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*Joint Seminar 22 October 2008*  
**Credit Crunch, Character Crisis**  
**Sam Gregg**

## **Introduction**

Rarity of moral analysis of the credit crisis.

Two causes of credit crisis considered from ethical standpoint:

- monetary policy and subprime mortgage market
- security ratings agencies

Conclude by considering moral foundations of credit

## **Nature of Prudence**

Elements of prudence:

- *Intelligentia*: an understanding of first principles, such as ‘don’t steal’.
- *Docilitas*: this is a kind of open-mindedness which recognizes the true variety of situations to be experienced, which does not limit itself to accepted or popular wisdom, and which involves a willingness to make use of the experience of others to make prudent decisions. This might also be understood as humility.
- Caution: the willingness to take risks while mitigating the same risks as far as possible.
- Discursive reasoning: the willingness to research and compare alternative possibilities.
- Foresight: the ability to estimate whether a particular action will lead to the realization of our goal.
- *Memoria*: An accurate memory in the sense of memory that is true to reality
- Shrewdness: the capacity to judge a situation by oneself and quickly.
- Circumspection: the ability to take all relevant circumstances into account without becoming paralyzed by indecision.

## **Monetary Policy and Mortgages**

Monetary Policy:

- Lowering of interest-rates by Federal Reserve. Problem of inflationary figures.
- Failures of foresight, caution, humility, and discursive reasoning

Subprime lending

- fraudulent misrepresentations by borrowers
- due diligence failures by lenders
- Community Reinvestment Act
- Fannie and Freddie lending policies
- Fannie, Freddie, and politicians

- Violations of prudence
- Violations of justice
- Violations of temperance
- Limits of regulation

### **Ratings agencies and conflicts of interest**

A ratings agency failure

A conflict of interest?

Ratings agencies slow to react to crisis

Markets punish ratings agencies' failure

### **Credit and Trust: Corrupting Intangible Assets**

A discrediting of credit

Why we need credit

Why interest-rate ceilings don't work

'Credit' - derived from credere - the Latin verb for 'to believe' but also 'to trust'

Why markets need morality

Virtues are not optional extras for markets