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The Relationship between the Global Financial Crisis and Corporate Governance

Abstract

Aiming to find a connection between the global financial crisis and the theoretical and practical conception and model of corporate governance, this paper analyzes the historical context of the financial crisis and the effects of corporate decisions in its development, from the initial phases when the crisis was recognized, to the post-crisis regulatory measures taken by governments. The paper examines the model of corporate and economic governance established before the crisis occurred and gives specific proposals towards establishing an enhanced model of corporate governance, aimed primarily towards establishing a more sustainable model of free-market capitalism. The authors, through their support of the new wave of selective government interventionism, aim to establish theoretical views related to the fundaments of the new, post-crisis model of corporate governance.

Key terms: *Corporate Governance, Financial Crisis, Regulation, Banks.*

1. Introduction: a crisis of (corporate) governance

Currently, many people find themselves in a frustrated and disappointed state, resulting from the fact that academia cannot foresee and/or give complete answers to some of the most important issues of our time. As a result, more often than not, they begin referring to the past and analogous occurrences, which objectively cannot be compared, especially taking into account the variables as size, intensity and consequences in comparison to today's occurrences, which, perhaps have, to a certain extent, similar origins.

In the past decades our planet has been facing crises that are highly, and alarmingly, complex: energy crises, the extinction of animals, the outbreak of new viruses, deadly tsunamis, global warming, economic havoc and the threat of nuclear devastation. We have arrived at an intertwining of the points of culmination within the basic systems of our civilization:

-the point of culmination of the climatic conditions on our planet,
-the point of culmination in the production of food,
-the point of culmination related to the production of clean water and
-the point of culmination within financial systems.

From today's perspective, there is simply no way to find a solution to all of these existing issues that have the capability to compel gigantic changes, while the escalation of only one of them is dramatic

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enough to destabilize the entire global system. The occurrence of only one crisis could initiate a whole chain-reaction of violent events where natural catastrophes and military conflicts could tackle down the economic system, which is, on one hand, highly robust and complex, but at the same time very vulnerable and dependant. As so, we can conclude that we live in a period where a turnaround is expected: either the world, if our behavior remains consistent, will be destroyed, or a new world, with new values and methods of living, will be created.

The cultures of all peoples in the world, without exception, have always had their beliefs developed in a relation to an eventual end of the world and it is normal that a majority of the population felt the relationship between the tradition of their culture and what is currently transpiring.

Our predecessors knew what it meant to be in a constant connection and unity with ourselves, all of nature, with life, as well as the universe. However, we have, sadly, become out of touch and are at the same time disrupting this balance.

Today, we find ourselves in a specific moment of our history when we have arrived at a bottom, where our resources and built up problems have reached their limits – a concept that must be adequately interpreted so that we can react to its further spread, as it could potentially result to an end to human civilization.

If in the area of climate change the human factor can be eradicated out of the focus, the same cannot be done for the other basic systems, especially the financial system. The current global crises was created exclusively as a result of the weaknesses of the process' of governance with financial institutions, the human greed aimed toward the creation of larger profits and, maybe, even with the final goal of aiming towards a different redistribution of global financial wealth.

The aim of this paper is to find a superlative point of intertwining between corporate governance and the financial crisis or, in other words, to find a basis in the thesis that one of the main reasons for the development of such a crisis lies in the bad decisions made within corporate structures (corporate decision-making). Therefore, it is necessary to find basic generic concepts on what corporate governance is and where the financial crisis lies in this process.

From the most intangible point of view, "the corporation is the basic organizational unit and among the most fundamental legal institutions of a market economy. It should be capable of contributing both to economic growth and, arguably, to human development in a broader sense".[3] According to *Crowther* and *Seifi,*[4] "corporate governance can be considered as an environment of trust, ethics, moral values and confidence – as a synergic effort of all the constituent parts – that is the stakeholders, including government, the general public etc, service providers and the corporate sector". *Crowther* and *Seifi* also argue that often one of the main targets of major companies is to become global, while at the same time remaining sustainable. However, they also

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[3]Williams C., Zumbansen P. (eds.) *The Embedded Firm: Corporate Governance, Labor and Finance Capitalism* (Cambridge University Press) 2011, p. 15.

