WOULD WE HAVE HAD THIS CRISIS IF WOMEN HAD BEEN RUNNING THE FINANCIAL SECTOR?

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Introduction

In popular media and debates, both men and women sometimes utter the words that "if women had run the financial sector, we would not have found ourselves in this crisis" – or, the Lehman Sisters hypothesis. This paper will not go into the various views of sex and gender that may go behind this statement. But we do recognize the problem of natural fallacy here: if the statement would be based on a belief in some natural differences between women and men, it would imply that women would do better in any field of complex behavior that involves morality. And since much of human behavior is complex and has moral dimensions, it would therefore imply that women would better run not just the financial sector… So, we do not support any biological foundations that may possibly lie behind some of these utterances. The purpose of this paper, instead, is to first unveil the ethical dimensions of the financial crisis, and second, to understand the genderedness of these. We will do so by taking an economic-ethical approach in which we make explicit the ethical dimensions of the crisis and analyze these with the help of theories of ethics, in particular the ethics of care (Peil and van Staveren, 2009). This also allows us to recognize gender dimensions in the ethics of the financial crisis, because the ethics of care is a feminist ethical theory concerned with relationships which can be applied to a wide variety of relationships, including market relationships. The theory of care has been tested in some experimental settings, suggesting that women, on average, tend to behave more in ways that can be understood in terms of relationships, whereas men, on average, tend to behave more in ways that can be characterized in terms of rules. Using this theory, we will analyze the financial crisis, pointing at what are causal behavioral attitudes and how these are linked to gender.

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The ethical dimensions of the financial crisis

The meaning of the term "crisis" in the economic literature is not without ambiguity. As a general feature, macroeconomic crises are events marked by "broken promises" that shatter the expectations that many agents had entertained about their economic prospects and wealth positions. The large change in the economic (and possibly also, social and political) environment naturally leads to reappraisals of the views of the world upon which agents had based their expectations, plans and decisions, and to a reconsideration of theories and models on the part of analysts. Crises are "memorable" events with potentially long-lasting consequences on attitudes and beliefs. They require a reinterpretation of past experiences and a re-statement of propositions concerning the way in which the relevant systems are assumed to work.

Concern for the study and the understanding of crises is actually older than macroeconomics as an established discipline and it has operated historically as a strong motivation to investigate in the field. Modern macroeconomic theory, on its side, has increasingly become committed to a set of analytical and procedural presumptions, which lead to look for representations of macroeconomic behavior as the result of well coordinated (except for some noise which acts as an additional constraint) optimal decisions of agents, equipped with rational expectations, that is with knowledge of the probability distributions relevant for their plans. These research criteria, sometimes elevated to the rank of methodological prescriptions, can be seen as the outcome of past debates on the theory of macroeconomic fluctuations and inflation, which generated dissatisfaction with earlier theories. At the same time, their application to the study of crises, as if they could claim a universal range of validity, has been subject to paradoxes and problems in the interpretation of salient facts, which seem to call for new searches. The crisis has been the acid proof leading to discard these theories. If the expectations were rational we would not have had a crisis. As Paul Krugman (2009) has sustained, "when it comes to the all-too-human problem of recessions and depressions, economists need to abandon the neat but wrong solution of assuming that everyone is rational and markets work perfectly."[2] Then, the analysts begin to discern other kinds of reasons embedded in the process:

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[2] In a paper about the candidate hypotheses for explanation of the crisis, Crespo, Tohmé and Heymann (2009) discarded, through an abductive process, all the candidates supposing rational expectations.

(*i*) An excessive liberalization of the banking rules and the financial sector regulation (lower capital requirements, no limits to joint ventures and mergers and acquisitions leading to banks with extremely large asset) facilitate irresponsible loans, mortgages and investments. As Schneider and Kirchgässner (2009: 1) maintains, "the subprime crisis resulted from the tendency of financial normalization and innovation to run ahead of financial regulation."[3]

(*ii*) The Central Banks' controls fail, partly due to lack of knowledge of new financial products (securities), partly due to limited international cooperation, and partly due to too close connections with banks (see Schneider and Kirchgässner 2009: 2).

(*iii*) The provision of wrong incentives through disproportionately high bonuses to bankers, traders and managers of the financial sector based on short run profits, ignoring high risk and long run viability of financial institutions, clients, and whole economies; as well as through golden handshakes even in cases of bad performance (see Narayan, Ferri and Brem 2008, Hart and Zingales 2009).

(*iv*) The moral hazard role of government which tends to save big banks and firms because they are too big to let them fall: bankers and entrepreneurs know this and they therefore take excessive risks.

(*v*) Technical problems such as difficulties in understanding the technicalities of mortgages operations, or systems of financial evaluations.[4]

(*vi*) A tendency to hide the risky situations in the accounting proceedings. This, for example, was the case for Lehman Brothers, which was factually bankrupt half a year before its fall, thanks to accounting tricks.

(*vii*) Failing rating agencies that provided too rosy assessments of banks.

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[3] For a detailed review of regulatory failures see Nothwehr and Manning (2009). For an interesting and detailed analysis of the behavior of some specific private banks, see Blundell-Wignall, Atkinson and Lee (2008).

[4] It is interesting to consider the list of possible causes consigned by Jickling (2009): Imprudent mortgage lending, housing bubble, global imbalances, securitization, lack of transparency and accountability in mortgage finance, rating Agencies, Mark-to-market accounting, deregulatory legislation, shadow banking system, non-bank runs, off-balance sheet finance, government-mandated subprime lending, failure of risk management systems, financial innovation, complexity, human frailty, bad computer models, excessive leverage, relaxed regulation of leverage, credit default swaps (CDS), over-the-counter derivatives, fragmented regulation, no systemic risk regulator, short-term incentives, tail risk, black swan theory.

(*viii*) A monetary fiscal and policy that foster consumerism through low interest rates and taxes (see Schneider and Kirchgässner, 2009: 2). For some analysts the monetary excess is the main cause of the crisis (see, e.g., Taylor 2008 and O'Driscoll 2009).

The list entails reasons that are beyond economic rationality: within them we can find psychological, sociological and moral reasons. Economic rationality is an instrumental maximizing rationality. According to Max Weber's classical classification, we can distinguish four types of rationalities guiding social actions: instrumental, value-rational, affective and traditional (Weber 1978: 24-5). Instrumentally rational is the action aiming at allocating means for the attainment of the actor's ends. When this allocation is the best possible we have a specific kind of it: maximizing instrumental rationality. Value-rational actions are determined by conscious beliefs in the intrinsic value of some behaviour: they follow moral criteria. Affective are the actions guided by the actor's affects and feelings, i.e., psychological springs. Traditional actions are determined by ingrained habituation, by mainly sociological reasons. Weber argued that, although one specific form of rationality might prevail in a specific action, rather all human actions are oriented by various types of rationality. This is the case of economic actions and instrumental maximizing rationality: this rationality prevails in economic events, but it often goes jointly with other forms of rationality. As all social phenomena, economic phenomena are complex and we may analyze them from different perspectives of rationality such as instrumental, moral, psychological, and sociological.

