Part I
Foundations of Business and Finance Ethics

A developed money, loan and capital market which supplies the economy with the financial resources that are necessary for economic transactions and economic growth is the hallmark of a high degree of economic development. Banks play a central role as financial intermediaries in the markets for money, credit, capital and derivatives. They broker the money supply, mediating in the money market between the central bank and the economy. They broker loans, mediating between the demand for credit and the supply of credit in the form of savings, and finally, they assume the function of the intermediary between industry's demand for capital and listed bonds and the supply of capital that is made available by industry, the financial institutions and private individuals. Banks are therefore the brokers, the financial intermediaries, par excellence.

The financial sector's brokering or intermediary function has grown in recent decades. In the US economy in the year 2000, 7% of gross national product was spent on financial intermediation, more than twice as much as four decades earlier.[1] A modern national economy has a capital-output ratio of 1:3. That means that an increase in the efficiency of capital allocation by 2% creates an economic yield equivalent to a 6% rise in gross national product.[2] These figures give an indication of the significance of the financial sector in normal times. For the years following the 2008 financial crisis, however, they suggest that the misallocation of capital by the financial market crisis can be expected to have an equally severe negative multiplier effect, and a commensurately sizeable contraction of the real economy.

In a universal banking system, the banks are not just the brokers of capital for investment but also the final arbiters on investments and the alternative options for investing capital as well as on the creditworthiness of their customers in the credit

---

[1] L. H. SUMMERS: "International Financial Crises: Causes, Prevention, and Cures", *American Economic Review*, 90 (2000), Issue 2, pp. 1–16. — Summers is the director of the National Economic Council of the United States (until the end of 2010).

[2] Ibid., p. 2f. — The thesis of the enormous multiplier effect of finance has been doubted, e.g. in: ANDREW HALDANE, ADAIR TURNER, MARTIN WOLF: "What is the Contribution of the Financial Sector: Miracle or Mirage?", in: *The Future of Finance*, LSE Report, 2010, downloadable at http://harr123et.files.wordpress.com/2010/07/futureoffinance1.pdf.

market. They not only mediate between parties but constantly evaluate risks and creditworthiness.

Moreover, banks operate as investors on their own account on the stock exchange, but also give advice to institutional and private investors on how they should invest their capital in the capital market. Their roles as valuers and judges in the credit market, and as investors and advisors to other investors in the capital market, make them highly influential factors in the economic process, whose influence extends far beyond their function as intermediaries between savings and investments.[3]

[3]Cf. also on finance ethics J. R. Boatright: *Ethics in Finance*, Malden, MA and Oxford (Blackwell) 1999 (Foundations of Business Ethics), and A. Argandoña (ed.): *The Ethical Dimension of Financial Institutions and Markets*, Berlin, New York, NY, Tokyo (Springer) 1995 (Studies in Economic Ethics and Philosophy, Vol. 7).