

“Women, Power and Ethics”

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This is the text of a keynote speech delivered by Dr. Trimbath at the First Annual Black Tie Event Honoring the 25 Most Powerful Women in Banking, Hosted by *U.S. Banker* and Thomson Media at The Palace in New York, NY in October 2003. The keynote speech was given just a few years after the Enron accounting scandal. Some of the pertinent quotations shown in the visual presentation are included here as boxed text.

More than 250 years ago, Baron de Montesquieu, the founder of the field of sociology, said, “For a country, everything will be lost when the jobs of an economist and a banker become highly respected professions.” As an economist, standing in a room full of bankers, that makes me downright concerned about the state of the country tonight! The ole Baron is probably rolling over in his grave!

But the state of the country, as reflected in the state of women in banking, is doing just fine! Nothing is lost and everything is gained for our country when the full population of entrepreneurs is allowed access to capital and the full population of capable managers and financiers is allowed to run the financial institutions that provide access to capital. The state of banking is evidenced by the example of 50 women, chosen from among nearly 5,000, ranked on their financial performance and their corporate ethics. These first two measures of their “power” provide the dynamic link to their success. Because what is ethically wrong in the short run cannot be economically right in the long wrong. And so tonight I speak to you of the ethic that is at the root of our economic success. It may surprise you to find out that that ethic has its own roots in feminine symbols of social groupings.

I ask you for this evening to put aside any prior conceptions you might have about feminist economics. My discussion tonight will be historical and philosophical; I’ll talk about economics and sociology, and not about issues of equality or status. What I will tell you is that the positive concept of freedom defined as “freedom of choice” which lies at the root of our market economy comes to us from a uniquely female perspective. You may decide to dismiss my point of view. As economists move away from the evaluation of economic outcomes and begin to address behavior, we enter a swamp of ill-defined terms and false connections. Usually, to make the connection between what is rational and what is ethical, economists follow a very peculiar train of thought: rationality is identified with self-interest; if rationality is moral, therefore self interest must also be moral; but it is self-interest that justifies cheating. So, an economist could conclude that cheating is moral. I’ll come back to this point later because I certainly don’t agree with everything in economics.

We need every day:
to herald some woman's achievements,
to tout a woman's book or painting or scholarly article,
to brag about a promotion or prize,
to show admiration for the efforts and influence of women.

Carolyn Shaw Bell, Economist, 1999.

When Holly Sraeel [Editorial Director, *U.S. Banker*] asked me to pay tribute to the 25 Most Powerful Women in Banking, I told her without hesitation that it would be an honor for me to stand before this audience. Please, lift your glasses high and let's toast these wonderful women in banking! I know you've all read the stories in *US Banker* this month, but this isn't the first time we've heard of these women.

Three of the most powerful women in banking and six of the women to watch work right here in NYC. I've seen Marge Magner most often referred to in the press as "capable". Marion Sandler has most often been called "boring but profitable" which sounds pretty good for the state of banking to me. Amy Brinkley is usually referred to as "talented and dedicated." Ms. Beard is from Pennsylvania, the state of my birth. And five of these wonderful women of banking are from my new home state of California. In addition to Marion Sandler, there's Julia Gouw, Carrie Tolstedt, Doreen Woo Ho and Shirley Nelson. And tonight, I may be preaching to the choir because each of them shares something with Sallie Krawcheck, who is widely known as "The Last Honest Analyst." They all share the corporate ethic on which they were judged. It's important that we understand that the root of corporate ethics, the basis of western freedom and the foundation of the market economy all derive from a feminine ethic.

The ethic that supports free market capitalism is the freedom of choice. And the root of corporate ethics is an ethic of responsibility. Both freedom of choice and the ethic of responsibility derive from feminine symbols. According to the Greek tragedians, women not only invented personal freedom, but they brought something special to it, beyond the primal desire for the removal of constraint. Where men saw Freedom as power and control with the antithesis being powerless submission, women saw Freedom as cooperation with the antithesis being isolation. And where the male symbols for the principles of all social groupings defined Freedom as integration into a hierarchy, the female symbols represented Freedom as choosing associations.