We can detect the presence of these rationalities in phenomena by the ordinary discourse used to describe them. Descriptions are rarely snake descriptions. They frequently bear connotations going beyond mere description. We can find some of these connotations in the list of reasons of the crisis.[5] Although we are not able to evaluate the exact impact of the moral aspects of the crisis it seems that many moral terms are intermingled in the list.

In effect, the list includes terms with moral resonances. For example, "to hide risky situations", "excessive liberalization", "extremely high bonuses", "irresponsible loans."" failing control", "wrong incentives" , "moral hazard", "too rosy assessments" and "consumerism" add qualifications to the

[5] There is a whole meta-ethical discussion about the nature of moral terms that we will not consider here. However, it is clear that some terms denote a moral consideration of the concerned subject.

economic facts including but also going beyond economic analysis. It was remarked that during the crisis, we had cases of fraud or greed;[6] but most often, we have had laziness, a tendency to close the eyes when performing risky actions and to irresponsibly go on without reflection when something wrong was hinted. It is clear that in this crisis there was much mediocrity, work badly done, disregard for the others, complicity with egoist or pragmatic concerns. Moral decline influences in people's psychology: when the crisis is triggered, partially due to decrease of correct ethical conduct, people lost trust in the economic sector's modes of operating and its financial systems.

Economic rationality only considers the best way of achieving preferences, regardless of their specific content. The characteristics of the conducts assessed above –e.g., that are hiding, that the liberalization is excessive, that the bonuses are extremely high, the loans irresponsible, the incentives wrong, that we are falling in consumerism or that we are lazy, egoistic or pragmatic– are traits of preferences that are irrelevant for economic analysis. However, as John Stuart Mill (1874: 97) has highlighted, although the highly abstract character of political economy helps to understand economic affairs, given that life is complex, it often has little empirical relevance. Mill actually maintains that we have to consider other motives if we want to know the motives of real world facts. In fact, as Andrei Shleifer shows (2004), not always economic rationality and ethics go together. The description of the facts of the crisis indicates that we have to consider the moral dimension. As John Roemer claims, "changing the social ethos is the key" (2009: 1).

The moral aspects lead us to the next section. First we will briefly see the appraisal from a utilitarian, and deontologist ethics perspectives. Then, we will analyze those behaviors from the point of view of the ethics of care.

The financial crisis and ethics

The ethics on which the financial sector and policies of financial liberalization has been built is utilitarianism in which happiness represents the end and moral good. At the micro level it regards

[6] As Daron Acemoglu (2009) states, "when unchecked by the appropriate institutions and regulations, it [greed] will degenerate into rent-seeking, *corruption and* crime. Jickling (2009) speaks about "rising rates of delinquency and foreclosures" delivering a sharp shock to financial institutions.

anything that makes individual agents and their organizations, such as banks and equity funds, happy as morally good. The contents of this good remains hidden in the black box of preferences when individual agents are concerned, while it is everything that maximizes profits when it concerns firms (Graafland, 2009). So, at the individual level, utilitarianism is an entirely subjective and individualist ethics, which allows for preferences that are harmful to specific others, to society or the environment, and even to the individual's long run objective wellbeing, as is for example the case with addictions and other forms of myopia (van Staveren, 2001). At the level of firms, utilitarianism is a liberal ethics driven by free markets: it is the competition on unregulated markets which dictates firms' strategies for profit maximization. Hence, for the individual agent, the ethics of utilitarianism is entirely subjective but not one of free choice: preferences are assumed as given and utility maximization is simply a maximization rule and does not involve the agent's free will but the following of an algorithm. Utilitarianism does not consider the way in which the content of preferences is determined. Following a long tradition that might start with Hume, preferences are supposed to be a matter of feelings, not of reason. For this tradition, reason intervenes in the means-preferences matching process, not in the decision about specific preferences, which are considered to be exogenous. For the firm, there is similarly no free will involved, because all the decisions taken by firms are dictated by competition so that profit maximization becomes the result of minimizing costs and maximizing benefits.

Under the system of an unregulated capitalist market driven by shareholder value, utility maximization's time horizon is reduced to the short run. In such a capitalist market agents and firms no longer maximize a life-time utility function but a long series of short-run utility functions, because preference satisfaction is only granted in the short run, that is, a series of short runs such as quarters or at most a year, in which economic results are produced, announced and transferred into rewards that satisfy shareholder value. The ethics of utilitarianism, hence, is therefore also reduced to short term rewards: the good of unregulated capitalist markets is expressed by the rewards accumulated over a series of short run maximalization periods, while the bads are reflected by the losses incurred, including negative externalities when unregulated markets appear to fail.

If we would evaluate the financial crisis according to utilitarian ethics, we find that individuals and firms who gained in various short run periods did the right thing so to say, and those who lost were

wrong. Now, the interesting question is at which moment to evaluate this. If we evaluate the financial markets until just before the crisis, we see that there were only winners, and hence, it was functioning ethically correct in terms of utility maximization. But the crisis shows a very different picture of winners and losers when we move to the period of utility maximization after the burst:

(1) Winners:

   a. Bankers who lost their jobs but who had negotiated golden handshakes even if their behaviour did not prove beneficial for the profitability, stability or long term viability of their organizations.

(2) Losers:

   a. Banks that went bankrupt

   b. Consumers who took unaffordable mortgages or who had savings deposits in banks that went bankrupt

   c. Employees in the financial sector who lost their jobs without compensation

   d. Employees in other economic sectors who lost their jobs due to the demand squeeze

   e. Taxpayers who financed bailouts

   f. Investors, both firms and individuals

   g. Pensioners depending on returns from asset investments

Next to this, there is a category of organizations and individuals who are less affected by the crisis, simply because they did not participate in the game, or who were in finance but choose not to play the same game:

(3) Sideliners:

   a. Cooperative banks, which follow a client-value approach rather than a shareholder value strategy (Vogelaar, 2009; Groeneveld and de Vries, 2009).

   b. Employees in the public sector such as education and health care whose jobs and wages have not, or only marginally, been affected by the crisis and crisis policies.

