

After the crisis: How to restore trust in business and finance *

Después de la crisis: cómo recuperar la confianza en los negocios y las finanzas

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ABSTRACT Over the last decade, many people around the globe have become progressively disillusioned with capitalist democracy and above all with the world of business and finance. I use U.S. data to illustrate the loss of confidence, and I examine how the public has changed its views about business, financial institutions, government, regulation and globalization. On the whole, there is now a leftward cultural trend in the United States. Society cannot move forward without at least partly restoring public trust. Useful steps that heads of business, financial leaders, and policy-makers can take are discussed.

KEYWORDS Trust; Confidence; Financial crisis; Capitalism.

RESUMEN A lo largo de la última década muchas personas en el mundo se han ido progresivamente desilusionando de la democracia capitalista, y sobre todo de su mundo de negocios y finanzas. Utilizo datos de los Estados Unidos para ilustrar la pérdida de confianza, a la vez que examino cómo el público ha mudado sus opiniones sobre el mundo de los negocios, las instituciones financieras, el gobierno, la regulación y la globalización. En general, se observa una tendencia cultural más hacia la izquierda en los Estados Unidos. La sociedad no puede avanzar si recomponer, al menos parcialmente, la confianza pública. Por último, se discuten los pasos que en este sentido pueden tomar los empresarios, los líderes financieros y los políticos.

PALABRAS CLAVE Confianza; Crisis financiera; Capitalismo.

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A SENSE OF BETRAYAL

The question of appearance versus reality is fundamental in philosophy but it seems that, since the start of the new millennium, the theme has also taken on a new importance for economists and other social scientists. We live in a world full of surprises, and most are bad.

Things are not what they appear to be. The 9-11 tragedy; the Enron fiasco; the intelligence failures and lies linked to the start of the Iraq war; the fraudulent scheme concocted by Bernard Madoff; the run on Northern Rock; the subprime debacle; the disappearance of all five independent investment banks in the U.S.; the bankruptcies, buyouts and bailouts of hundreds of financial institutions; the oil spill in the Gulf of Mexico; the sovereign debt crisis in Greece and other countries of the Eurozone; the Rupert Murdoch and MP expense scandals in the U.K.; the distortion of LIBOR; most recently, the revelation of past wrongdoing by Jimmy Saville and Lance Armstrong—all these events, when they happened or when they first came to light were outside the range of imagination.

At present, many people have a sense of betrayal, not merely because of what they learned from media reports but also on account of what has happened in their own lives. The masses are angry. Millions have lost their jobs, or their homes, or their retirement nest eggs—while the megabanks stay in business thanks to taxpayer money. Many governments are running gigantic deficits. (Some states and local governments in the U.S. are also strapped for money. Cities are going bankrupt). Five years after the start of the crisis, the economic outlook remains uncertain. There is plenty of anxiety about the future. GDP growth is uneven. Many industrial countries are semi-stagnant⁽¹⁾.

If economic progress vanishes, political stability suffers. For example, social inequality has become a matter of intense debate⁽²⁾. Jeffrey Sachs (2011) believes that a moral crisis lies at the root of everything. He speaks of a «decline in civic virtue among America's political and economic elite... [an] ongoing deterioration of our national politics and culture of power» (p. 3). Our society «is dangerously out of balance» (p. 262). There can be no economic recovery without restoring an ethos of social responsibility, Sachs says. Likewise, in the United Kingdom (and, I should add, on the European continent), there is «a growing impression that virtually all those in positions of leadership are cynically

(1) For U.S. evidence of stagnation and gloom, see, e.g., Greenhouse (2008), Gillispie (2008), Hyman (2011), Bartlett and Steele (2012), Leonhardt (2012), Rozansky (2012) and Rampbell (2012). Morrin and Fry (2012) report drops in wealth for different demographic groups.

For U.K. evidence, see Elliott and Ramesh (2012) and Warner (2012). In autumn 2012, the U.K. Office for National Statistics reported that the standard of living is still 13% below the level at the start of the financial crisis. Nick Cohen (2012) writes that «Britons have never been angrier or more confused».

A July 2012 Gallup survey found that only one in three residents in Southern Europe (Greece, 25%; Italy, 37%; Portugal, 30%; Spain, 37%) believed that «their future lives would be better than their current lives» (Manchin, 2012).

(2) See, e.g., Elliott and Atkinson (1998), Lewis (2007) or Hacker and Loewentheil (2012). William Samuelson writes in the *Washington Post* that we are witnessing «the exhaustion of the modern social order» (2012, October 7). In *The Guardian*, H.-J. Chang warns against «a backdoor rewriting of the implicit social contracts» that have existed since the end of the second world war (2012, September 28).

in it for themselves, and less concerned with truth and the public good than they used to be» (Kellner, 2012)⁽³⁾.

The aim of this paper is twofold. First, I report on public opinion surveys from the United States to show the general loss of trust and confidence. In addition, I examine how the U.S. public has changed its views about some fundamental economic and social questions. (Quite often, people are divided and confused.) I focus on U.S. data because there is so much of it, surely when compared to the Eurozone or Japan. Also, the U.S. is where the crisis started and where the historical record is the longest. Second, considering what survey respondents say they would like to see happen, I discuss some useful steps that financial leaders, heads of business, and policy-makers in government can take to help restore public confidence, especially trust in business and finance.

Of course, a great deal must be accomplished without delay, in the very short-term. Examples include the need to avoid the «U.S. fiscal cliff», the completion of Dodd-Frank, and the resolution of the situation in Greece. Since there is intense disagreement, this is easier said than done. For instance, some observers argue that a policy of austerity unnecessarily extends the current business downturn while others hope for an immediate «expansionary fiscal contraction» based on tax increases and cuts in expenditures⁽⁴⁾.

Many commentators believe, however, that the current crisis is prolonged because it developed over decades. In the end, they think, it will amount to a transformation of society: the decline of the West and the rise of Asia. «We are living through not a downturn but an epochal change» (Kettle, 2012)⁽⁵⁾. Irrespective of whether this forecast

(3) Recently, John Kay, *The Financial Times* columnist, told BBC Radio 4's Today program that «a culture of trust relationships... central to making financial services work, has been replaced by... a culture of transactions and trading... Over the last ten years, companies have done OK, people in the financial sector have made a lot of money, and savers have done pretty badly».