[4]Crowtiher D., Seifi A., *Corporate Governance and International Business* (Ventus Publishing) 2011, p. 11.

affirm that an important issue in this process is “concerned with what will be the firm’s route to becoming global and what will be necessary in order to get global competitive power”.[5]

Yet, going past the basic, theoretical definitions of corporate governance, we arrive at a famous maxim incorporated within business and legal studies by Henry Ford, who once famously stated that “a great business is really too big to be human”. Truly, this is the main aim of a corporate structure, which aims, in its essence, to go beyond the lifetime and aptitude of any certain individual. Certainly, *Monks* and *Minnow*[6] take a very accurate approach in finding the theoretical basis for what a corporate governance is, arguing that the first challenge in defining what corporate governance is, “is defining what we mean by corporation”. Their argument goes on to argue that beyond the legal definition that covers the requirements for obtaining articles of incorporation and the obligations of the resulting entity “corporations always seem to have more vitality and more complexity than can be constrained by definitions or laws”. According to *Monks and Minnow,* corporations “even seem to take on personalities that go fairly beyond the way we feel about their products…think of the reputations of Apple, of Enron, of General Motors, of Google, of BP”.

While corporate governance, as a theoretical term, can be easily defined, although definitions vary in their scope, depth as well as their ideological viewpoint on what a corporation is and what governance truly is, it is much more intricate to define what the global financial crisis is. In the following part of this paper there will be a brief, albeit important genesis of its occurrence, as well as an argumented thesis of how and why global economic relations have come to the point where they are at this moment. Generally, the global financial crisis finds its roots in the incompletion existent within the American financial institutions (above all banks, especially investment banks) who (un)intentionally managed to transform their loan and credit policies into a global catastrophe. As *Posner* argues, the immediate causes of the depression were “the confluence of risky lending, with inadequate personal savings, so that when the risks materialized, causing bank insolvencies and a fall in the demand of goods and services because credit was difficult to obtain, people couldn’t reallocate savings to consumption, and this allowed the fall in demand to trigger a downward spiral in employment and output”[7]. *Posner* goes on to affirm that additional underlying factors in the crisis are “the housing bubble, the bursting of which produced the defaults that endangered the solvency of banks; the very low interest rates that motivate banks to increase their leverage; the complicated financial instruments that turned out to be riskier than people thought; and the withering of regulation of financial services, which removed checks on risky lending”.[8]

From here, we are lead to the basic conclusion that the decision-making processes within corporate structures, which created the fundamental chaos in financial systems, have to a certain extent a role in

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[5]Ibid.

[6]Monks R., Minnow N., *Corporate Governance* (John Wiley and Sons, Ltd.) 2011, p. 5.

[7]Posner Richard, *A Failure of Capitalism* (Harvard), 2009, p. 76.

[8]Ibid.

the entire financial crisis, as the financial system is manipulated and functionalized through the actions of these structures. This paper shall, in its main content, analyze the issue of the above-mentioned “extent”.

2. The Emergence of the Crisis

The roots of the global financial crisis can be found in the distant 1944, when at the Bretton Woods Conference the gold standard of the monetary system was departed from. There was an implementation of the free formation of the exchange rates, which in turn created a situation where exchange rates were formed on the basis of market occurrences and speculations. As so, exchange rates were created and modified by market parameters and/or speculations, as well as, above all, policies of understating or overvaluing of certain exchange rates.

The initial moments of the crisis began with the drastic lowering of interest rates by the FED (Federal Reserve System) between 1% and 2%, right after the terrorist attacks on September 11, 2011. It aimed to revive capital markets and investment activities, which had fallen since the attacks, because of the panic created by the direct hit of, arguably, the global financial center. These low interest rates were highly alluring for taking out mortgages, especially by individuals, future debtors with questionable financial capabilities. The monthly rates for paying back these loans (credits) were intertwining and packed with complicated financial packages, such as diversified debt obligations that were traded on Wall Street and sold to other banks, notably overseas banks and funds. With the influx of cheap loans and low standards for investors willing to indulge into these financial products, which could be traded in a similar manner with stock options, yet without the adequate regulation, there was an investment explosion in the real estate market. To be precise, banks literally baited clients into taking out cheap loans in real estate, even though these individuals could never enhold the adequate financial capability to achieve the American dream of buying their own homes. This was done by banks, so that they could later turn these receivables into various forms of financial products that could be sold to diverse groups of participants in global stock markets. The buyers of these financial packages of receivables had no clue as to extent of the ticking time bomb that was an integral part of their portfolios, as the only aspect that was important to them was the foreseeable profit from the investment. Investment in real estate as well as heightened activity in the construction sector reached its peak between 2001 and 2007. The heightened demand of real estate created a higher value of properties and a growth in the industries related to the production of metals and building materials, which had a positive effect on the Exchange of non-ferrous metals. At the same time, with the growth of the market price of properties that were under mortgage, with the difference between the estimated value of the property at the time the mortgage was taken and the current value of the property, banks gave their debtors additional loans, which essentially burst the bubble in financial markets.

