

---

The financial crisis and the  
common good:  
How are state interventions justified from  
an ethical viewpoint?

**Julia Pitters & Thomas Oberlechner**

---

***"The economy needs ethics in order to  
function correctly"***

(Pope Benedict XVI, 2009; Encyclical Letter of His Holiness,  
Ch. 45, line 3-4)

---

# Outline

- Financial crisis defined as social dilemma
- The importance of ethics and ethical positions
- Study 1 journalist sample
- Study 2 laypersons
- Implications

---

# Financial crisis as social dilemma

## Social dilemma

- Conflict between contribution to versus defection of a common good.
- Personal profit is higher when defecting, but if nobody cooperates, loss of the majority is even greater (Dawes, 1980; Messick & Brewer, 1983).
- Financial crisis: Worst outcome of a social dilemma situation. A few investors took a personal profit to the cost of the vast majority.

---

# Financial crisis as social dilemma

- Resolving this dilemma produces a new one: Either the state decides to rescue ailing companies or not.
- On the one hand, the state uses fiscal resources of the general public which is not primarily responsible for the misery. On the other, by doing so the state aims at preventing negative social costs such as increased unemployment rates.
- Dilemma cannot be resolved by relying on market laws, it necessarily involves ethical aspects.
- Ethical is often associated with *being right*, but the term is more complex.

---

# What is ethical?

- Ethics (also known as moral philosophy) is a branch of philosophy which seeks to address questions about morality; that is, about concepts such as good and bad, right and wrong, justice, and virtue. (Freedictionary)
- Term goes back to Aristotle, scientific consideration of human habits and traditions.
- **Normative ethics:** e.g. codes of conduct, describes how people should behave.
- **Descriptive ethics:** describes how people actually behave, often uses scenario techniques (Oberlechner & Pitters, 2009).

---

# Ethical positions

## Utilitarianism

- Defined by Jeremy Bentham (1748-1832), also known as *hedonic calculus*, We should maximize pleasure, minimize pain and seek the greatest pleasure for the greatest number of people.
- Economic principle, maximization of utility.
- Outcome oriented
- Witte and Doll (1995) differentiate between striving for individual utility = *hedonism*, and utility for a particular group = particular utilitarianism.
- We only focus on hedonism and utilitarianism.

---

# Ethical positions

## Deontological ethics

- Greek term deon = duty.
- Ethics that is primarily focused on general rules, duties and norms instead of the outcome.
- Prominent representative: Emanuel Kant (1724-1804).  
*Act only according to that maxim whereby you can at the same time will that it should become a universal law.*
- Other examples: *always say the truth, in dubio pro reo, separate work from private life.*



---

# Ethical positions

## **Ethical intuitionism**

- Common sense ethics.
- Non-inferential moral knowledge
- Something is right or wrong without any justification (Ewing, 1953)
- No obvious rule whether rule- or outcome oriented.
- Judgments are evident themselves, only accessible through intuition (Moore, 1925).

---

# Ethical positions

## **Virtue ethics**

- Goes back to Aristotle, striving for happiness by moral superiority
- Focuses more on the character than on the behavior.

Luca Pacioli (1445-1514)

*Therefore, businessmen should begin their business records with the date AD, marking every transaction so that they will always remember to be ethical and, at work always mindful of His Holy name.*

*(Geijsbeek, 1914, pp. 33-34)*

---

# Impact of media on public opinion

How are journalist opinions reflected in the public?

- The relevance of the topic “financial crisis” is reflected by the frequency of related articles in the media on the one hand, and representative surveys on the other.
- E.g. Archive search in the Austrian newspaper “die Presse” achieves 1345 matches for “financial crisis” between October-November 2008, at the same time 30% of the Austrians think that the economic situation is the most important topic for Austria (Standard Eurobarometer, European Commission, 2008).
- More than half of the German population is afraid of their personal economic future. 75% think it is justified that the state supports small and medium companies (infratest-dimap, 2009)
- If the topic is relevant and people can justify whether the state should interfere or not, they might have an implicit ethical idea.

---

# Research questions

- How do experts versus laypersons resolve the dilemma whether the state should help bankrupt companies or not?
- How are state interventions justified from an ethical viewpoint?
- Can justifications be allocated to a defined ethical position?
- Are there differences between journalists and laypersons?

---

# Study I

## **Sample**

- $N = 44$  Austrian economic journalists (84% male, 16% female) working for the most well-known Austrian newspapers, weekly magazines, professional journals, press agency or radio/TV.
- Experienced sample, majority works longer than 16 years in this field, 58% are department heads.