Trust has also declined in many emerging middle-income countries like China. One reason is crony capitalism. Recent media reports say that Wen Jiabao's extended family has accumulated assets worth \$2 or \$3 billion. Other members of the Chinese senior leadership have the same problem, and this has caused embarrassment (Barboza, 2012).

Murray (2012) describes social trust as «the generalized expectation that the people around you will do the right thing» (p. 247). In the short run, ethnic diversity and immigration work against social trust (Putnam, 2007). Olsen (2008) discusses trust from the perspective of behavioral finance. Dixit and Nalebuff (1991) link trust and trustworthiness to strategic credibility, often in a game-theoretic context.

(4) Commenting on this stalemate, Shiller (2012) says that «economic theory lacks an unambiguous prescription for policy-makers. Professional opinion in macro-economics is, as always, in disarray». Posner (2010), normally a staunch conservative, agrees with the Keynesian prescription for recession, i.e., a large fiscal stimulus package that boosts business and consumer confidence in uncertain times. Note, however, that the argument (and the confusion) is only about what to do over the next few years. Over longer horizons, the U.S., Britain, the Eurozone and Japan all want to cut deficits and reduce government debt.

(5) Elliott and Atkinson (2012) contend that «Britain will have a third world economy by 2014». For a German perspective on U.S. and Western decline, see Augstein (2012), Fichtner *et al.* (2012) and Schnibben (2012). Apparently, Vladimir Putin, the Russian president, said that Barack Obama is America's counterpart to Mikhail Gorbachev, «a man forced to preside over the demise of a political system he desperately wants to save» (Casertano, 2012).

Edsall (2012) says that scarcity will restructure U.S. politics as rising expectations meet diminishing resources. In the *New York Times* (2012), he worries that «the perennial gale of creative destruction may be so powerful and inexorable that the political system cannot provide a remedy».

Michael Jensen predicted the current global upheaval in a remarkable 1996 article published in *The Wall Street Journal* (co-authored with Perry Fagan). Robert Gordon (2012) argues that the prospects for future U.S. growth are bleak. The U.S. faces

comes true, the analysis does suggest that the problems of many of the industrial countries are structural, and that public confidence can only be regained after world leaders formulate clear answers to some long-standing questions.

Among these long-term issues, three categories of topics stand out⁽⁶⁾. There is fierce debate about:

1. The appropriate role of *government* in the efficient allocation of resources (e.g., through the tax code, investments in infrastructure, and labor and environmental regulation), income and wealth redistribution, and macro-economic stabilization (Musgrave, 1959; Okun, 1975; Kuttner, 1984; Brittan, 1995; Moss, 2002; Frank, 2007; Kissing, 2008).
2. The effects of economic and financial *globalization* (see, e.g., Longworth, 1998; Lamfalussy, 2000; Rodrik, 2000 and 2002; Sinn, 2003; Rickards, 2011).
3. What to do about widespread failures of *governance* in corporations, financial institutions, government and regulatory agencies, and democratic politics (Monbiot, 2000; Coffee, 2006; Bartels, 2008; Firestein, 2009; Gillespie and Zweig, 2010; Farrell, 2010; Morgenson and Rosner, 2011; Mertens, 2011; Lessig, 2011).

There are different visions of society that guide our thinking about government, globalization and governance. To simplify matters, the two principal ones, relevant to today's world, are liberal economic doctrine and social democracy. These alternative ideological frameworks start from conflicting perspectives on human nature and the good life. They are used to rationalize business practices, economic policies and institutional arrangements that are worlds apart⁽⁷⁾.

The liberal agenda includes free markets, financial market liberalization, checking the growth of the welfare («nanny») state, privatization, limiting employment rights, and low corporate taxes. Its most central ideas may be natural harmony, i.e., mutual adjustment that results in a stable equilibrium (Adam Smith's «invisible hand»), and shareholder value maximization⁽⁸⁾.

For social democracy, the economy is embedded in social relations. Government exists to protect citizens from insecurity. The social democratic view accepts markets but it

«six headwinds», including the interaction of global outsourcing and the internet, an upcoming decline in working hours per capita, worldwide competition for energy, and the expense and poor performance of the education system.

(6) Other long-standing questions, not listed, include issues of war and peace, international migration, global climate change, and European unification, including the possible mutualization of public debt within the Eurozone. Note, however, that these issues are not or at most indirectly related to the current economic crisis (against the Euroskeptics in Britain, Jean-Claude Trichet maintains that the credibility of some governments, not the credibility of the euro, is a source of economic uncertainty. See Dedieu and Mathieu, 2012).

(7) Consider, for instance, the idea of the «American dream». Many people in the U.S. tolerate hardship, inequality, and a government safety net that is undersized relative to what we see in Europe in the belief that «economic growth lifts all boats» and that «everyone has a shot at making it into the middle class».

(8) That is, even though individuals including owners of firms act for their own selfish interests, the net result is for the benefit of society. President George W. Bush spoke admiringly of the «ownership society». His critics, on the other hand, kept saying that «in the ownership society, you are on your own» (Porter, 2012).

also says that prosperity and social justice are mutually reinforcing. Its most central idea is social cohesion or solidarity⁽⁹⁾.

In this paper, I do not choose between the two visions. Neither do I articulate my own preferred answers to the complex array of issues listed earlier. My chief purpose is to condense core elements of what the U.S. public accepts today as valuable and true, and to see whether the public is moving «left» or «right». I go on to suggest that action steps that match current values and beliefs are likely to increase the public's trust and confidence.

There are two ways to justify this line of argument. First, in a democratic society, it is fitting that the ruling elite pays attention to what the majority of voters want, even if public opinion is often divided and confused⁽¹⁰⁾. Anyway, all industrial countries including the United States today have mixed economies where government intrusion and allocation of resources is the rule, not the exception⁽¹¹⁾. Second, what the public thinks also limits private actors who buy and sell in purportedly free markets. A simple example is the «outrage» constraint on top executive pay. Clearly, the board of directors of a firm has a problem if it believes that it has to pay its CEO a \$20 million bonus but also knows that the employees will be up in arms and demoralized (Roe, 2002)⁽¹²⁾.