Taking into consideration that these loans were granted to those that could not even pay the basic collateral, which had a value that was bloated through inflation, the financially weak bearers of mortgages and loans started to stop paying their monthly rates and created a viral domino effect. In 2007, there was finally clear and public knowledge and recognition that the collateral i.e. loan collateral or mortgage, was worth much less than the sum of the entire loan.

Among the numerous tectonic changes that occurred in the capital market, it is necessary to highlight the bankruptcy of the investment bank Lehman Brothers and the acquisition of investment Bank Meryl Lynch by Bank of America. Lehman Brothers was ranked as one of the four biggest and leading investment banks on Wall Street. In addition, it was a large financer of the real estate market. Soon after, the FED, through a financial injection of 85 million USD, took control of a package of stocks in the largest insurance corporation in the world – AIG. AIG was the largest emitter of stocks for offsetting loan debts (a type of insurance), which were structured to protect buyers of the insured financial packages (80% of the stocks). In that way, the state prevented its downfall and potential bankruptcy – an occurrence that would have been extremely dangerous for the global economic system. In the meantime, Bear Stearns, which was counting on stocks of uninsured loans, collapsed and the FED organized that it is bought by JP Morgan. As the number of unpaid mortgages and loans began to rise, the large investors, such as Fannie Mae and Freddie Mac began to collapse. Objectively, the FED, through an operation of taking over these companies/corporations, saved their business by accepting their debts resulting from unpaid loans in the value of approximately 5.4 billion USD.

3. The Consequences of the Financial Crisis

Historically, the global financial market found its “black Monday” on September 15, 2008, when the Dow Jones index fell 4.4%, while the Standard and Poor’s index fell 4.7%, which represented the largest single-day fall since the terrorist attacks on September 11, 2001. The European stock-markets were not immune to such occurrences and also registered serious falls. As a result, in only a single day, FTSE Euro first 300, the index of leading European stocks, fell 3.6%, the London Stock Exchange FTSE 100 fell by 3.9% and the DAX (Frankfurt Stock Exchange) fell by 2.7%. At the same time, the European banking index lost between 5.4% and 5.9% of its previous value, which represented approximately 27% of its inter-annual level. The Japanese Nikkei 225 fell by 5%, the stocks in South Korea and Hong Kong fell by 6% and the Stock Market in Shanghai lost 6% of its value. Stock Markets in financial centers such as Taipei and Singapore registered serious shocks and that wave was also felt in Australia and New Zeeland. Even though the strongest effect of this shock registered the hardest hit on the stocks on financial organizations, the downward tendency within stock markets created serious issues for all large corporations in the industry sector.

In this period, as an answer to these occurrences, the European Central Bank, the FED and all other central banks consistently injected millions of Euros and Dollars (an effect similar to the lowering of interest rates) through short term loans, in financial systems with the aim of bringing back investor confidence. This effort, spearheaded by the ECB and FED was used in a similar way by the central banks in Asia as well as Australia to calm tensions in the financial sector. The global fund of banks (Bank of America, Citibank, Credit Suisse, and Deutsche Bank) announced the formation of a fund of 70 billion USD for the loans to financial corporations that encountered problems, with the aim of stopping the further spread of panic in markets worldwide. Yet, this "temporary" solution did not yield the expected results. Wall Street indexes continued their downward spiral and reached their lowest levels since the end of the Second World War, mainly because investors once again began to rely on the relative security of the national debt, which resulted in an increase of prices of government bonds and securities.