Power:

consists in one's capacity to link his will with the purpose of others,
to lead by reason and a gift of cooperation.

Woodrow Wilson 1913

These female symbols are at the root of an ethic of responsibility, responsibility to the group one belongs to. They are also at the root of freedom defined as freedom of choice, freedom to make choices about associations, which is the foundation of cooperation. And that's what real power is.

Male and Female:

Are perpetually passing into one another.

There is no wholly masculine man, no purely feminine woman.

Margaret Fuller, Activist and Critic, 1845

So, this is quite different from “feminism” as you might conceive of it. The antithetical symbols are feminine and masculine, male and female, yin and yang, if you will. It is important that we understand that their elements can be present in all of us.

What is Most Beautiful:
in virile men is something feminine;
in feminine women is something masculine.

Susan Sontag, Author, 1966

Men can and do embrace the ethics that have feminine foundations. The required ethic understands responsibility within a context of relationship or connection. The image is that of a web which ultimately connects everyone. Individuals are responsible when they recognize that others are counting on them.

The freedom of choice, this feminine version of freedom and its subsequent value to society, which was developed in Classical Greece, spread throughout the Western world. Personal freedom never became a value of any importance in Eastern societies. That the acceptance of personal freedom is fundamental to our understanding of Western market development is further accentuated by the absence of market economies where personal freedom was not valued, as was true in ancient Egypt and may still be true in modern Middle Eastern countries. While philosophy would consider it illogical and immoral to desire freedom from impediments only to be able to restrain others, it is a socio-historical fact that this is exactly what humans have desired and frequently succeeded in doing.

Not that market economies are without flaw. How many times in your career have you seen fraud occur, cheaters be discovered, and accountants lament the trouble they’d gotten themselves into? I’m going to read some quotes to you and let’s see if anyone can guess the year these appeared in print.

This first one is from *Forbes* magazine:

“As usual it is the shareholder – the man with the least information with which to appraise management’s judgment – who really suffers. Is it any wonder individual investors are shunning the stock market these days?”

Was it 2003, 1993, 1983 or 1973? The answer is 1973 (*Forbes*, April 1, 1973). That same year, Arthur Anderson & Co. warned in their annual report that “...we inevitably will be a legal target for those who seek to salvage something from their investment or creditor position.” (1973 Annual Report.)

Here’s another one from *Forbes* magazine:

“It likely will set off major arguments and much soul-searching about whether there is adequate protection for investors, and for moneylenders, in the current system of auditing by independent accounting firms. Not only are the auditors on trial. So are investment bankers, upon whose word both investors and lenders frequently make investing or lending decisions.”

What year do you think that appeared in print? The year was 1983 (*Forbes*, April 25, 1983).
By now you see the pattern. Here are two more:

“The litany of problems is a familiar one: ... certification of materially false and misleading financial statements; and an auditor-client revolving door fraught with conflicts of interest and self-dealing.” (*Accounting Today*, Nov 1, 1993)

“The auditor must set aside past relationships and not assume that all clients are honest.” (*Journal of Accountancy*, Jan 2003 Michael J. Ramos, concerning SAS99)

Well, Duh! After thirty years, someone had to put that in writing for the auditors!

Our Deepest Fear:

is not that we are inadequate.

is that we are powerful beyond measure.

As we are liberated from our own fear, our presence automatically liberates others.

Marianne Williamson, American Author, 1992

I read recently about a study of the performance reports of men and women, where an ethic of responsibility is considered positive for performance: in that case men are rewarded for showing responsibility; women are not. Is this because it is expected of us? Denying or suppressing the painful view of the social context would be morally callous and I promise you I won't indulge in moral callousness tonight. But in honor of the occasion, neither will I give vent to the painful social context I know many of us have come through in the last 30 years.