I concede that, perhaps beginning with Walter Lippmann (1914, 1922) and Edward Bernays (1928), many distinguished U.S. political observers have concluded that talented leaders wish to guide crowd opinion, not merely go along with it⁽¹³⁾. There is often no other way to devise coherent policies. Indeed, some writers, e.g., McCarty *et al.* (2006), find intense partisan polarization linked to social inequality. These authors suggest that the unbridgeable gap between left and right, and the legislative gridlock that follows, have already begun to hurt the U.S. middle class. Still others like Mark Roe (2002, 2012) propose that cultural constraints as well as historical power relationships among the haves and have-nots and among different members of the elite profoundly shape corporate law and the regulatory framework for economic and financial institutions⁽¹⁴⁾. In other words, public opinion matters but it only means so much. Still, whichever idea seems more palatable, it is enlightening to study people's values and beliefs.

(9) For extensive discussion of liberal economic doctrine and social democracy, see, among others, Friedman (1962, 1970), Lasch (1995), Sennett (2006), Judd (2010), Sandel (2012) and Skidelsky and Skidelsky (2012). Polanyi (1944) and Gray (1998) argue that there is an enduring human need for economic and financial security. Global laissez-faire capitalism, they believe, is a utopian project—an artefact of the Enlightenment that requires state support and that cannot possibly last unless democracy is suspended.

(10) Thus, «practical politics consists in ignoring facts». This cynical statement, attributable to the American historian Henry Adams (1838-1918), may well be true!

(11) Spending by the U.S. federal government varies but for at least 30 years it adds up to around 20% or more of GDP. (State and local spending has to be added to measure the full impact of government). In Europe, government spending is typically 40% or more of GDP. In some cases, it is over 50%.

(12) As a second example, consider the effect of media coverage on corporate governance in Russia. Dyck *et al.* (2008) find that a violation of corporate governance rules is more likely to be reversed if the Anglo-American press reports it. Apparently, extensive media coverage affects the international reputation of Russian firms and also forces local regulators into action.

(13) The same idea appears earlier in France with LeBon (1896).

(14) According to Roe, this explains why today there is no «frontal assault on U.S. capital markets» even though finance is seen as «not serving the public interest» (2012, p. 7).

PUBLIC OPINION IN THE U.S. AFTER THE CRISIS

I draw on selected results of multiple past studies, all with their own samples and methods, and all pertaining to the United States⁽¹⁵⁾. The main sources are Gallup and the Pew Charitable Trusts. Exact details of how the studies were put together can be found in Pew Research Center for the People & The Press (2009) (PRC), the Pew Charitable Trusts Economic Mobility Project (2011) (PCT-EM), Newport (2010 and 2011), Saad (2011 and 2012), Linn (2012), and Morin and Fry (2012) or materials referenced therein.

I arrange the findings in five tables. Because there is much material to sum up, I only report pertinent statistics for a few dates, usually the first time that a survey question was asked and the last time, i.e., the most recent data point.

A. TRUST AND CONFIDENCE

I start however with a brief description of the June 2012 report of the Chicago Booth/Kellogg School Financial Trust Index. The data show unmistakably that people are disillusioned with the financial industry. Their disenchantment is profound. Only 21% of Americans now have faith in the financial system. (This is the lowest number on record since March 2009.) When compared to trust in local community banks and credit unions (55% and 63%), confidence is exceptionally low in national banks (23%) and the stock market (15%)⁽¹⁶⁾.

Table 1 lists overall assessments of the performance of eight industrial sectors and the federal government. Gallup gathers the data annually for 25 sectors. Overall, they show a decline between 2001 and 2011. 30% of respondents in August 2011 had a positive view of the banking sector and 47% had a negative view.⁽¹⁷⁾ The ratings are even lower for the real estate industry, oil and gas, and the federal government. Only 17% of Americans had a positive view of the federal government; 63% a negative view.⁽¹⁸⁾ This puts the federal government at the bottom of the list. The computer industry (not listed in table 1) is tops, with 72% positive and 10% negative perceptions.

In other polls conducted by Gallup, just 19% of Americans said in September 2011 that «they are satisfied with the way the nation is being governed.» See table 2 (Q1). Over the years, the same questions have been asked many times, in some cases going back to 1972. In general, the data register huge drops in «trust and confidence» in

(15) Also outside the U.S., various measures of social capital and interpersonal trust have been declining for decades.

(16) By comparison, a July 2012 Gallup survey found that 34% of European Union residents expressed confidence in their home country's banks and financial institutions; 61% lacked confidence (Sonnenschein, 2012). Trust varied widely across countries. For example, the equivalent statistics for Spain were 17% (confidence) and 81% (no confidence). In contrast, the data for Finland were 68% (confidence) and 29% (no confidence).

(17) The percent of positive responses was already low for healthcare, the legal field, and oil and gas in 2001. So, the statistics for these industries could not decline much further.

(18) Interestingly, the corresponding for Greece is nearly identical. A November 2011 Gallup survey found that Greek confidence in their national government had declined to an all time low of 18%, down from 30% in 2005 (Jensen, 2012).

TABLE 1
OVERALL ASSESSMENTS OF THE PERFORMANCE OF
INDUSTRIAL SECTORS AND THE FEDERAL GOVERNMENT IN THE U.S.

«For each of the following sectors, is your overall view positive, neutral or negative?» (Gallup, August 2011)

Farming and agriculture		
2001	59% positive	
2011	57% positive	19% negative
Internet industry		
2001	44% positive	
2011	56% positive	16% negative
Accounting		
2001	47% positive	
2011	36% positive	19% negative
Banking		
2001	47% positive	
2011	30% positive	47% negative
Real estate		
2001	46% positive	
2011	23% positive	52% negative
Legal field		
2001	29% positive	
2011	29% positive	45% negative
Healthcare		
2001	37% positive	
2011	27% positive	55% negative
Oil and gas industry		
2001	24% positive	
2011	20% positive	64% negative
Federal government		
2003	41% positive	
2005	33% positive	
2007	21% positive	
2009	29% positive	
2011	17% positive	63% negative

TABLE 2
TRUST IN THE U.S. POLITICAL SYSTEM AND MASS MEDIA

**Q1: «On the whole, would you say you are satisfied or dissatisfied with the way the nation is being governed?»
(Gallup, September 2011)**

1972	37% satisfied	54% dissatisfied
2003	59% satisfied	39% dissatisfied
2011	19% satisfied	81% dissatisfied