## **Method**

- Personal interviews, conducted by interviewers of a professional opinion research company.

## **Period**

- October/November 2008

---

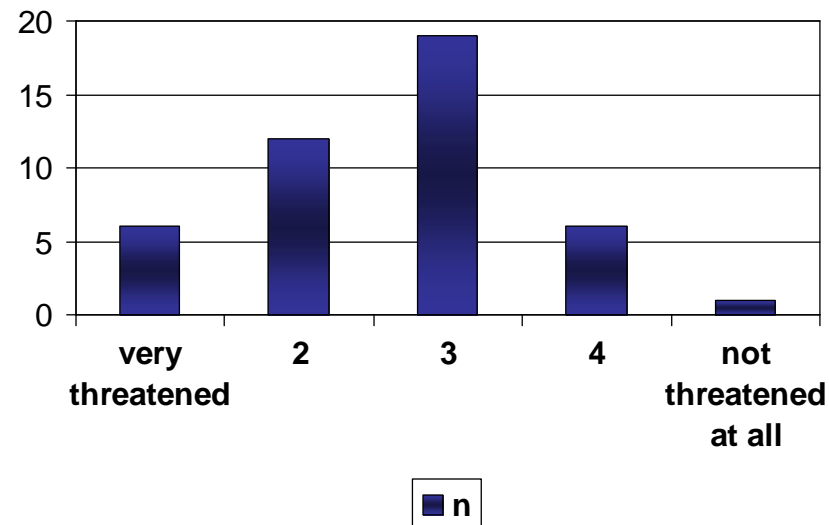
# Study 1

## Questions and results

1. How seriously do you think is the Austrian economy threatened by the financial crisis? (1=seriously threatened to 5=not threatened at all).

$M = 2.67$  ( $SD = .97$ )

- On average, journalists think that the economy is rather threatened.

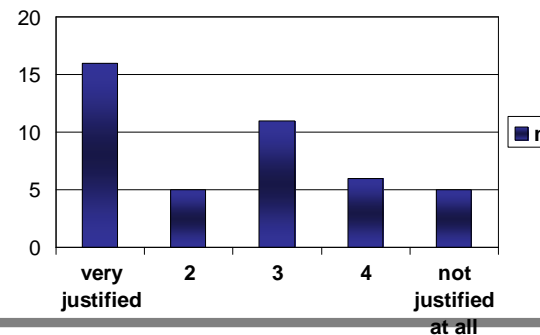


---

# Study 1

## Questions and results

2. If companies face a financial crisis, on the one hand only the state can help them, on the other, it pays the economic failure with public tax payments. From an ethical point of view, how much do you think that state interventions are justified? (on a scale from 1 = very justified to 5 = not justified at all).
- On average, the journalists answer that state interventions are rather justified.  $M = 2.51$  ( $SD = 1.42$ )
  - The more the journalists see Austria threatened, the more they are in favor of state interventions. Correlation between question 1 (threat) and 2 (justification of intervention) with  $r = .37$ ,  $p < .05$ .



---

# Study 1

## Questions and results

3. Please give a reason for your opinion (free answer).

- Answers were coded by two independent raters and assigned to one ethical dimension according to the following scheme:

*Utilitarianism*, Is the focus on the outcome for the common good?

*Deontological ethics*, Can we identify a rule?

*Intuitionism*, Is any outcome orientation or rule dominated by intuition?

*Virtue ethics*, Are traits of the state dominating?

*Hedonism*, Is the personal benefit dominating?

- Due to the small sample, the few cases that were not rated consistently were discussed and finally allocated to a category.



---

# Study 1

<b>Ethical position</b>	<b>Case example</b>	<b>N</b>	<b>%</b>
Utilitarianism Focus on common good	<i>"Consequences for national economy are worse if not intervening."</i>	23	56.1
Deontological ethics Focus on rule	<i>"Capitalism demands following its rules."</i>	13	34.1
Intuitionism Does intuition dominate over a concrete ethical dimension?	<i>"Depends on the single case."</i>	2	4.9
Other	<i>"Financial markets are like the blood circuit of economy."</i>	2	4.9