It would seem impossible to deny freedom of choice as a foundation for markets. Yet it has often been popular to write about freedom, in the context of markets, as the freedom from impediments. The thesis of my discussion is that freedom of choice is the positive concept of freedom which is relevant to economic discussions. In fact, the impediments some would seek freedom from are an important condition for developing an intelligent use of the freedom of choice, and it is the freedom of choice that is a necessary and sufficient condition for markets.

The standard account of freedom of choice is that “freedom exists in so far as a person has choices between alternative courses of action”. Rosalind Seneca, a professor at Drew University, wrote in 1996 that, once done, my action can never be retrieved. By acting, I have closed off an infinite number of other possibilities and all their contingent chain effects. This “closing off” of options is the essence of cost: If I have only \$1, I can buy either a candy bar or a bag of chips – but not both. In its deepest sense it reflects the limitations of the human condition. And so freedom of choice does not come without costs. On the other hand, freedom from impediments does not help one to develop any sort of “inner” freedom of intelligent preferences. Rather, it serves to develop a mental and moral pathology wherein once free preferences are allowed there is a tendency for the agent to

overcompensate for the previous restrictions. Yet neither will undisciplined choice lead to the growth of intelligent choices: blind impulse will become habit. What the presence of impediments does is to produce a habit of observation and judgment that ensures intelligent choices.

It's easiest to make this argument by contrasting spoiled and disciplined children. The spoiled child grows up in an environment where all his choices are humored. Others cooperate with him to fulfill all his preferences. He is unimpeded. It is evident in such a case that there is no growth in the intelligent exercise of preferences. His attained freedom is such only in appearance: because it disappears as he moves into other social conditions where others no longer cater to his whims. Now he feels oppressed and is more likely to act without exercising good judgment.

In fact, total freedom of choice may be further self-defeating beyond the need for discipline. If the agent had to choose everything for herself, the burden of choice would be overwhelming. The social, cultural, and institutional framework we live in is essential to the growth of markets under freedom of choice.

Grand Central Station which stands nearby is a wonderful example. There are no visible lanes in the main concourse, no paths to follow as you cross that grand room. But go over there during rush hour sometime and watch the crowd move. Very few people run into each other, or even bump each other in passing. This is an informal social institution, informal social capital if you will, doing its job.

As women, we are fully qualified to implement ethical corporate behavior in the world today and to lead the socially responsible corporations of tomorrow because the ethic that supports free market capitalism is this feminine ethic of responsibility. Sharon Allen, Chairman of the Board at Deloitte Touche, says this about responsibility: "Responsibility is doing the right thing, sometimes the tough thing, day in and day out." According to the National Whistleblower Center in Washington D.C., it's not a male or female issue, it's not a religious issue, it's not a regional issue. It's something in the individual themselves that cuts across cultural, racial, and sexual divides. Again, the elements of yin and yang exist in all of us. However, I will be so bold as to suggest to you tonight that as women we may have an easier time acting on these positive ethics of responsibility and cooperation. Anyway, I'm pretty sure we have a better chance of getting it right the first time and without congressional legislation.

In every social situation there are many small deviations from the dominant institutional order. Why they occur isn't relevant to us tonight. But what happens when we encourage those behaviors does matter. Seizing upon the deviations from the dominant order, encouraging these moments to be different, this is what initiates a transformative political process. These exceptions can become new dominant principals in their own right. This is the challenge we face in order to shift perspectives in moral life.

I read another study last week that proves that cooperation is the "feel good" outcome. Using MRIs and "Prisoners' Dilemma" games, science has proven that

cooperation stimulates the chemical reaction in the brain that releases the “feel good” chemicals. It doesn’t work if only one cooperates and the other cheats. It certainly doesn’t work if both cheat. It only works when both sides cooperate. We say that we are “on the same wavelength,” and science shows that we really are on the same wavelength and that wavelength is stimulating the part of the brain responsible for the pleasure response.