**Q2: «How much trust and confidence do you have in the legislative branch of the federal government (U.S. Senate and House of Representatives)?»
(Gallup, September 2011)**

1972	71% a great deal/a fair amount	25% not very much/none at all
2003	67% a great deal/a fair amount	32% not very much/none at all
2011	31% a great deal/a fair amount	69% not very much/none at all

**Q3: «How much trust and confidence do you have in the men and women in political life in this country who either hold or are running for public office?»
(Gallup, September 2011)**

1972	65% a great deal/a fair amount	32% not very much/none at all
2003	60% a great deal/a fair amount	39% not very much/none at all
2011	45% a great deal/a fair amount	53% not very much/none at all

**Q4: «How much trust and confidence do you have in our federal government in Washington when it comes to handling domestic problems?»
(Gallup, September 2012)**

2002	77% a great deal/a fair amount	21% not very much/none at all
2011	43% a great deal/a fair amount	51% not very much/none at all
2012	57% a great deal/a fair amount	47% not very much/none at all

**Q5: «People like me don't have any say about what the government does»
(PRC, May 2009)**

1987	52% agree	46% disagree
2009	51% agree	46% disagree

**Q6: «Generally speaking, elected officials in Washington lose touch with the people pretty quickly».
(PRC, May 2009)**

1987	73% agree	24% disagree
2009	76% agree	21% disagree

**Q7: «How much trust and confidence do you have in the mass media –such as newspapers, TV and radio—when it comes to reporting the news fully, accurately, and fairly?»
(Gallup, September 2012)**

1972	68% a great deal/a fair amount	30% not very much/none at all
2007	47% a great deal/a fair amount	52% not very much/none at all
2012	40% a great deal/a fair amount	60% not very much/none at all

the legislative branch of government and current and future office-holders (see Q2, Q3 and Q4)⁽¹⁹⁾.

As a rule, people are wary of government in the United States. These misgivings have existed already for a long time, as two PRC polls show (see Q5 and Q6). In related questions and polls, not listed in table 2, almost half of Americans thought that «the federal government presents an immediate threat to their way of life». In July 2010, only 36% of Americans who had not yet retired believed that the social security system would pay a benefit when they retire. The statistic dropped to 22% for respondents aged 18 to 34.77% of respondents said that social security was «in a state of crisis» or had «major problems» (Newport, 2010).

Finally, the Gallup data in table 2 (Q7) also show greatly diminished trust and confidence in the mass media. Today, six out of ten Americans say that they have «not very much confidence, or none at all», that the newspapers, TV and radio report the news «fully, accurately, and fairly»⁽²⁰⁾.

B. PERSONAL FINANCES

Survey data back up the notion that the lack of confidence may be connected to the weakening of people's personal finances. In a May 2011 PCT-EM opinion poll, 32% of respondents rated their current personal financial situation as «excellent or good» (68% rated their finances as «only fair or poor»). The corresponding statistics at the start of the financial crisis in 2007 were 55% («excellent or good») and 45% («only fair or poor»).

To make matters worse, a September 2012 opinion poll found that only 23% of people are «confident that they have enough retirement savings.» The data vary with age, however. Individuals in their 30s and 40s show the least confidence. Current retirees show more confidence (Linn, 2012). Earlier, in an April 2011 Gallup poll, 66% of respondents said that they were «very or somewhat worried» that they would not have enough money for retirement. 56% answered in the same way in 2007 and 54% in 2002.⁽²¹⁾

C. SOCIAL JUSTICE AND THE ROLE OF GOVERNMENT

Table 3 describes a selection of findings from various PRC polls conducted in May 2009 or earlier (in some cases, going back to 1987) and a May 2011 PCT-EM survey. Consonant with the «American dream» and the rule that every individual should take responsibility for his own life, the data show the unbroken self-confidence of the American people (Q1) and their continuing faith in the value of hard work as a source of success (Q2).

(19) Still, people did perceive some improvement in the government's handling of domestic problems between September 2011 and September 2012.

(20) Similarly, in the U.K., more people now distrust (47%) than trust (44%) BBC journalists (Kellner, 2012). Cappella and Jamieson (1997) investigate why the general public often does not trust the news media.

(21) For an expert analysis of the adequacy of U.S. retirement wealth, see Schieber (2012).

TABLE 3

VALUE AND BELIEFS RELATING TO SOCIAL JUSTICE AND THE ROLE OF GOVERNMENT IN THE U.S.

Q1: «As Americans, we can always find a way to solve our problems and get what we want». (PRC, May 2009)		
1987	68% agree	28% disagree
2007	58% agree	38% disagree
2009	70% agree	27% disagree
Q2: «Hard work offers little guarantee of success». (PRC, May 2009)		
1987	29% agree	68% disagree
2009	33% agree	65% disagree
Q3: «Today it's really true that the rich just get richer while the poor get poorer». (PRC, May 2009)		
1987	74% agree	22% disagree
2009	71% agree	26% disagree
Q4: «Our society should do what is necessary to make sure that everyone has an equal opportunity to succeed». (PRC, May 2009)		
1987	90% agree	8% disagree
2009	87% agree	11% disagree
Q5: «When something is run by the government, it is usually inefficient and wasteful». (PRC, May 2009)		
1987	63% agree	31% disagree
2009	57% agree	39% disagree
Q6: «Generally speaking, do you think the government does more to help or more to hurt people trying to move up the economic ladder?». (PCT-EM, May 2011)		
2011	27% more to help	52% more to hurt
Q7: «Generally speaking, do you think the government should be doing more to help poor and middle class Americans improve their financial situations?». (PCT-EM, May 2011)		
2011	58% government should do more	17% government should do less
Q8: «It is the responsibility of the government to take care of people who can't take care of themselves». (PRC, May 2009)		
1987	71% agree	24% disagree
2009	63% agree	33% disagree
Q9: «Poor people have become too dependent on government assistance programs». (PRC, May 2009)		
1992	79% agree	18% disagree
2009	72% agree	22% disagree

(Continue in next page)

TABLE 3 (CONT.)

VALUE AND BELIEFS RELATING TO SOCIAL JUSTICE AND THE ROLE OF GOVERNMENT IN THE U.S.

Q10: «Government can take various steps to make sure that people don't fall behind economically. Is it an effective step to cut taxes?».

(PCT-EM, May 2011)

2011	68% very effective/one of the most effective	11% not very effective/not at all effective
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Q11: «Government can take various steps to make sure that people don't fall behind economically. Is it an effective step to reduce government spending?».