Another ethical approach is often positioned as opposite utilitarianism: deontology. It is also referred to as rule-ethics, as it is concerned with rules which reflect the good, or justice, rather than outcomes. Deontology works out the same way for individuals and organizations, as both can be constrained by rules which express some form of the good, as rights or principles. A dominant form of such rules is expressed in the Categorical Imperative, stating that one should act according to that maxim whereby you can at the same time will that it should become a universal law (White, 2009a). Or, a more individual-oriented interpretation of its universalist implication: acting to others as you would like others to behave towards yourself (and expect others to do the same). Hence, deontology is not an individualist ethics, as is utilitarianism, but a social and universalist ethics, it is concerned with justice, with what is considered as right for a community or society as a whole (White, 2009b).

In the financial sector, deontology is reflected in regulation: by Central Banks, governments, and the sector itself. Clearly, deontology failed too as moral guidance in the financial sector.

(1) Central Banks: they failed both in terms of regulation, having liberalized the financial sector and banking system over the past two decades, and in the control of individual institutions, partly because of a lack of understanding of new financial products, as well as providing uncritical support for the enormous growth of a few individual banks, well beyond the GDP of the countries in which these banks are based, creating the moral hazard in which governments were drawn. Not only did Central Banks fail in the control of their own national banks, but also in the control of foreign banks operating in their countries, as was the case of internet bank Icesave in various European countries.

(2) Governments: they allowed deregulation by removing laws and loosening up rules; and they bailed out banks that appeared to have become too big to let go bankrupt, the moral hazard created by lack of regulation on bank size by the Central Banks in the first place.

(3) Self-regulation by financial firms:

    a. Credit rating agencies are the main self-regulating institutions of the financial sector, and they clearly failed. They evaluated risks too rosy and were probably affected by the power of large banks. There are no significant informal institutions regulating the

financial sector, mirroring, for example, the Hippocratic oath in health care or ethical guidelines for field research in research institutions[7].

b. Banks themselves: the banks that defaulted in the US and Europe did play by the rules, as the US Senate hearings and the UK parliamentary hearings of the 'Masters of the Universe' and the president of Goldman Sachs in April 2010 have made clear. The rules that were in place did not stop them from taking too much risk and developing dangerous financial strategies, whereas the bank itself did not have self-restraining rules in place to check these risks. To the contrary, the bonuses and the attitude that losing parties should have been smarter (poor people taking mortgages, governments engaging in credit default swaps) to recognize the risks, show that there was no willingness to have restraining rules in the bank.

Obviously, it is not merely the amount of regulation that matters, but the quality of regulation. From a deontological perspective, financial sector regulation should be thus that it is supported throughout the sector, and hence, regarded as just or fair. Regulation failed in particular in terms of two of the moral connotations listed in section two: excessive liberalization of the financial market and a failing control of banks. It is clear that the decreased regulation was inadequate to live up to this deontological ethics. Rules that had come into being after the 1929 crisis had been removed through a strong bank lobby in the US (Igan, Mishra and Tressel, 2009) (which led Larry Summers to win the Dynamite Prize for economics for the main responsible figure for the crisis[8]), and new rules were not yet made for new financial strategies and products, such as short-selling, credit default swaps and derivatives, even though they were being traded increasingly. In conclusion, without a deeper and stronger commitment or "moral spirit", deontology slides into a formalist generally insufficient set of rules that do not have much to do with morality.

The third ethical perspective that we will discuss briefly here is the ethics of care. It is this perspective that we will elaborate further in the paper. The utilitarian perspective has shown the failure of the

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[7] The Dutch government has obliged banks since 1 January 2010 to follow the guidance of 'Zorgplicht', which implies taking care of your customers' wellbeing when you provide them with financial services.

[8] As US Secretary of the Treasury (formerly an economist at Harvard and the World Bank), Summers worked successfully for the repeal of the Glass-Steagall Act, which since the Great Crash of 1929 had kept deposit banking separate from casino banking. He also helped Greenspan and Wall Street torpedo efforts to regulate derivatives. See for the alternative prize awarded by the Real-World Economics Review, URL: http://rwer.wordpress.com/2010/02/22/greenspan-friedman-and-summers-win-dynamite-prize-in-economics/

financial system to generate a sufficient amount of winners over the long run – the basic criterion of utilitarianism as formulated by Jeremy Bentham: the greatest happiness for the greatest number. The deontological perspective has shown that lack of adequate regulation of banks has enabled the crisis to occur, whereas self-regulation in the sector did not work either because of lack of felt urgency or need to regulate. But none of these two perspectives is sufficient to really understand agents' behavior and firms' strategies from a deeper ethical sense, that is, from the choices being made that affect other people, a perspective of ethical reflection and deliberation by agents and firms and government institutions where they did have the space to make different choices. The ethics of care provides such an ethical perspective, because it is attentive to the inter-personal level, where ethics is concerned with sustaining human relationships and preventing harm to others (Waerness, 2009). In the words of ethicist of care, Virginia Held: "Whereas justice protects equality and freedom, care fosters social bonds and cooperation"(Held, 2006: 15). And it is here where the other moral terms that we have seen in section two will come into the picture, terms concerning hiding of risk, extremely high bonuses and other perverse incentives, construction of securities that no-one understands, too rosy credit ratings, and the consumerism implied in extremely low interest rate policies. These moral dimensions of the crisis have much less to do with regulation than with responsibility of the agents involved, vis-a-vis other agents and organizations. And that is why a relational ethics such as the ethics of care seems more appropriate to analyze the ethics of the financial crisis, at least, beyond the short-term shareholder value driven utility maximization of financial sector actors and the obvious failure of regulation. We suggest an ethics of care perspective for the analysis of the financial sector because, with Virginia Held in her book connecting the ethics of care to globalization, we think that it may not only provide a deeper understanding of what went wrong, beyond the technical explanations, but also of how the context variables of the sector (regulation, products, bank size, incentive systems, investment and trading strategies, etc.) may be adapted in order to make the sector less vulnerable to crises and to enable it to better support the wellbeing of the actors involved. This may lead to fundamental changes in the sector as a whole, and hence, of the parameters of financial markets, as implied by Held. "With the ethics of care and an understanding of its intertwined values, such as those of sensitivity, empathy, responsiveness, and taking responsibility, we could perhaps more adequately judge where the boundaries of the market should be" (Held, 2006: 119). This helps us to seek different roles for the government in relation to markets beyond that of protector of rights or rule maker and keeper, Held rightly argues.

The ethics of care does not take pleasure or rights and rules as the basis of moral reasoning but our responsibilities in relationships to others. Others may be known and closely related others, while they may also be strangers. But they are never perceived as abstract, generalized others as in deontological ethics – they are always contextualized (Gilligan, 1982; Benhabib, 1987; Friedman, 1987). There are many ways of contextualizing others. In the financial sector this can be done, for example, by recognizing the limited financial means of people in the short run or the long run, recognizing risks that individuals, families or firms run, or recognizing how certain institutions that emerged, like systems of reward, may tempt people to behave irresponsibly in the knowledge that this will not be punished. Context, then, refers to livelihood, risk, and perverse incentives. In this way, the ethics of care extends beyond close personal relationships – the domain in which the theory was initially developed. “The ethics of care as it has developed is most certainly not limited to the sphere of family and personal relations. When its social and political implications are understood, it is a radical ethic calling for a profound restructuring of society” (Held, 2006: 19).