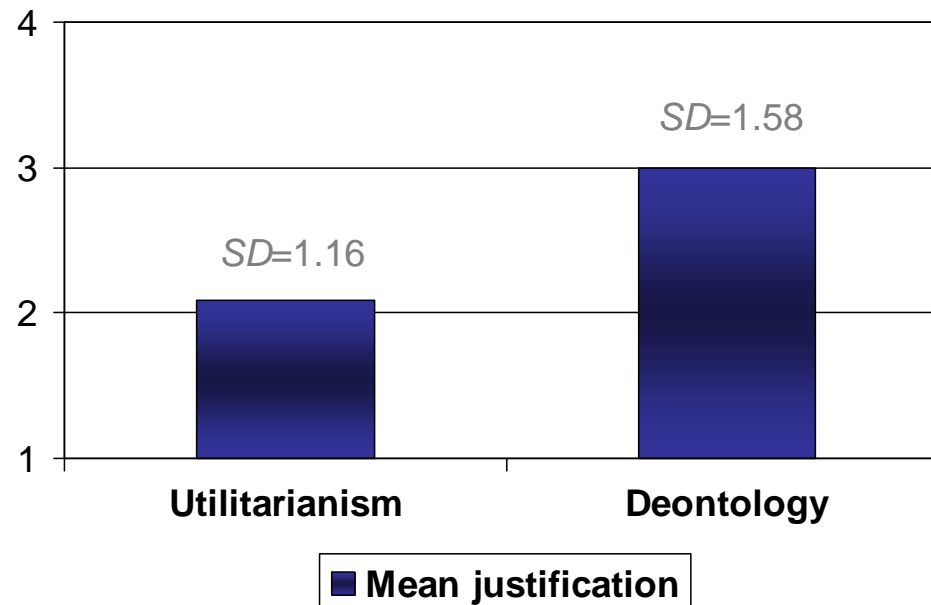
---

# Study 1

## Questions and results

- Journalists with utilitarian reasoning justify state interventions more strongly than the ones with deontological arguments.

$t(34) = 1.98; p < .05, d = .66.$



---

# Study II

## Sample

- $N = 710$ , random sample of the Austrian population from the age of 16, 46% female, 54 %male
- Age:  $M = 37.7$ ;  $SD = 16.09$

## Method

- Computer assisted telephone interviews (CATI), conducted by interviewers of a professional opinion research company.

## Period

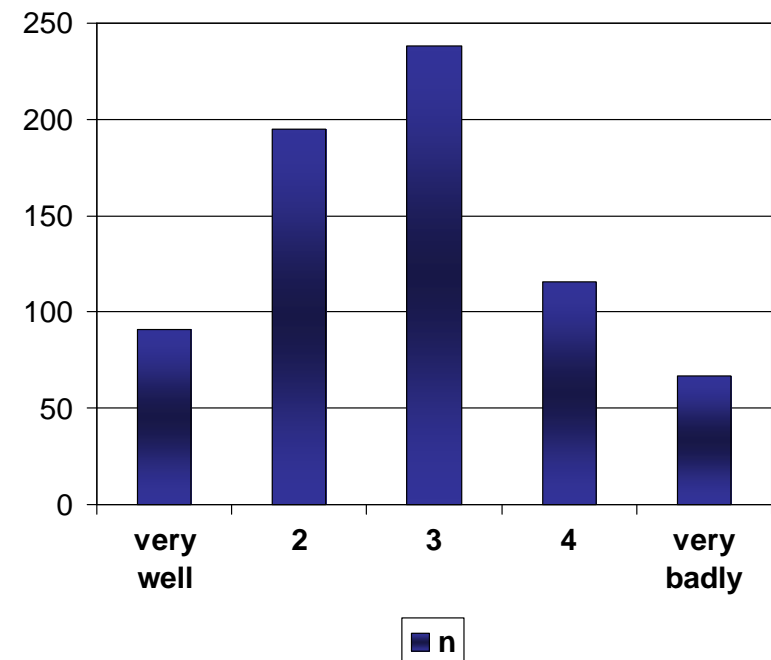
- March 2009

---

# Study II

## Questions and Results

1. How well are you informed about the financial crisis and its background? (1=very well to 5=very badly)
  - Respondents indicate to be averagely informed ( $M = 2.82$ ;  $SD = 1.14$ ).
  - Males pretend to be better informed than females. ( $Mm = 2.73$ ,  $SD = 1.12$ ;  $Mf = 2.93$ ;  $SD = 1.16$ ;  $t(705) = -2.39$ ;  $p = .017$ ;  $d = .18$ .)