(PCT-EM, May 2011)

2011	79% very effective/one of the most effective	7% not very effective/not at all effective
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Q12: «Government can take various steps to make sure that people don't fall behind economically. Is it an effective step to make college more affordable?».

(PCT-EM, May 2011)

2011	80% very effective/one of the most effective	8% not very effective/not at all effective
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Q13: «Government can take various steps to make sure that people don't fall behind economically. Is it an effective step to make healthcare more accessible?».

(PCT-EM, May 2011)

2011	72% very effective/one of the most effective	10% not very effective/not at all effective
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Q14: «Government can take various steps to make sure that people don't fall behind economically. Is it an effective step to provide financial education that teaches people how to better handle their money?».

(PCT-EM, May 2011)

2011	65% very effective/one of the most effective	12% not very effective/not at all effective
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The data are ambivalent about the role of government. It is a study in contradictions. On the one hand, substantial majorities agree that social inequality is rising and that society should make sure that everyone «has an equal opportunity to succeed» (Q3 and Q4). On the other hand, a smaller and declining majority of Americans (57% in 2009) state that government is «inefficient and wasteful» (Q5). Just over half even say that government hurts individuals «trying to move up the economic ladder» (Q6). Nonetheless, nearly six out of ten declare that government should be doing more, especially to improve the lives of those «who can't take care of themselves» (Q7 and Q8). People are of two minds, however, since most (72% in 2009) also worry that the poor «have become too dependent on government assistance» (Q9). Perhaps the best way to account for the different findings is to conclude that Americans want a society that guarantees equal opportunities but not equal outcomes.

The seeming inconsistencies become even more acute the moment subjects are asked about specific government measures intended «to make sure that people don't fall behind economically» (Q10 to Q14). A good number of respondents want to cut spending (79%) and taxes (68%). Then again, they would like government to make college more affordable (80%) and healthcare more accessible (72%). About two-third go as far as to say that if government were to «provide financial education» it would either be a very effective or one of the most effective measures.

TABLE 4
BELIEFS ABOUT THE POSITION OF THE U.S. IN WORLD AFFAIRS AND GLOBAL TRADE

Q1: It's best for the future of our country to be active in world affairs.
(PRC, May 2009)

1987	87% agree	8% disagree
2009	90% agree	7% disagree

Q2: «We should pay less attention to problems overseas and concentrate on problems here at home».
(PRC, May 2009)

1992	78% agree	11% disagree
2009	88% agree	19% disagree

Q3: «Do you think that free trade agreements like NAFTA and the policies of the World Trade Organization have been a good thing or a bad thing for the United States?».
(PRC, May 2009)

1997	47% good thing	30% bad thing
2008	35% good thing	48% bad thing

Q4: «China has taken unfair advantage of the United States».
(PRC, May 2009)

2009	55% agree	31% disagree
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Q5: «Government can take various steps to make sure that people don't fall behind economically. Is it an effective step to keep jobs in America?».
(PCT-EM, May 2011)

2011	90% very effective/one of the most effective	3% not very effective/not at all effective
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D. GLOBALIZATION

The data in table 4 are rather less confusing. Again, I select questions from past PRC (2009) and PCT-EM (2011) surveys, conducted as early as 1987 and as recently as May 2011.

Without doubt, the American people want their country «to be active in world affairs» (Q1). At the same time, they would like government to «concentrate on problems at home» (Q2)⁽²²⁾.

Interestingly, a great deal more respondents in 2008 were against free trade agreements like NAFTA than were for it. This is a remarkable turnaround from 1997 (Q3).

Many people (55%) are apprehensive about the trade relationship with China (Q4) and accuse the Chinese of misbehavior, e.g., exchange rate manipulation or lack of respect for intellectual property rights⁽²³⁾. To finish, a large majority (90%) wants government to be more protectionist and to do whatever it can to keep jobs at home (Q5), particularly in manufacturing⁽²⁴⁾.

(22) This viewpoint may have gained strength because many people are tired of war.

(23) Similar results were obtained in the 1980s for the trade relationship between the U.S. and Japan (Pew Research Center for the People & The Press, 2009).

(24) The power of both of these ideas was evident in the U.S. presidential election of 2012. Much of the campaign was fought in the swing state of Ohio. Both president Obama and governor Romney promised again and again «to get tough with China» and to protect American manufacturing. In fact, a large fraction of the export growth of China comes from Chinese subsidiaries of multinationals headquartered in the industrial countries (Kinetz, 2003).

TABLE 5
BELIEFS ABOUT U.S. BUSINESS, REGULATION AND THE PUBLIC INTEREST

Q1: «A free market economy needs government regulation in order to best serve the public interest».
(PRC, May 2009)

2009	62% agree	29% disagree
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Q2: «Business corporations generally strike a fair balance between making profits and serving the public interest».
(PRC, May 2009)

1987	43% agree	48% disagree
2009	37% agree	58% disagree

Q3: «The strength of this country today is mostly based on the success of American business».
(PRC, May 2009)

1987	76% agree	19% disagree
2009	76% agree	20% disagree

Q4: «Government regulation of business usually does more harm than good».
(PRC, May 2009)

1987	55% agree	34% disagree
2009	54% agree	39% disagree

Q5: «There is too much power concentrated in the hands of a few big companies».
(PRC, May 2009)

1987	77% agree	18% disagree
2009	77% agree	21% disagree

Q6: «Business corporations make too much profit».
(PRC, May 2009)

1987	65% agree	28% disagree
2009	62% agree	33% disagree

Q7: «Wall Street often hurts economy more than helps it».
(PRC, May 2009)

2009	49% agree	37% disagree
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Q8: «There needs to be stricter laws and regulations to protect the environment».
(PRC, May 2009)

1987	90% agree	9% disagree
2009	83% agree	16% disagree

Q9: «When it comes to developing new energy technology...».
(PRC, May 2009)

2009	58% believe government investment is necessary	32% believe businesses will produce the technology we need
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E. BUSINESS AND THE PUBLIC INTEREST

Table 5 describes a few aspects of what the U.S. public thinks about business and regulation. All survey questions are from PRC (2009). Some questions were asked for more than two decades.