So, from an ethics of care perspective, the financial crisis has clearly damaged relationships. It has breached trust, caused harm, enabled and even supported selfishness, all in a unsettling atmosphere of denying and shifting responsibility.

In this paper, we will not discuss a better known ethical theory as an alternative to utilitarianism and deontology, virtue ethics, because the facts unfolding about the crisis show that a lack of moral character (like greed), although it has certainly played a role, cannot bear the blame on its own (see also Schleifer, 2004). That would be too simplistic and individualistic, as if replacing a few greedy bankers could have prevented what has happened. We rather see the ethics of the crisis based in a systemic moral defect, linked to a neoliberal economic system which discourages responsible behavior (and as a consequence also attracts greedy bankers, opportunistic investors, all too eager mortgage clients, and hedonistic consumers). Some scholars consider the ethics of care as part of virtue ethics, namely as an elaboration of the relational virtues, such as responsibility, friendship, love, and generosity (van Staveren, 2001). Others argue that it is an ethics of its own, because virtue ethics is too individualistic, with its emphasis on good character, with virtues like courage, temperance, or honesty (Held, 2006). This paper is not the place to discuss whether or to what extent the ethics of care may be part of virtue ethics – we simply suggest that the ethics of care with its concern with responsibility in human relationships, is a suitable ethical perspective for analyzing

what went wrong in the financial crisis. The next section will go deeper into the ethics of care in relation to the financial crisis, while also taking gender into account.

The ethics of care, the financial sector and gender

The ethics of care and finance

The ethics of care in non-personal relationships can be characterized as preventing harm to others, including nature, countries, and other entities, as distant others who deserve their rights being fulfilled and their needs being met (Held, 2006). As we have seen above, in the utilitarian approach, harm is taken into account in the weighing of utilitarian gains and losses, but neoclassical economic theory has rejected the possibility of inter-personal utility comparisons, and therefore, the weighing of harm between individuals and groups. Instead, it posits that any free market outcome is good, because it maximizes total utility by giving free choice to everyone to maximize his or her own utility. No-harm is then restricted to no interference by the state in individual choices. As a consequence, the free market outcome is then considered as the outcome that minimizes harm, except for negative externalities that may lead to harm. In that case, the state is justified to interfere, as John Stuart Mill already explained about the harm principle in his book *On Liberty*. When the deontological approach is applied to the financial sector, no-harm is shaped as a principle, which underlies rules made by the state, institutions, firms and individual actors. Hence, an economic sector would have rules that minimize harm done by the free market, and therefore it would restrain markets through laws and regulations, including self-regulation. However, in a capitalist economy, rules are generally agreed to be minimized, in order to have markets to play a dominant role: rules are only needed to constrain markets in so far as they are considered to cause harm. This provided precisely the room for the erosion of regulation we have seen happening over the past decade of financial market liberalization. First, banks have lobbied for deregulation (Igan, Mishra and Tressel, 2009), supported by neoclassical economists and neoliberal politicians in order to have more freedom to invest and lend; second, banks and hedge funds developed financial products for which no regulation existed yet; and third, actors in the financial sector took the credo that anything that has not been regulated is permitted, based on the premise that everyone is rational and is responsible for making utility-maximizing decisions and choosing a level of risk that fits one's preferences.

In the ethics of care, preventing harm to others is contextualized. It is not abstract, as the rule of non-intervention or a set of rules based on principles, but inherent in the relatedness of actors. Preventing harm to others therefore requires taking responsibility for the consequences of one's actions, not only as an individual but also through institutions, and responsibility for preventing the system in which one functions to turn into an uncontrollable chaos causing harm to all involved. Care also involves sympathy, in the sense of being able to place oneself in the shoes of others, as Adam Smith already explained – not limited to particular others known to oneself, nor an abstract, generalized other similar to oneself as in the Categorical Imperative – but concrete others whose circumstances are imaginable due to the general information one has about their context (Benhabib, 1987). So, preventing harm to others requires contextualization, in order to be able to know how others are in their concrete situation and what our responsibilities to them would be.

The ethics of care, when applied to the economy is expressed through efforts to minimize harm in day-to-day practices which have possible harmful effects on others, whether these would come from free markets or government regulation or intra-firm self-interested behavior, power seeking strategies or any other behavior in an economic sector. Possible harmful effects of behavior abound because of imperfect markets, risk alongside uncertainty, and a wide variety of behavioral motives including harmful ones. In particular it is uncertainty which so much influences financial markets, which goes beyond risk, because the probabilities are unknown. Keynes, of course, already knew this, as Skidelsky (2009: 75) notes: "Keynes believed that in many situations market participants face irreducible uncertainty. They have no basis on which to calculate the risks they face in making an investment. They are plunging into the unknown." And this condition places any economic sector at any time in transition, as Keynes already noted, rather than jumping from equilibrium to equilibrium, whether by free market forces or state interference. And in transition, rules are often not applicable or have not been established yet. Moreover, the standard definition of rational agents does not hold in such a world: there is no clear-cut function to be optimized. As one of us already recognized a decade ago: "Without responsibility, negative external effects would soon restrain the economic process: no one would care about such effects and the suffering they cause …. Moreover, in the absence of responsibility among economic actors, there would be no basis for trust and loyalty to develop between producers and consumers [and] without these values transactions will not happen, or

only at high costs” (van Staveren, 2001: 43). It is this fragility of economic life and human fallibility in economic decision making under conditions of uncertainty, which results in harm and to which government regulation is, although necessary, utterly insufficient (see also Hellwig, 2008, on systemic risk regulation). It is precisely such fragility and fallibility to which a caring attitude responds, by contextual reasoning. And such contextual reasoning is also what Keynes pictured as the most adequate response to financial crises. He stated, as recounted by Skidelsky (2009: 76) that the cures “are not meant to be definitive; they are subject to all sorts of special assumptions and are necessarily related to the particular conditions of the time.”