---

# Study II

## Questions and Results

2. If companies face a financial crisis, on the one hand only the state can help them, on the other hand it pays the economic failure with public tax payments. From an ethical point of view, how much do you think that state interventions are justified? (on a scale from 1 = very justified to 5 = not justified at all).
  - Respondents find state interventions averagely justified.  $M = 2.80$ ;  $SD = 1.12$
  - Young persons are more in favor of state interventions than elder persons  $r = .14$ ;  $p < .001$ .
  - The more people feel informed, the more they are in favor of state interventions  $r = .18$ ;  $p < .001$ .

---

# Study II

## Questions and Results

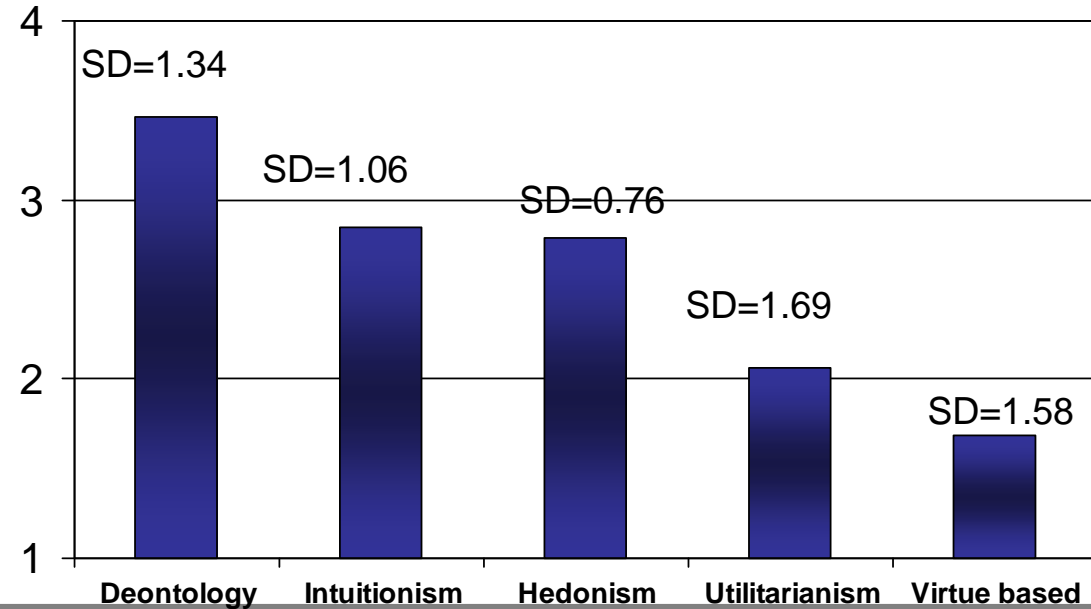
3. Please give a reason for your opinion. (free answer)
  - Answers were coded by two independent raters.
  - Interrater reliability was Kappa = .90
  - We only focused on the 550 cases that were rated consistently, from 710 persons, 111 gave no reasons, 143 reasons could not be allocated to any of the ethical dimensions and were also excluded.
  - Final sample: N = 407 reasons.

<b>Ethical position</b>	<b>Case example</b>	<b>N</b>	<b>%</b>
Deontological ethics Focus on rule	<i>"Each person needs to be liable for her mistakes."</i>	167	41
Utilitarianism Focus on common good	<i>"Economy must be supported for the common good."</i>	158	38.8
Intuitionism Does intuition dominate over a concrete ethical dimension?	<i>"Depends on the situation."</i>	41	10.1
Virtue based Focus on character of the state	<i>"The state should be there for you, if you feel bad."</i>	27	6.6
Hedonism	<i>"Saves my personal investments."</i>	14	3.4

---

## Study II

- Most of the persons find deontological arguments.
- Those with deontological arguments justify state interventions least. ( $F(4,402) = 35.42; p < .01$ ).
- (LSD Post-hoc, Deontology-Utilitarianism = 1.39\*; Deontology-Intuitionism = .60\*; Deontology-virtue ethics = 1.83\*; Deontology - Hedonism = .67\*).