The majority of respondents (76%) continue to marvel at the success of American business (Q1). Consistent with table 1, however, they also hold some negative views. In

particular, more and more people (58% in 2009) do not believe that corporations strike «a fair balance» between private profit and the public interest (Q2). 62% say that a free market economy needs regulation —even if they believe (54%) that government does an inadequate job (Q3 and Q4).

It is striking and, I am sure, counterintuitive to many that large numbers of Americans think that big corporations are too powerful and make too much profit. The statistics have not fluctuated much over the decades: 2009 looks like 1987 (Q5 and Q6). There is also deep skepticism with respect to Wall Street (Q7). In 2009, there were more people who believe that the financial industry hurts the U.S. economy (49%) than there were who believe that the industry helps (37%).

Finally, there continues to be a large majority of Americans (83% in 2009) who want stricter regulations to protect the environment (Q8). It is also believed (58%) that government has a role to play in the development of new energy technology (Q9).

HOW TO RESTORE TRUST

It is unmistakable that over the last few years we have witnessed a remarkable decline in public trust and confidence in government, business, financial institutions and the media.

Trust, once lost, is not easily regained. What can be done? The chief conjectures of this article are that (1) there is a discernible fracture in society between the masses and the ruling elite, and that (2) the way to restore social order is to give more weight to public opinion. Public opinion, I repeat, often gets in the way of what leaders in business and government want to do. (This is probably as it should be. In a democracy, public opinion is part of a system of «checks and balances».) Yet, public sentiment and crises also create opportunities for constructive action if top decision-makers can offer real solutions to problems⁽²⁵⁾.

What does U.S. public opinion think? It is difficult to condense all the data examined in the previous section in a few sentences, particularly since the survey respondents sometimes hold views that are disjointed and illogical (like «more spending but less taxes» even as the U.S. federal debt stands at an all-time high). The three conclusions that follow are open to discussion.

(25) The mayor of Chicago, Rahm Emanuel, is famous for commenting to *The Wall Street Journal* that «you never want a serious crisis to go to waste».

Interestingly, Zingales (2012) hopes that public intellectuals and policy-makers will save the day for the free market system, i.e., that populist anger in the U.S. can be redirected to bolster meritocracy and competition, both «threatened by crony capitalism». Whether such policies can draw strong public support at this time remains to be seen, however (note the difficulties of David Cameron's government in the U.K.). Hereafter, I suggest the opposite.

Zingales (2012) reiterates many of the ideas in Rajan and Zingales (2003). These authors thought that «vibrant» financial markets would «spread prosperity» and «slowly redress many of the evils of capitalism» such as «the unequal distribution of income» (p. 312). On the other hand, Rajan and Zingales did warn against both the absence of regulatory rules and «the presence of suffocating rules», a stance maintained by Zingales (2012).

First, with respect to the trade-off between social justice and efficiency (or between government intrusion and free markets), it seems that a growing number of Americans want government to do more to create an equal opportunity society. Despite the fact that it is seen as ineffectual and incompetent, the economic crisis probably did convince many that government can serve as a giant insurance company and that it provides the ultimate safety net. Thus, the crisis has strengthened politicians who want people to pull together («we are all in the same boat») and who present themselves as technocrats capable of getting things done. In our imagination, the technocrat serves the public interest, not partisan interest, and transcends ideological and party differences⁽²⁶⁾.

Second, there is a mounting public support to put limits on globalization. This is a hard nut to crack for several reasons: (1) the wealthy and highly-educated benefit the most from free trade and open borders, and (2) the leverage of domestic governments over their own economies is dwindling. Globalization curbs the usefulness of environmental regulation, labor law and the tax code⁽²⁷⁾. Paradoxically, however, the instability that comes with reduced regulatory barriers undercuts capitalism, and it has instigated a countermovement. Assuming that «all politics is local», we should be expecting a great deal of pressure to improve the living standard of workers left behind and to bring the social costs of globalization under control⁽²⁸⁾.

Finally, the surveys indicate, surprisingly, that people are somewhat more pro-regulation and anti-business than in the past. They respect business success but they may have come to doubt the evenhandedness of the marketplace. They now insist that *large corporations and financial institutions should act in a socially responsible way*.

In brief, the data add up to a plea for more social cohesion and less economic and financial insecurity. The general public is surely not against the genius of the free market; it only wants the reconciliation of the dynamics of global capitalism with social stability. Still, this conclusion means that there is a leftward cultural trend in the United States⁽²⁹⁾.

Below, I discuss a few implications of these findings for business and finance.

A. TRUST IN BUSINESS

American business has been hit by a cascade of corporate scandals. At times, it looks like an endless web of complex accounting frauds, safety violations, bribery, easy

(26) Before he became British Prime Minister, David Cameron stated in his November 2009 Hugo Young Lecture that more unequal countries «do worse according to almost every quality of life indicator». He referred to the research of Wilkinson and Pickett (2009). Cameron added, however, that «that the growth of the state has promoted not social solidarity, selfishness and individualism... [It] is now inhibiting, not advancing, the progressive aims of reducing poverty, fighting inequality, and increasing general well-being».

(27) This is the main idea in Edwards and Mitchell (2008), who applaud competition among economic systems, and in Sinn (2003) who is less sympathetic. Tax evasion, and tax and regulation bidding wars between countries increase the tax burden on less mobile industries and labor.

(28) Pfaff (2004) refers to David Ricardo's iron law of wages to argue that open trade in an era of mobile capital must force labor costs down. See also Jensen and Fagan (1996) and Chang (2010).

(29) Edsall (2012) reaches the same conclusion but includes in his assessment changing views about social issues like abortion, marriage equality, or attitudes towards immigration.

government contracts, tax swindles, and exorbitant pay packages. Key factors are the separation between ownership and control and the ineffectiveness of gatekeepers like auditors and regulators. Top managers have vast power, including the capacity to entrench themselves and to pursue their own agenda. In contrast, the regulatory system is porous and patchy. Post-Enron reforms, such as the Sarbanes-Oxley Act, have achieved little⁽³⁰⁾. Lucrative contracts tempt auditors to weaken their oversight and to conduct perfunctory investigations. The auditors think of themselves as working for management, not for shareholders. Corporate boards often fail due to a go-along-to-get-along culture. Directors also feel beholden to the CEOs who brought them aboard. John Coffee (2006) presents an in-depth analysis. All things considered, Coffee attributes the chronic breakdowns to «a fervent desire to maximize the company's stock price by any means necessary»⁽³¹⁾.