Now, for the financial sector as a particularly fragile and fallible economic sector, harm done to others may be summarized in three forms, which have also been identified by Keynes as key factors in the evolvement of financial crises:

- Excessive risk taking behavior
- Strategies contributing to systemic uncertainty
- Shifting risks and burdens of uncertainty to others (moral hazard)

An empirical testing of caring and non-caring attitudes in the financial sector is only feasible when it is possible to distinguish two groups that can be compared – a caring group and a non-caring group. If econometric analysis would find statistical significant differences between the two groups in terms of risk taking, systematic uncertainty and moral hazard, we would be able to state whether a caring ethics would be less likely to lead to crises than a non-caring attitude. We might even be able to include controls for financial performance, so that we may be able to state whether a caring attitude would lower the likeliness of a crisis while achieving similar returns on investment as a non-caring attitude. Unfortunately, it is not possible to distinguish such groups for two reasons. First, caring and non-caring attitudes are not entirely mutually exclusive. Low risk taking may not only be a caring strategy but may also arise from pure self-interest in particular circumstances (such as we have seen immediately after the break-out of the crisis through the credit crunch). Second, agents are generally not bound by just one moral frame that they apply under all conditions and in all domains of life. The same agent may take high risk when playing in the casino but low risk when investing her pension portfolio. Hence, there is no data set to be found or constructed that would help us with the empirical testing of

the ethics of care in the financial sector in this way. That is why we have to go for a second-best empirical approach.

The approach that we have opted for in this paper is to compare gender disaggregated results from existing empirical literature on finance. We do this, precisely because empirical and experimental results from testing the ethics of care in typical personal caring situations indicate that caring is, on average, more often found among women than among men. Indeed, this is an average and includes overlap. This makes our empirical analysis not robust in a traditional econometric sense, but it does provide indirect and preliminary analysis of whether a caring attitude may be less likely to lead to financial crises than a less-caring attitude, or a more rule-oriented attitude. Since there is no systematic data available on male and female agent's decisions in finance across a wide number of dependent variables, we rely on the results from existing quantitative analyses on various financial variables as well as descriptive data that are gender disaggregated. So, the rest of this section will first briefly go into the gender disaggregated findings from the caring literature and then to gender-disaggregated empirical findings from the finance literature whereas the section will end with a brief discussion of their connections.

Caring and gender differences

In the caring literature it is generally agreed that both men and women have caring capabilities, which have been developed because humans tend to live in groups. Despite these shared capabilities, Gilligan's path breaking work on moral development has shown that women tend to reason more in a contextual ethical way, whereas men tend to reason more abstract in terms of moral rules. Virginia Held (1987) explains this difference by a gender division of moral labour. By this she means the different moral context of men's work and women's work in the traditional gender division of labour between paid work and unpaid work. Also Benhabib (1987) and Friedman (1987) point at the practices of women in close human relationship which would influence their moral reasoning nurture, hence, rather than nature. Benhabib notes that Gilligan, the founder of the ethics of care with her moral dilemma experiments with men and women, recognized that women's moral judgment is more contextual than men's, more related to relationships and what responsibility requires in a particular context, irrespective whether

rules apply or not. Hence, a caring ethics seems more often expressed by women than by men, but this is not a matter of nature but of nurture, the care theorists emphasize. Others, however, have argued also for a nature basis and an interaction between nature and nurture in women's more prevalent caring attitude. For example, Shelley Taylor (2001) has brought together research into the linkages between sociology, biology, and psychology, among humans as well as among primates, showing that women tend to have stronger caring bonds than men. Women have more and closer friendships, indicating that sympathy may, on average, be a stronger trait among women than among men. Women's groups are generally horizontally organized as supportive networks, which cooperate for food and childcare. Men's groups are generally threatened by power plays because they are organized as hierarchies, which facilitates defence, attack and hunting.

Gender differences in finance

The World Economic Forum's gender report for 2010 indicates that only 2% of CEO's in the Financial Services & Insurance industry in 20 surveyed countries is female, as compared to 6% for all industries (Zahidi and Ibarra, 2010). Women have been playing an active role in finance for centuries, with an unexpected share of 40% of governments stocks in the UK held by women in 1840 (Rutterford and Maltby, 2006). In terms of employees, the financial sector has been feminizing for quite some time, with an increasing share of women in face-to-face jobs in banks, insurance companies, and in personalized areas such as wealth management. But not only at the top the share of women is very low, also in the types of functions where most money can be made and where least human contact is involved: trading, fund management, and the financial whizz-kid activities such as developing derivatives and securities. In the US, about 10% of fund managers are women while only 3% of managers of hedge funds are women (NCRW, 2009). These vertical and horizontal forms of gender segmentation in the financial sector follows the stereotype gender segregation lines in other sectors of the economy: the glass ceiling for top positions in any sector and the feminization of service jobs and other jobs in which communication and human interaction is important, as in education and health care. The explanations are similar to those of gender-segmentation in other sectors: old boy's networks, the gender division of labour in the household, making women more responsible for housework

and childcare than men, career breaks due to pregnancy and maternal leave, and prejudice against female leadership qualities and financial skills leading to discrimination in hiring, promotion and wages (NCRW, 2009). But what seems to make the under-representation of women in the financial top even stronger than in most other sectors is the abstract character of those jobs, not in contents because context matters a lot in financial decision making, but in tasks as expressed by the invisibility of the human dimension in electronic trading and in the fierce competition in which sharing information with colleagues, clients, competitors or regulators immediately reduces one's own returns. Moreover, the huge amounts of money involved in trading and investment makes the old boys' network probably even tighter in finance because of the high stakes involved.

It is more difficult to draw conclusions on gender differences in behavior for those women who are present in the financial sector, because the women who do work in that industry, and particularly women who have leadership positions, are likely to self-select into a sector that is well known to be a men's world, in which stereotype masculine characteristics are highly valued. Hence, it is likely that most of the women in the top of banks, funds, and regulatory bodies have been socialized more into attitudes that we find on average more often with men than with women, and that they are professionals who like the abstract tasks of financial trading. Nevertheless, the various strands of empirical and experimental literature relating to women's and men's performance in finance do show interesting differences.

1. Female whistle blowers

Already well before the crisis broke out we see an interesting gender issue concerning well known whistle blowers. In 1997 it was Brooksley Born, chair of the US Commodity Futures Trading Commission who called Congress for derivatives regulation (Chang, 2010). Her voice, however, was silenced while increasingly non-transparent and complex derivatives and securities were being developed. And in 2006 it was Sheila Bair, chair of the US Federal Deposit Insurance Corporation, who warned against nonperforming mortgages (idem). Also she was

marginalized. Male whistle blowers were also ignored, but they were further away from the fire, they were academics, such as Steve Keen and Nouriel Roubini[9]. But it is striking to see that the two women who gave serious warnings and called for change had top positions within the financial sector, they were insiders, and still they were ignored.

