

# The morality of the free market

## INTERVIEW WITH PETER SUTHERLAND

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PETER SUTHERLAND has been Chairman of Goldman Sachs International since 1995 and was Chairman of BP Plc from 1997-2009. He served as Attorney General of Ireland (1981-84), EC Commissioner responsible for Competition Policy (1985-89), Chairman of Allied Irish Banks (1989-93), and Director General of GATT and subsequently the WTO on its creation (1993-95). He has received many decorations including an honorary knighthood (UK 2004) and 15 honorary doctorates. He is also Consultor to the Administrator of the Patrimony of the Holy See.

### What role should morality and ethics play in the regulation of a free-market global economy?

I think ethics and morality have to play a fundamental part in every human endeavour, including business. There is a perennial debate about what the fundamentals of economics are. And a key issue in that debate is whether the market economy, with the individualism that it reflects, is compatible with ethical standards and the common good.

I've always believed that the market economy system, properly regulated, is essential for the generation of growth and prosperity. At the core of the free market system is the issue of competition. The absence of competition, as was clearly established by the failure of communism, results in inefficiency and lack of innovation, and lack of innovation and efficiency in turn destroys prosperity and creates poverty.

The development of the global economy post-1989 and though the '90s period has led to the situation whereby, at least in theory, virtually the whole world now accepts the essential dynamics of the market economy system, although it is still regulated in different ways in different regions. Regulation should ensure fairness and justice in the operation of the market economy system. The taxation system in turn should ensure reasonable redistribution of wealth from one part of society to others. I do not see the market economy system as being incompatible with justice, morality or ethics – in fact, quite the contrary.

### How do you see the imperative for profit in a free market capitalist economy being reconciled with moral responsibility, both on an individual and on a corporate level?

Most corporations in a sense work for the common good in that their ownership is largely in public companies, comprising pension funds and major institutional investors including in some cases the State. Therefore, the profits which are distributed through dividends are distributed to society more generally and not merely to the people who are at the top of the companies in question.

The profit motive undoubtedly has positive effects in generating activity, innovation and prosperity. The fact that about one and a half billion people have been

taken out of extreme poverty since 1990 as a result of globalisation, particularly in India and China, is indicative of the fact that the profit motive and the freedom of the market economy system have a number of positive advantages. Of course, there is evidence also of disadvantages and abuses of that system.

The general issue of how remuneration and responsibility co-exist is very much a personal one. The responsibility to give back to society is something which Christians accept as a moral responsibility.

### Looking back on the recent global financial crisis, do you believe there has been a failure of moral responsibility either amongst certain individuals or collectively which has contributed to that crisis?

There have been instances where there have been clear failures to comply with moral responsibility in the context of disastrous events that have occurred. However, for the most part I think the failures have been systemic and related to other issues such as lack of proper controls over risks, lack of proper standards of governance and so on.

I think we are working towards a consensus on what should be implemented to avoid such crises in future but it's some distance away because there are still differing views in different parts of the global free market system as to the extent to which regulation and interferences with the market are appropriate. There are concerns also that excessive regulation could lead to a freezing up of a system which, after all, in the case of the banking system, is about the allocation of resources to stimulate growth, so you cannot have that system frozen up by an excessive or an ill-founded regulatory system.

### How can remuneration systems better reflect a balance between short-term profits and share price value versus long-term profits and sustainability? For instance, annual bonus schemes in investment banking still appear significantly disproportionate in their reward of short-term gain.

I think most investment banks have recalibrated or are recalibrating their bonus schemes to adequately reflect such societal concerns as there are about short-termism and the dangers of short-termism. I think such changes are underway in the banking sector and elsewhere.

**Looking at global institutions engaged with the global market place, taking the European Union as a case in point, is there a moral and ethical foundation which is still relevant today to such an endeavour?**

I think that the European Union is the most noble and indeed the most Christian political endeavour in a thousand years of European history. It was founded from the thinking of Catholic philosophers such as Jacques Maritain and Emmanuel Mounier and was primarily the result of the thinking of people like Robert Schuman, Adenauer, De Gasperi and Monnet, who believed as Christians that absolute national sovereignty was evil. They actually said that at a meeting which took place in Geneva in 1950. The core value of the European Union therefore is the sharing of sovereignty and the creation of norms of behaviour and politics which do not place national interests and power over and above that of humanity as a whole. So it is essentially a Christian project from the very outset, as was the Universal Declaration of Human Rights, which incidentally was also influenced by Jacques Maritain, and the moral levels of the European integration process are a core value to it.

So, I believe that the European Union is in its essence a reflection of the fundamental value of the equality of man rather than the Nationalist jingoism which has bedevilled European history for so long, and that the concept of equality and the concept of the dignity of man are of the essence of what European Union integration is about. I believe that's still the case and it's the nobility of that cause that still inspires people, it certainly inspires me, to a fundamental belief in European integration.

**How are such values relevant to other global institutions such as the WTO and G20, in terms of global interdependence?**

One of the motivating factors why I became involved in the creation of the World Trade Organisation (WTO) when it developed out of the General Agreement on Tariffs and Trade (GATT) was that ultimately the WTO itself is about creating freedom of opportunity by the removal of borders and barriers to trade – just as the 1992 programme in Europe for free movement of goods, persons, capital and services was about equality and the opening up of national borders. The WTO is an extension of that at a global level, although not by the same supra national method. And indeed, Jean Monnet in his endeavours to create the European Union foresaw that it would be a first step in creating a global interdependent system, which is what I think we're achieving with the WTO. Whether the G20 lives up to its responsibilities in terms of development of aid to the poor of the developing world is another question, but they certainly should.

**Do you see institutions of religion and faith, and leaders such as the Pope, playing a significant part in the process of global economic integration for the benefit of all?**

Absolutely, I think various encyclicals from the Pope over the last 30 years have reflected an ongoing concern by the Church urging the leadership of the global community towards an equitable, fairer and more interdependent world which can build institutions that reflect moral values and not merely nationalist interests. **F**

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