If we want to restore trust in business, we cannot lose sight of the larger social benefit of the corporation. Managers should not think about share price increases as their overarching goal. John Reed, who retired in 2000 as chair and CEO of Citigroup, has proposed a report card for corporations (2005, pp. 37-39):

«[The] cult of short-term stockholder value has been corrupting. Investors clamoring for performance and share price increases, coupled with unrestrained compensation... linked to short-term stock prices .. [is] a flawed structure .. Management's objective should not be "shareholder value", which... is too simplistic, but rather evolutionary success... A report card dealing with evolutionary success would be broader and more textured than one limited to shareholder value. It would bring with it more healthy discussion... The concept would also embed a more relevant time frame... If well implemented, it would be hard to distort».

Other top managers, like Jack Welch, the former CEO of General Electric, share Reed's misgivings and urge their colleagues to look beyond shareholder value maximization⁽³²⁾. The idea is often linked with a call for the «professionalization» of business management⁽³³⁾.

(30) Dyck *et al.* (2012) produce estimates of the scale of corporate fraud. In general, it is difficult to define «fraud». It is also difficult to assess the cost of externalities of corporate misbehavior. Consider, e.g., how heavy promotion of pharmaceutical drugs leads to overuse. Over the last decade, Eli Lilly, Bristol-Myers Squibb, GlaxoSmithKline, Pfizer and Sandoz have all been accused of offering kickbacks to doctors to write extra prescriptions and of miss-selling drugs for unapproved uses. The business model of these firms also leads them to develop new drugs that offer few clinical advantages over existing ones. See, e.g., Evans (2009), Neville (2012), Light and Lexchin (2012), and Merkt (2012). Thus, what we see confirms a much-quoted thought in Hobsbawm: «It is often assumed that an economy of private enterprise has an automatic bias towards innovation, but this is not so. It has a bias only towards profit» (1969, p. 401). See also Baumol (1990).

(31) Many problems result from the closely related idea that executive pay should be tied to share prices to give top management strong incentives for success. (Over short horizons, however, share prices do not move with firm value.) Even Michael Jensen now admits that «when a company's stock is overvalued it sets in motion a set of organizational pressures that can destroy rather than create shareholder value». «Overvalued stocks are like managerial heroin», Jensen says (Madrick, 2003).

(32) In an interview with *The Financial Times*, Welch said that «on the face of it, shareholder value is the dumbest idea in the world. Shareholder value is a result, not a strategy... Your main constituencies are your employees, your customers and your products» (March 12, 2009).

(33) This idea is not new. Wallace Donham, a professor in the Harvard Business School, discusses it in 1927. He starts from the premise that «the social responsibility of the business man is inescapable» (p. 411). See also Lorsch *et al.* (2005), Khurana *et al.* (2005) and Stout (2012).

In practice, it is unclear how a makeover would come about. Traditionally, interest groups offer political mobilization, campaign funds, and votes. In return, they ask for regulatory policies and appointments to watchdog agencies. Even so, tinkering with law to force corporate social responsibility will only go so far. Chatterji and Richman (2008) maintain that a worldwide transition from «public politics» to «private politics» is underway. It often makes sense, they say, for non-governmental organizations (NGOs) to deal with large multinational firms as partners, i.e., to pressure corporations for voluntary codes of conduct, industry-wide standards, the sharing of best practices and so on. NGOs empower consumers and investors through educational awareness campaigns and other means, e.g., product boycotts. The danger of industry self-governance is that it often results in window dressing, and that firms use it to limit innovation and competition. Besides, many firms lack the capability to monitor their own activities, as we have seen with the banks.

B. TRUST IN FINANCE

That the financial sector requires close public supervision is hardly ever questioned. Yet, in recent times, it was believed that financial institutions would police their own risks. The crisis of 2007-2008 shows that this idea is tragically mistaken⁽³⁴⁾. Financial institutions, especially large banks, are seen as one of the immediate causes of the current crisis. Rightly or wrongly, bankers are blamed for:

- Aggressive sales tactics with respect to consumer financial products such as mortgages or student loans (see, e.g., Bar-Gill, 2008-09).
- Sales of toxic assets and difficult-to-value financial products to unsuspecting and at times unsophisticated investors. Miss-selling of derivatives.
- Excessive risk-taking, linked to short-term pay incentives.
- Excessive leverage.
- Excessive financial concentration. (In 2012, the 10 largest U.S. banks had more than 50 percent of all U.S. bank depository assets.)
- Excessive size, so that systemically important institutions have become unmanageable.⁽³⁵⁾
- Excessive size, so that too-big and too-interconnected-to-fail (TBTF) banks, seen as less risky by investors, benefit from lower borrowing costs. The implicit taxpayer guarantee creates moral hazard and distorts competition.

(34) Importantly, the failure of the internal governance mechanisms of large banks surprised Alan Greenspan who as chairman of the Federal Reserve system had relied on them for self-regulation. In the fall of 2008 (October 22), Greenspan said that «those of us who have looked to self-interest of lending institutions to protect shareholders' equity, myself especially, are in a state of shocked disbelief».

(35) Davidoff (2012) reports that JPMorgan Chase has \$2.3 trillion in assets, Bank of America \$2.2 trillion, Citigroup, \$1.9 trillion, and Goldman Sach \$950 billion. Barclays and Royal Bank of Scotland are both roughly the same size as Britain's national output, i.e., around £1.5 trillion.

- The cost of past bailouts, and the likelihood that government will have to step in again (Barofsky, 2012; Johnson, 2012).
- Excessive political influence (the «Wall Street/Washington revolving door») (see, e.g., Morgenson and Rosner, 2011; Bair, 2012; and Barofsky, 2012).
- Excessive pay for top bankers.⁽³⁶⁾

According to Andrew Haldane (2012), «the crisis was... not a story of individual fallibility... [but] a story of a system with in-built incentives for self-harm. Avoiding these self-destructive tendencies... requires a systematic approach... a financial reformation»⁽³⁷⁾.