2. *Women take less risk and make less transaction costs while performing better than men*

During the crisis but also well before it broke out, the article by Chang indicates, women fund managers perform better than their male colleagues. She refers to a study done by AsiaHedge concluding that female fund managers in the AsiaHedge Composite Index scored 73% better than their male colleagues between 2000 and 2007, and a report by Hedge Fund Research showing that women performed 56% better than men in the period 2000 until May 2009, whereas during the height of the crisis in the second half of 2008, men lost twice as much as women. A recent study on mutual fund management in Egypt also shows that women perform better than men in an emerging market (Ahmed Azmi, 2008). A large study on gender differences in the mutual funds industry in the US does not find statistically significance performance differences, but it does show that female fund managers follow more stable investment styles and show a higher performance persistence (Niessen and Ruenzi, 2009).The gender differences in financial performance are supported with experimental research in economics, showing that on average women take less risk than men (Croson and Gneezy, 2009). Hence, under conditions of high volatility, women perform better because they take lower risk or take more time to study risks or include a wider variety of risk factors than men do, whereas under conditions of relative stability, men may perform better than women, although this is not necessarily the case (van den Bos, Harteveld and Stoop, 2009). In a famous study by Barber and Odean (2001), it was shown that for household investment portfolios women performed better under normal conditions of financial markets because they traded less than men: they tried less to beat the market, which prevented them from unnecessary and costly trading. Hence, women's transaction costs are lower. Another type of empirical literature that is interesting in this respect comes from experimental social psychology, indicating that abstract thinking

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[9] Keen and Roubini have won the revere Award for having publicly warned for the crisis. http://rwer.wordpress.com/2010/05/13/keen-roubini-and-baker-win-revere-award-for-economics-2/

increases one's sense of power (Smith, Wigboldus and Dijksterhuis, 2008). In the financial sector it are the jobs that require most abstract thinking – jobs in trading – that appeared to be the most harmful, expressing excessive risk. And it are precisely those jobs that are the most powerful as they provide the opportunity to gain huge bonuses and to attain prestige – and they are least occupied by women. Instead, when women fund managers were asked to reflect on the differences between their and their male colleagues' strategies when the crisis broke out, they often replied that the men either just waited for the storm to get over, not being able to make any decision anymore, or they kept on trading on the basis of relatively little information, whereas the women tended to spend more time on research before they would take a decision (NCRW, 2009).

3. Women are more cooperative and less competitive than men

Experimental game theory has consistently shown than women are more cooperative than men (Croson and Gneezy, 2009). This has been shown with well know games that test for attitudes that have a combined moral as well as social dimension, such as the dictator game, the ultimatum game, the prisoner's dilemma and the public good game. Moreover, varying game conditions such as the members of the group or information about other players, appear to have much more effect on women's strategies than on men's strategies. This confirms the characteristic of the ethics of care that women's moral reasoning is more contextual than men's, as Croson and Gneezy (2009: 464) conclude: "we believe, as suggested by Gilligan (1982), that men's decisions are less context-specific than women's." This may help to explain the finding by McKinsey & Company (2007) that of 89 European listed companies firms with more women on the board had better financial performance than firms with less women. Good management decisions are complex and therefore require a diverse team to take all relevant factors into account, as has been recognized with the law of requisite variety (Ashby, 1958)[10].

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[10] This law state that high variation in context can only be adequately dealt with with high variation in decision making. Or, more formally, the larger the variety of actions available to a control system, the larger the variety of perturbations it is able to compensate. This implies that in volatile environments such as financial markets diverse management teams would be better equipped to deal with crises and their prevention than more homogeneous teams.

4. *Men replaced by women at the financial top: cleaning up the mess and enforcing reforms*

After the crisis broke out, however, we see several financial leadership positions being filled with women . We now have female ministers of Finance in France and Spain, and a female Central Bank president in Iceland and female CEOs of Iceland's main banks, as well as in various other countries while in the US, Mary Schapiro was appointed chair of the SEC (Securities and Exchange Commission). Empirical literature on gender and stress indicates that women in top management positions tend to experience more stress than men in such positions, but they have a wider repertoire of stress-management strategies and, hence, cope more effectively (Frankenhaeuser, 1996). But the fact that we see now women cleaning up the mess that men left behind, may not only be a sign of women's better performance as financial governors or administrators in times of crisis, but also a reflection of the hope that they will bring the situation back to normal, which may then lead to replacement of these women by men and their business as usual. Here, the economic literature also has an explanation, namely the glass cliff: in times of high uncertainty, women seem to get more often the chance to take up a top position than in normal times, precisely because of the risk of failure under volatile circumstances. Cleaning up a mess is certainly an expression of caring, and may indeed lead to positive performance of financial institutions in the public and private sector. But it may not serve the women themselves, after the job is done and the sector is back on track – it is relatively easy to find a reason to push these women over the cliff, since they had to fire and punish some of their (largely male) subordinates. It may well be that when financial markets stabilize that the old boys' network tightens around them, grabbing its' power position back again. Literature on the glass cliff precisely points at this to happen when women are appointed in top positions that are fragile. Interestingly, this phenomenon was also found during a financial downturn in an empirical study by Ryan and Haslam, (2005). In their study, they compared firms listed at the London Stock Exchange with higher ratios of women in the board with firms that had fewer women on boards. They found that "in a time of a general financial downturn in the stock market, companies that appointed a woman had experienced consistently poor performance in the months preceding the appointment" (Ryan and Haslam, 2005: 86). They conclude that "such women can be seen to be placed on top of a 'glass cliff', in

the sense that their leadership appointments are made in problematic organizational circumstances and hence are more precarious" (ibid p. 87).

The four gender differences in financial sector performance as discussed above are close expressions of the three ways formulated earlier in which the financial crisis represents a lack of caring: excessive risk taking, strategies contributing to systemic uncertainty, and shifting risks and burdens of uncertainty to others. The whistle blowing by the women mentioned above was not about a particular fraud case but a warning about excessive risk taking by the financial sector as a whole. They warned about the systemic uncertainty to which this contributed. The lower risk positions and less transaction costs of women traders and fund managers show that when women take lower risk, this does not lead to lower returns on investment – on the contrary when volatile markets are concerned. Finally, the fact that women are more cooperative and reason more contextually makes them more alert about moral hazard, whereas their stronger responsibility towards possible harm on others makes them less likely to shift risks to others. This, in turn, makes them attractive candidates for financial reform and regaining trust when appointed at the top of damaged financial institutions.

