency would be a «touchstone» of his presidency has demanded that whoever is responsible own up to it. We deserve better. READ MORE

Come on, AIG Guys! Cough it Up.

How to restore that trust? I can think of one thing that could be done immediately. It’s not easy. It’s totally counter-intuitive. It will never happen. But it would be an excellent gesture.

How to Stop AIG’s Bonuses

Today the task is to stop a grotesque abuse before it is too late. The path we outline here would do it, without throwing markets into turmoil.

Other Types of Bonuses Deserve an Examination

There would be enormous value in seeing bank executives demonstrate that they know we’re all in this together, that they too have changed their way of life and that they too can sacrifice in times of crisis.

The Scapegoat Game

You know who I feel sorry for? Edward Liddy. He obviously made some very bad decisions. But he is only the last in a series of managers -- both at AIG and elsewhere -- who has done so

Fake Outrage by Politicians About AIG Bonuses

Time after time, Bush, Obama and Congress had an opportunity to attach limits on executive pay to legislation authorizing bailout money. And time after time, they refused. So, spare me the outrage.
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**AIG: Will We Solve the Underlying Problem?**
AIG gave more than $9 million in campaign contributions to Congress – making the list of the top 100 contributors of all time, splitting its money evenly between those in both parties.

**Obama's Rugged Week**
Is Geithner’s plan another bailout to Wall Street? Or is it needed pragmatism to work with a deeply troubled, farcically entitled though still necessary private financial sector?

**The Death of a Brand**
AIG’s predicament will be studied for years to come in marketing and communications classes. When the president of the United States starts bad mouthing your brand, it’s not going to survive.

**The «Populists» Are Right About Wall Street**
How has a popular Democratic president with a convincing electoral mandate failed to translate the opportunities of recent events into the «change» for which voters clamored?

**The Geithner Plan**
There is nothing forcing banks to participate in the program. And that is the real problem. And there is a big reason keeping the banks from participating: finding out that various assets aren’t worth anything.

**AIG Bonus Money is Kid’s Play: Literally**
If AIG were to donate the 418 bonuses to charity, it would be a brilliant preemptive PR move to neutralize its current out of touch public persona. Here’s what the money could provide.

**Geithner’s Last Stand**
The indignation over AIG will serve a useful purpose if it focuses public attention on the much larger issue of the failure of the entire approach that Tim Geithner and Larry Summers are using to rescue the banking system.

**Lessons from AIG**
What is vital now is that the public’s righteous anger is not expressed only as «no.» There are a lot of things to which We The People do need to say «no.» But we need a lot of «yes’s,» too.