Today, there are many technical proposals for financial reform. As such, this is a welcome development. My limited purpose here is to ask how valuable the new reform proposals would be in restoring trust in finance. To answer that question, it is revealing to consider the negligible impact on public opinion of the Dodd–Frank Wall Street Reform and Consumer Protection Act, approved in July 2010⁽³⁸⁾. Two years later, few business journalists think that Dodd-Frank can prevent giant banks from taking excessive risk and growing even bigger. That, if it became necessary, the regulators can liquidate large institutions in an orderly manner also looks implausible. It is said that the complexity of the law itself deepens distrust⁽³⁹⁾.

The new reform proposals include *(i)* higher bank capital requirements or limits on leverage⁽⁴⁰⁾; *(ii)* a cap on the size of a bank's balance sheet; *(iii)* a full separation of investment and commercial banking; *(iv)* taxes on financial institutions based on their contribution to systemic risk, and *(v)* a break-up of big banks into smaller pieces⁽⁴¹⁾.

From the angle of public trust, the problem with the plans just listed, as with Dodd-Frank, is that few non-experts grasp why they may or may not work. The proposals do not directly respond to the sentiment —expressed by Justin Welby, the new archbishop

(36) In 2007, the CEOs of very large U.S. banks earned about 500 times the median U.S. household income. Already in the 1980s, James Tobin complained that finance generates «high rewards disproportionate to [its] social productivity».

(37) Haldane's words evoke Keynes who said that «a sound banker is not one who foresees danger and avoids it, but one who, when he is ruined, is ruined in a conventional and orthodox way so that no one can really blame him». Financial behavior is embedded in a broader social context. Thus, to argue that «human frailty» caused the crisis (Thaler and Sunstein, 2008) is misleading. The behavioral weaknesses of individual agents contributed to it, but a full explanation is to be found at the level of the financial system as a whole. In that sense also, financial education is restricted in what it can achieve to improve economic outcomes (Willis, 2011).

(38) Krainer (2012) reviews the Dodd-Frank Act as well as alternative approaches to control systemic risk.

(39) Many people think that the Volcker rule, which bars banks from engaging in speculation on their own behalf, is a step in the right direction. Its impact is limited, however, and there is a great deal of opposition from the banks. Jamie Dimon of JPMorgan Chase and Lloyd Blankfein from Goldman Sachs say that the new regulatory environment is holding back economic growth (Cohan, 2012).

(40) This proposal keeps the taxpayer subsidy intact unless the capital requirement is extreme, an idea supported by Eugene Fama who says that «a nice place to start would be a 25% equity capital ratio, and if that doesn't work, raise it more. The equity capital ratio needs to be high enough that a too-big-to-fail financial institution's debt is riskless, not because of what is essentially a government guarantee but because the equity ratio is very high» (Fama and Litterman, 2012).

(41) This solution does not seem politically feasible (Davidoff, 2012) but even so it is backed by Rosenblum (2011), Johnson (2012) and now Sandy Weill, the architect of Citigroup. «What we should probably do is go and split up investment banking from banking, have banks be deposit takers, have banks make commercial loans and real estate loans, have banks do something that's not going to risk the taxpayer dollars, that's not too big to fail», Weill said on CNBC (July 25, 2012).

of Canterbury, and shared by the much of the general population in the U.K. and elsewhere— that the banks should have «a social purpose.» People do intuitively understand, I believe, that highly intelligent traders in volatile markets can earn redistributive rents, and that one reason why this happens is that markets for complex financial products generate instability from within, endogenously. The risk represents a put option onto the taxpayers —since TBTF banks share their profits with traders and their losses with society— and that is «unfair».

If trading activities do not create wealth but merely redistribute it, then it is natural and economically efficient for society to impose limits on speculative trading by TBTF banks and limits on what traders and financial engineers can be paid. More or less the same argument applies to regulatory and tax arbitrage, activities that motivate a great deal of «financial innovation»⁽⁴²⁾.

Conflicts of interest are a related concern. Most people would agree with the overriding business principle that the clients' interests should always come first. It would build confidence if our largest financial institutions, through words and deeds, recommitted themselves to this principle. Financial product standards, substantive prohibitions of some marketing activities, and the regulation of sales incentives may all be helpful in this regard⁽⁴³⁾.

CONCLUSION

Up until a few years ago, «a careful reader of articles published in leading finance journals .. would not have been led to the conclusion that the financial system was fundamentally unstable» (Cornell, 2009). Today, it is more widely believed that periodic crises are normal (Kaufman, 2009), perhaps inevitable (Minsky, 1986). Some new research suggests that the growth of the financial sector delivers benefits «up to a point but not beyond that point.» This debate is far from settled, however (Arcand et al., 2012; Greenwood and Scharfstein, 2012; Pagano, 2012; Turner, 2012).

The crisis that started in 2007 was caused by inefficient pricing in markets, the deterioration of lending standards, outright fraud, the emergence of an unregulated shadow banking system with a low level of transparency, and the expectation that systemically important financial institutions would be bailed out (see, e.g., Rosenblum, 2011; Pagano, 2012; Turner, 2012)⁽⁴⁴⁾. The financial crisis led to worldwide government

(42) In technical terms, it may be that the marginal private product of a trader is positive while his marginal social product is negative (Turner, 2012). Baumol (1990) distinguishes between productive, unproductive and destructive entrepreneurship. In fact, many bankers and traders now suffer from self-doubt. A Wall Street job is not as prestigious as it used to be. Top MBA programs report declines in the share of students who take jobs in finance (Korn, 2012).

(43) It is also a matter of fairness, and it has symbolic value, that senior bankers who caused great harm be punished, say, by having to return the bonuses that they received. Top bankers often describe junior bankers, like Jerome Kerviel at Societe Generale, as rogue traders acting on their own. This is wrong. The junior bankers may not be innocent but neither did they act in a vacuum (Cohan, 2012; Chrisafis, 2012).

(44) Market prices, e.g., CDS spreads, suggested that the risks to bank solvency reached a historical low in the early summer of 2007. «The collective judgment of the market was wrong», says Adair Turner (2012).

intervention to support banking, and it turned into an economic, political, and moral crisis.

John Maynard Keynes said that «the political problem of mankind is to combine three things: Economic efficiency, social justice, and individual liberty.» The U.S. data that I have analyzed in this paper show that U.S. public opinion agrees with Keynes. Economic policy choices are ultimately political in nature. On the whole, there is now a leftward cultural trend in the United States. If the ruling elite wants to regain the trust of the masses, it will have to show that it is motivated by social responsibility as well as the pursuit of self-interest.

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