What needs to be emphasized here, is that although the differences found are expressed through differences between women's and men's attitudes, underlying these are differences in moral attitudes in which women are on average expressing more often a caring attitude as compared to men. The literature on the ethics of care is clear about the nurture origin of this attitudinal difference, and a possible interaction between nature and nurture: it is gender, not sex. But given the attitudinal differences in a non-gender neutral society and economy, our analysis does imply that a higher share of women in the financial sector is likely to reduce the likeliness and depth of financial crises. Of course, that is no guarantee, as there are also examples of women who are co-responsible for causing the crisis, women who exhibit the dominant attitudes prevailing in the financial sector and who therefore self-select into financial positions[11]. So, a second implication is that all actors in the financial sector, male and female,

[11] TIME features a list of the 25 people who are to blame for the crisis, which includes two women, Kathleen Corbet who ran the largest rating agency, Standard & Poor's during most of the years preceding the crisis, and Marion Sandler who, together with her husband Herb Sandler were the first to offer tricky home loans back in the 1980s.

would need to develop a more caring attitude, signaling possible harm even when rules are applied, keeping risk levels manageable, cushioning excessive competition and thereby lower transaction costs of over-confident trading, and taking responsibility for financial sector reform that will institutionalize – in formal and informal institutions – a more caring sector[12]. The next section provides an example of this last mentioned shift towards a more caring financial sector, a new financial product that was initiated by two men in a large Dutch bank.

Case study on 'caring capital financing'[13]

This section presents a case study of a new capital funding product that a Dutch bank has developed in response to the crisis and which has attracted much attention from investors and regulators worldwide. It is an example of a caring financial innovation and was developed by two senior male bankers, in the context of regulatory pressure, limited liquidity in a hesitant capital market, and a cooperative bank structure with client-value orientation. The case study points out that a caring attitude is indeed universal, present in men and women, and that its expression partly depends on an enabling institutional context.

Rabobank, a top three Dutch bank, with a balance total exceeding Dutch GDP and market leader in savings, mortgages , and agricultural lending in the Netherlands, has issued an innovative form of senior debt, called the Senior Contingent Note (SCN) as a response to the crisis[14]. The SCN is in first instance a way to raise capital for the bank through bonds. The value of the bond does not appear on the balance sheet unless the bank's equity capital ratio would to fall below 7%. In that very unlikely case the bank's core capital will be strengthened as the bank will receive 75% of the value of the outstanding SCNs.

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[12] This comes close to what Keynes already recognized as a good banker, as Robert Skidelsky (2009: 25) notes in his recent book, *The Return of the Master*: "The 'sound' banker, alas! Is not the one who sees danger and avoids it, but one who, when he is ruined, is ruined in a conventional and orthodox way along with his fellows so that no one can really blame him." (original in J.M. Keynes, *Collected Writings*, ix, pp. 158. Cambridge: Cambridge University Press, 1971-1989.)

[13] This case study is based on information released through the media, a presentation for investors, and an interview with the two key persons who developed the security at Rabobank's capital funding department, Treasury Rabobank Group, Utrecht, 18th of May, 2010.

[14] The transaction date was 12th of March 2010, at the amount 1.25 billion euro for a 10 year fixed rate senior contingent note priced at an annual coupon of 6.875%. It was twice oversubscribed and sold to major investors across the world.

Hence, those who bought the bond will lose 75% of their investment. In exchange for that risk, the interest rate that bond holders receive includes a risk premium to compensate for the risk.

Rabobank is the only large Dutch bank that did not need state support , that kept a healthy equity capital ratio and its triple A rating throughout the crisis, merely dealing with collateral damage from other banks that were hit seriously by the crisis[15]. Rabobank is a cooperative bank, so it cannot raise capital through issuing shares, it is not listed on the stock market[16]. Although about 85% of Rabobank's activities are in the Netherlands, about half of its capital is raised abroad. The major way in which the bank raises its capital is simply through retained profit, while issuing certificates to its members (Rabobank clients can become member of the member council of their local branch) is another recent innovation of the bank to raise capital and at the same time to involve members more closely as capital providers to the bank. But that is small scale and through the local branches. The SCN targets large investors such as pension funds and globally operating investment funds.

The SCN was not developed at the international branch of the bank, where the financial traders are based, the fast world of short term transactions and the balancing act between long term obligations and short term liquidity. Instead, the new type of bond was developed at the treasury of the bank, as part of the long term funding strategy. The challenge during the crisis was how to get access to liquidity in a drying up market (which in Europe was extra hit by (nearly) defaulting governments, such as that of Greece) on the one hand and staying true to the bank's conservative capital position (for which it had been criticized before the crisis as being nor profitable enough) which had earned the bank its triple A rating throughout the crisis whereas the other Dutch banks and insurance companies lost their top ratings. In a market in crisis risk and uncertainty are the major factors that investors are worried about, following their sentiments. Moreover, during a crisis risks turn into uncertainties, as rating agencies cannot assign any probabilities anymore to the chances of default for institutions or even for individual

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[15] The cost of its bad loans in 2009 was nearly 2 billion euro, which was 0.33% of its balance total of 608 billion euro. On 31 December 2009 its equity capital ratio was 12.5%. Rabobank has always been profitable since its start more than a century ago, including in the crisis years 2008 and 2009.

[16] The bank has 1.8 million members, which is a non-financial membership for any client but involves no claim on the equity of the 147 local banks. It is globally number one in several countries in the food- and agri-business and has 623 foreign offices in 48 countries. The maximum bonus for senior management and executives is 30% of the salary and half of the bonus is transferred only after three years.

products[17]. The strength of Rabobank is precisely its prudence – its higher than average equity capital ratio, as compared with most other banks, which gave it a boring image in the booming years before the crisis. This asset – prudence – was the basis for developing the SCN. The product was developed internally with consultation of a few large investors among long term capital providers of the bank. Whereas Rabobank initially planned a 100% core capital strengthening with the new product, investors made clear that that would be unacceptable by the market. A different case of Lloyd's in London half a year earlier[18], but with similarities, as well as past cases of defaulting banks across the globe have led to the current 75% ratio of the SCN to be added to the balance sheet in case the bank's equity capital ratio would fall below 7%. The investors run a risk and contrary to shareholders, they do not benefit from more risky projects undertaken by the bank that may bring in more short term profits, instead, they will demand that the bank either increases its buffers or raises the premium on newly issues contingent notes. The interest rate was not discussed at these sounding board meetings with investors, until the last week before the transaction on March 12th 2010 in a meeting with 4 major investors. The interest among institutional investors as well as private investment funds was overwhelming, both nationally and internationally (London, Paris, Frankfurt, New York) so that the transaction of the 10 year fixed rate Senior Contingent Note, priced at an annual coupon of 6.875% was twice oversubscribed, and generated 1.25 billion euro.