On a global level, in just one week, stocks lost almost 3.6 billion dollars of their market value. The price of gold and silver began to rise because of the endeavors of investors toward maintaining the value of their net-worth through precious metals. In globalized international finances, the occurrences in the New York Stock Exchange panically spread to other stock exchanges in the world, and so there was a fall of prices of primary goods as well as crude oil, because of the expectations that there would be less demand triggered by the recession in Western Europe and the US.

Right after the biggest bank failure in history (the collapse of Washington Mutual, which had assets valued at 307 Billion USD), the US Congress failed to adopt the draft-law which was aimed at rescuing the US financial system, which resulted in another huge market loss for the stocks of global financial corporations and an additional downfall for stock index's. After intricate negotiations between the US Congress and the President of the United States, Congress brought the Troubled Asset Relief Program (TARP) on October 3, 2008 and initially authorized a legal act through which the state would purchase assets and equity within financial institutions to an amount of approximately 700 billion USD.

Even though this crisis is often compared to the Great Depression of 1929, most economists argue that the world today has monetary and financial instruments that should prevent such crises. They accent above all that the current level of development and the existence of material infrastructure should not allow that the effects are felt on the standard of living, as was the state of affairs when the crisis of 1929 took place.

The hope that Europe could somehow avoid a spillover from the crisis on the US was illogical and unfounded. In the buildup to the crisis, bank managers in the US were successful in selling their questionable credit packages on the other side of the Atlantic, with an estimated one quarter of those funds/sums lying in European banks. Not only did the stocks of European banks suffer a huge loss, but the index of consumer confidence fell to its lowest level since 2001. These conclusions, which exist to this day, beg to question of how deep is this consumer mistrust and how long can it last?! Two of the largest European economies can give us that answer: the German and the French. The biggest issue in Germany is the deceleration of exports, the rise of prices of food and energy, the fall of demand in the private sector, as well as the heightened unemployment rates. Individual German banks are haggled by loans from American Banks, which packed within the above-mentioned financial instruments, were bought by these banks. Even though the situation seems bleak, it is projected that the GDP growth in Germany in 2013 will be approximately 1%. It should be mentioned that the German government, through a financial injection, managed its own sui generis bailout of Hypo Real Estate. In France, like in Germany, there is a negative trend in relation to the main economic indicators. Consumption, the motor of the economy, is falling while the services sector, especially hotels and restaurants are evidencing a fall in sales. The French government, in a manner similar to the German, directly intervened in the bank Dexia to prevent its potential collapse.

In Europe, the real estate market did not fall apart as in the US, mainly because mortgages were very well regulated and banks were very careful in relation to choosing their debtors. Nevertheless, the lack of loans has an effect on the economy: over two thirds of banks in Europe sharpened their conditions for giving loans to corporations, which in turn means less investments and business and entrepreneurial ventures. In relation to the euro-zone, three issues were detected: first, the currency which is on an upward spiral could hamper exports; second, the high level of exposure of European banks in relation to the American financial market and the real estate market and thirdly, the structural weakness of the European economy, which is much less flexible then the American (the rigidly regulated market of labor and goods prevents quick adjustment to changes).

The reduction of investment activities on a global level (especially the reduction of construction activities in the private sector), with the exception of China and Russia, brought a fall to the Index of non-ferrous metals and so the financial crisis took its toll on the industrial sector.

The crisis of the western financial system, which was based for decades on the American real estate market, will be far less felt within those markets that did not have a high level of business connections and relations with the US. States that have high levels of budget surpluses/cash reserves, that have crude oil or other strategic natural minerals, and have re-oriented their trade toward the east will not be hit as hard as the western world, which has for decades based its financial system on loans. Realistically, it is expected that with the gradual absorption of the losses of American stocks, the capital flows towards the US shall get weaker. On one hand, the deficit of the current balance of payments of the US, and on the other hand the Asian sufficits, shall fall and American households will be forced to, once again, endeavor to save money.