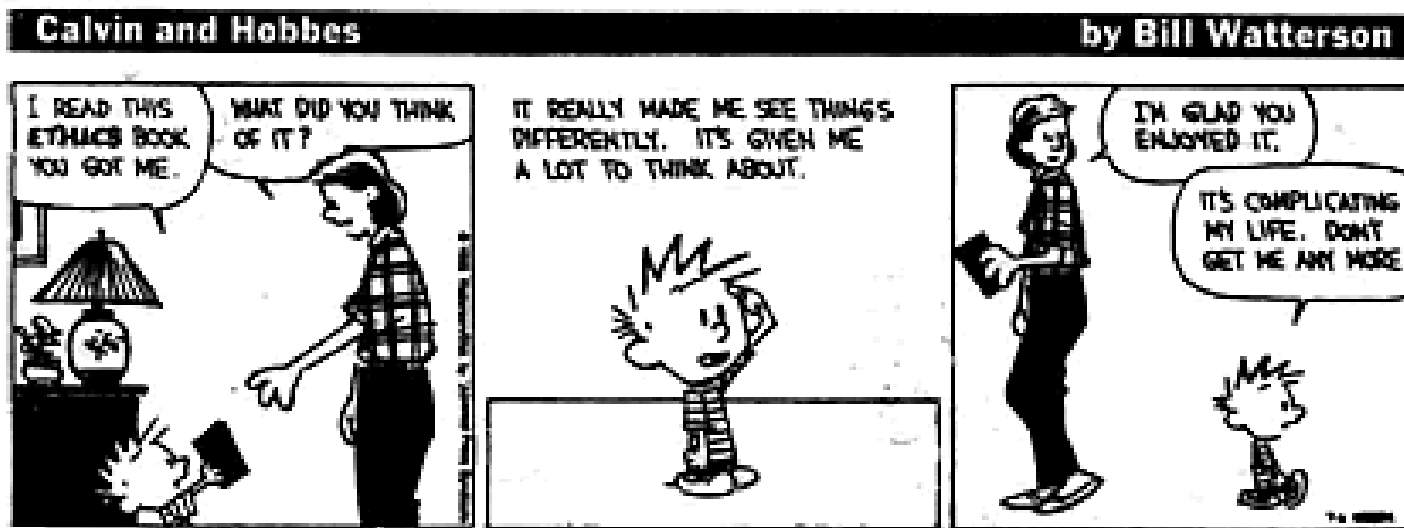
---

# Conclusion

- Different ethical positions are prevalent also among laypersons
- Percentage of utilitarian arguments is higher among journalists, whereas laypersons use more deontological reasoning.
- In both samples, persons who use utilitarian arguments justify state interventions more.
- 112 persons did not give a reason, 143 could not be allocated to any dimension, meaning about a third does not necessarily have a clear position.

---

# Implications?



- Ethics and economy, a topic for experts only?

---

# Implications

Data suggests

- More transparent discussion about ethics and economy.
- Discussion should not be reduced to ethical = good but rather differentiate between different ethical positions.
- If ethical dilemmas are conscious, interest in public discussion might increase.

Deeper analyses are needed

- Content analysis of ethical arguments in media reports.
- Qualitative approach: Focus groups on ethical topics.
- Search for ethical positions in political agendas, compare party preference to ethical positions.

---

Thank you for your attention!



---

# Literature

- Aristotle (1908). *Nicomachean Ethics*. Translated by W.D. Ross. Oxford: Clarendon Press.
- Dawes, R. M. (1980). Social Dilemmata. *Annual Review of Psychology*, 31(1), 169-193.
- Messick, D. M. & Brewer, M. B. (Hrsg.). (1983). *Solving social Dilemmata: A review*. Beverly Hills: CA: Sage.
- Moore, G.E. (1959). A Defence of Common Sense, *Philosophical Papers*, 33-59.
- Kant, I. translated by James W. Ellington [1785] (1993). *Grounding for the Metaphysics of Morals 3rd ed.*. Hackett. pp. 30.
- Kirchler, E. & Pitters (2007). Kontraproduktives Verhalten durch Schädigung öffentlicher Güter. In: K. Moser (Hrsg.), *Lehrbuch Wirtschaftspsychologie*. 357-374. Heidelberg: Springer.

---

# Literature

- Oberlechner, T. & Pitters, J. (2009). Verantwortung für Ethik in Unternehmen: Die Psychologie der Ethik verstehen und nutzen. *Wirtschaftspsychologie 11*, 47-57.
- Oberlechner, T. (2007). *The Psychology of Ethics in the Finance and Investment Industry*. Research Foundation of CFA Institute.
- Witte, E.H. & Mölders, C. (2007). Einkommensteuergesetz: Begründung der vorhandenen Ausnahmetatbestände ethisch bedenklich. *Wirtschaftspsychologie 3*, 65-81.
- Witte, E.H. & Doll, J. (1995). Soziale Kognition und empirische Ethikforschung. Zur Rechtfertigung von Handlungen. In E.H. Witte (Hrsg.), *Soziale Kognition und empirische Ethikforschung*, 97-115. Lengerich: Pabst.