So, prudence made it possible to find a market for this product. But it was also the pressure coming from regulators that led to its development – without the crisis and its subsequent call for (re-) regulation of banks and financial markets it would not have been developed, at least, not now and not in this form. Regulators in the Netherlands and Europe are discussing a bank tax, equal for all banks, to form a fund that in case of need would become a lender of last resort. However, such a fund does not solve the problem of moral hazard and does not reward conservative banks for their conservative positions and subsequent higher capital ratios. Therefore, a second reason for developing the product was to influence regulation, as both Basel III agreements and European Union law making were and are still in the making. In other words, rather than lobbying against a bank tax, the SCN represents a

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[17] The top three international rating agencies, including Standard and Poor's, which together have more than 90% of the market, did not want to assign a rating to the SCN, since they preferred to await new international regulation coming from Basel.

[18] Lloyd's is listed bank which failed to raise sufficient capital through issuing new shares. Hence, it issued contingent notes that would be turned into equity in case of pre-defined stress.

different type of incentive for banks and by banks, to increase their core capital in case of crisis, but with the great advantage that it reduces moral hazard by providing an incentive for the issuing bank to keep its equity capital ratio up by keeping risks manageable. Whereas in case of a too low capital ratio, the 75% shift of the loan to the balance sheet would imply that the equity capital ratio would be increased automatically, based on the rule implied in the SCN, so that the bank does not (immediately) require financial support by the state, and hence is not a burden on tax payer. This characteristic of contingent capital allows banks to increase their capital ratio in a more effective way than through issuing new shares because the prices of shares are currently very low and demand is reluctant. Moreover, a contingent capital product like SCN would help to reduce the likeliness of another crisis, at least, a crisis caused by too high risk-taking by banks as is the case with the current crisis because it forces banks to keep risks relatively low in order to prevent the equity capital ratio to go down too much: that would lower demand for this type of bond and hence limit the possibility of banks to acquire equity. The SCN can also be seen as a strategic move to influence regulation, which indeed did raised attention from regulators all over the world who are all very much in favor of forms of contingent capital for banks, as an insurance in times of stress. Obviously, a single Dutch bank is not going to fight a bank tax, but it does show that there are more ways of capitalizing banks in terms of crisis, and in a more effective way than through a bank tax. This feature of the development of SCN hence can be characterized as one of a long run view, as a concern with financial market volatility and effective responses to this from the banking sector itself – an attitude of responsibility. Not the kind of self-sacrificing responsibility as in stopping a fight at risk of your own health or life, but the kind of responsibility as part of a liberal attitude, accepting the consequences of one’s individual actions for the whole, participants (like clients and investors) and non-participants who bear negative externalities (like the tax payer). It is the responsibility that Adam Smith wrote about, that does not constrain markets but rather supports the effective functioning of markets. SCN expresses such responsibility because it is a self-regulating instrument against too high risk positions by banks and prevents costly bail-outs and compensation of clients’ deposits in times of crisis. It is, in the end, a mechanism that puts the risk where it should be, namely by the capital providers of banks, rather than its clients or the taxpayer.

Finally, why was it a cooperative bank to develop this innovation? Why not equally big banks listed on the stock exchange, such as ABN AMRO or ING in the Netherlands, or banks elsewhere in Europe or the US? This has only indirectly to do with the cooperative structure of the bank. The idea did not come

from the member council, not the local ones, neither from the central membership council. So, as much as the bank is driven by client-value through close contact with its members and other clients, this did not play a role in the SCN. But it was the lack of access to capital through shares that drove the bank's treasury to be innovative and to develop a product that would on the one hand build on its conservative position and on the other hand even strengthen its image in the market as a prudent bank, by providing an extra buffer for its capital ratio. In other words, the other banks did not develop such a contingent note simply because they are too busy to survive under the pressure of shareholders and demands by the state in exchange for financial support. In the words of one of the interviewees: "we do not have the shareholders pressure, which is an enormous benefit" and thereby it also "protects against moral hazard internally" and "pushes to be creative to raise capital if you can't do it through equity". This confirms Keynes' insight that it is the capitalist system based on equity capital which generates the uncertainty and subsequent systemic risk in financial markets, as Skidelsky (2009: 84) reminds us: "Under capitalism, uncertainty is generated by the system itself, because it is an engine for accumulating capital goods whose rewards came not now but later. The engine of wealth creation is at the same time the source of economic and social instability."

So, the Rabobank case shows that it is not the cooperative structure as such, through demands from members through the membership councils which provided the major incentive for the bank to develop the contingent capital note. But it is an indirect consequence of its cooperative structure, and hence client-value orientation, namely that it does not issue shares but raises its capital from retained profits and bonds, which moves a bank automatically in the direction of long term funding strategies, and towards a higher equity capital ratio rather than a lower ratio: profits are retained and not paid to shareholders.

In conclusion, the contingent capital product of Rabobank may be characterized as a caring form of capital financing because it is a form of self-regulation lowering risk of default, while reinforcing the bank's good rating. This, in turn, lowers the costs of capital funding, which makes it not only a solid product for the bank but also for the financial market, without the moral hazard of shifting risk to clients and tax payers . SCN therefore carries a positive externality as compared to share-based capital funding which has a negative externality – it reduces systemic uncertainty in the financial sector.

Conclusion

Our economic-ethical analysis of the financial crisis leads us to look beyond stricter regulation and control of the financial sector. This is certainly necessary, but it is not sufficient to prevent the next crisis to happen. Ethical behavior in finance goes beyond rules. And it is not at all sufficient to turn finance into becoming more supportive for the wellbeing of actors in the sector, in terms of sustainability of their livelihoods and reasonable accumulation of their resources. So, the market itself should also become caring to some extent, as Held already dreamed about: "We should not preclude the possibility that economies themselves could be guided much more than at present by the concerns of care."(Held, 2006: 120). Our analysis suggests that a caring financial sector would involve:

- Manageable risk levels, meaning balanced risk levels for individuals, households, firms, and the state; no excess risk and room to shift risk to others, neither too low levels of risk leading to underinvestment. This implies the presence of more women in the financial sector in order to diversify risk attitudes, as well as a more caring attitude among all financial sector agents, male or female.
- Checks and balances to reduce systemic uncertainties not only by the state and international regulators but also by financial actors themselves, such as the example of the innovating senior contingent note by Rabobank illustrates. This implies a shift away in financial firms from shareholder value towards client value and regulators who are not part and parcel of the old boys' network in finance and therefore not easily give in to lobbyists or let themselves impress by fancy financial products.

In conclusion, a more caring financial sector requires better regulation and more responsible behavior of its actors, with less excessive risk taking, lower systemic uncertainty, and curtailing moral hazard. This can only be realized when such more responsible, or caring, financial behavior becomes institutionalized, formally and informally. As the gender differences in financial behavior and the example of the senior contingent note show, such institutions can and do emerge. An increase of women in financial top positions towards a critical mass, which has been argued to be around one third (Chesterman and Rose-Smith, 2006) and a shift in firms

from shareholder value to client value may be good beginnings of a caring financial reform program.

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