Sometimes in real life cheaters can maintain their advantage if the cooperating player is insufficiently punitive. In such circumstances it is appropriate to establish contractual safeguards, this is the “social capital” that binds us together, the rule of law. Now the Rule of Sarbanes and Oxley!¹ This raises the moral responsibility for the deterrence of cheaters to the level of the institution.

And this is the way that laws develop. Particularly in banking and finance, laws come about in an evolutionary way. First, there is a generally accepted good business practice, which all market participants follow. Developed over time, these good business practices serve the community and the markets very well. Over time, good business practices become generally accepted. Then one or more participants find a way to advance their position by cheating. When they get caught, new laws are usually created to codify the original “good business practice”. What was once considered just a good way to conduct a transaction now becomes a legal business requirement. This is the evolutionary stage in social development that we have just passed through.

As an economist, I sometimes think my profession is responsible for a lot of this ethical trouble. Economists are the ones that pushed managers to focus on stock prices. How many of you attended either Harvard or Chicago? Michael Jensen at Harvard insists that the stock market has some prescient knowledge of firm value that is then reflected in the perfect capital markets through perfect stock prices. And this over-emphasis on stock prices as measures of performance, I believe, has induced too many managers to abandon real responsibility and to go for the quick fix, the easy solution, to keep stock prices artificially high.

Another root of our difficulty lies with Nobel prize winner Gary Becker at University of Chicago. I sometimes think Gary Becker is responsible for many of the ethical troubles of business. Becker is most famous for basing economic models of decision making on the premise that we all behave like amoebas, seeking pleasure and avoiding pain, therefore justifying the cheating outcome as evidence of moral self-interest. Not that I should be picking on Gary Becker; the idea originated with Jeremy Bentham’s discourse on utilitarianism, which has been shown to be about as foolish an effort to measure as is the creation of the perfectly efficient communist institution.

People laugh at the idea that ethics is the parent of economics, as though it’s an oxymoron like “Army intelligence”. The clearest example I can think of is “interest rates”. Since the churches were the original financiers, they set the interest rates. This led the Catholic scholars to do quite a bit of writing about “uusury”. Not that Catholic scholars and economists always agree. Usury was condemned by Pope Benedict 14th, in 1745; and

¹ The Sarbanes-Oxley Act of 2002 was passed in response to the Enron accounting scandal

defended by Jeremy Bentham and Adam Smith 40 years later. A lot of economists forget that our roots are in ethics, that economics is first a social science, it is a member of the humanities. Economics is about the interaction of a lot of humans, a lot of humans and their money.

Power Corrupts:

Nearly all men can stand adversity, but if you want to test a man's character, give him power.

Abraham Lincoln (1809 – 1865)

Well, it's about time for me to wrap this up. Now that you've heard me out, I'll give you my personal foundation for talking about ethics. When I was a child, I was much influenced by the story that Honest Abe walked a mile to return a penny that someone overpaid. I once contacted a man that lent me \$100 so that I could repay it with interest five years later. This is a quote from Abe Lincoln [above] and one that I hope you will take to heart as you leave this room tonight. Basically, I didn't get the gene for lying. I inherited my honesty from my grandfather. As he tells the story, he was too young to enlist when WWI broke out. He couldn't lie about his age, so he wrote the number "18" on a piece of paper and stuck it in his shoe. When the recruiter asked the question, my grandfather honestly replied, "I'm going on 18." Aww, they didn't believe him! He couldn't lie even when he tried

Absolute Power:

The only way to avoid the corruption of praise is to go on working.

Albert Einstein

This quote is from Albert Einstein [above], another influence on me. As we lavish praise on these women tonight, I hope that you will let his words influence you, too. Thank you for your kind attention and once again, let's lift our glasses high and make a final toast to you, the wonderful women in banking!