AIG scapegoats: Collective culpability

From the Editors in the April 21, 2009 issue

A lot of outrage, including threats of physical violence, has been directed at executives of the American International Group and other financial-services firms. The executives are perceived as having triggered the world wide economic crisis by their reliance on subprime mortgage–backed securities and on credit default swaps (something few people understand even after hearing them explained). And they are seen as having escaped the crisis unscathed—and in some cases with millions of dollars in bonuses.

The depth of the outrage, and the violence of the expressions, suggests that there is something to anthropologist René Girard's theory of scapegoating. Girard argues that societies attain cohesion by periodically identifying scapegoats—socially approved targets of violence. At least for a time, conflicts in society are suppressed as people's rage is directed at the designated scapegoat.

It is easy to forget, amid the outrage at these executives, that they were doing what their directors and stockholders wanted them to do—maximize short-term profit. This does not absolve them, of course. But the notion that markets are self-regulating and can do no wrong, and that they simply need to be freed from regulation to create more wealth that benefits everyone, was not confined to Wall Street executives. It was repeatedly touted by politicians, taught in schools, celebrated on talk shows and endorsed by voters over several decades.

In the same period, universities and business schools sent their top graduates off to investment banks, hedge funds and private equity firms, where they were employed in creating and selling innovative financial products. It might seem strange that the best and brightest young Americans would want to spend their days repackaging loans and investments rather than, say, researching the causes of cancer. But investment banking was where the money was to be made. Few people argued against the dynamics of the market or complained about salaries in the millions.

The economic crisis has reminded us that the market can go terribly wrong and that it is directed not by an invisible hand but by fallible people who may not think beyond immediate rewards and what their peers are doing. In other words, it is directed by people like us.

The crisis has also reminded us how deeply interdependent we all are in the modern economy, and that the risks of financial collapse are borne in some measure by all citizens—and borne disproportionately by those who are already vulnerable.

In the coming weeks, Congress will consider creating new ways of regulating the financial markets to prevent this kind of collapse. It will be one of the few occasions in recent years for publicly recognizing that all citizens have a stake in the market and are vulnerable to the decisions that the private sector takes. The debate on regulation will be contentious; the new rules will be resisted by some on Wall Street. But debating regulations that serve the common good will be far more constructive than attacking scapegoats.