4. Finding the relationship between corporate governance and the global financial crisis

Corporate governance is an issue that is close to all of us. Almost every day newspapers and magazines in developed states identify issues related to corporate governance in their daily content. Recently, corporate governance, as a contemporary topic, has been put in the spotlight more and more often. The process of corporate governance and the daily decision-making process that is an integral part of it, were key in the collapses of Barclays (the oldest Bank in England), Enron (one of the top 10 corporations in the US), Vivendi in France, Parlamat in Italy and later Lehman Brothers in the US, as well as in the collapse of AIG, which, as previously mentioned, was saved due to a direct financial injection of the US Federal Government. All of the above mentioned collapses seriously shook the financial sector and, as stated, were the direct precursors for the beginning of a global financial crisis whose repercussions are felt in globalized economies at this very moment. What all of these corporations lacked was good corporate governance and ethnical decision-making by CEO's as well directors in the boards. Putting their personal interest above all, the managers ignored negative predictions and forged accounting reports, so that the price of their stocks would rise and they would gain larger bonuses. What is obvious is that more often than not insider information was used, with the aim of expanding personal bonuses. What all these managers had in common is that they used the inexistence of adequate regulation to gamble away the money of their investors and shareholders without fear of any serious repercussions. Until very recently, academia, in the area of corporate governance and economics, was bursting with ideas related to further deregulation and the idea that corporate governance should lean on the concept of self-regulation, where the notion of state intervention was considered a blasphemy in its own right. Today, after the self-regulation as a result of deregulation, we see the catastrophic results. We have arrived at a point where we are continually referring to further and more developed regulation with strict and rigorous criteria within the system of corporate governance.

As argued, the crucial aspect of the blame related to the situation created by the financial crisis must be born on the shoulders of inadequate corporate governance, because when corporate governance was put to the test, its reputation and experience did not work toward the interest of the undertaken risks by financial institutions. The failure of the system of risk-management did not succeed because of the intricacy of the labyrinth of procedures existent within corporate governance – procedures that essentially prevented (intentionally or not) leading management from receiving the necessary warning signs related to bad financial decisions. Risk-management is, and was, fundamentally and effectively an obligation of the board and must be continually ascertained by it. In various situations, the board of directors authorized strategies without incorporating adequate instruments for their implementation. In relation to this conclusion, it is necessary to point out that this crisis also showed certain weaknesses in accounting standards, especially their inadequate and weak level of regulation. Yet, a true issue from the aspect of corporate governance is the inadequate structure of managerial contracts, especially the reward structure for managers, as the reward models were structured in such a manner that they did not put the long-term corporate interest above all, but rather motivated top-level managers to make short-term (essentially greedy) decisions. According to *Bootle*[9], the financial crisis, which he terms as "The Great Imploision" has uncovered several different sorts of failing. He argues that, above all, "it has revealed just how fragile the financial system is". He adds further on that "it has demonstrated the markets' excessive risk taking…it has shown how bloated the financial sector has become…it has exhibited a failure of the market with regard to the setting of executive remuneration in general, and pay in the financial sector in particular… it has uncovered a deep-seated failure of the corporate system, arising from the

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[9]Bootle R., *The Trouble With Markets: Saving Capitalism from Itself* (Nicholas Brealy Publishing) 2009.

separation between owners and managers and the weakness of institutional shareholders in influencing corporate policy”.[10]

Putting these arguments into context, *Bootle* concludes that the result of these failures “has been the revelation of a financial sector hell-bent on pursuing its own profit, while undermining, not promoting, the public good, and a system of corporate governance where managers have been pursuing either their own interests or the short-term performance of the share price – which often came to the same thing”.[11]

Taking into consideration the above stated, Table 1 categorizes the main weakness actualized by corporate governance within the prism of global financial crisis.

TABLE 1

Weakness in corporate governance	Explanation
Risk management	Financial turbulences uncovered serious incomplacencies within the practice of risk management within both its segments – internal management and the role of the board in the inadequate estimation of the level of risk in a large number of banks. In an analysis conducted by the Senior Supervisors Group in 2008 in the 11 largest banks in the USA, it is concluded that if risk management was adequately implemented, then the level of risk would have been recognized as early as 2008. In layman terms, banks should have taken into consideration that there could be a fall in the value of mortgages and a lowering of interest rates in the long term. The CDO credit exposures exceeded, by far, the understanding of risks and, as a result, in 2007 there were a heightened number of investments in them.
Rewards and systems of motivation	Most corporations had a developed reward system for motivating and rewarding managers on the basis of success i.e. rewards when they made transactions that brought profit to the corporation in the short term, without an adequate calculation of the level of risk. At the same time, very few corporations had regulated a decrease of rewards and motivation systems if the corporation was in crisis or did not reach the expected results.

Other then the two main grounds, listed in table 1, it is also necessary to include the role of rating agencies, inadequate accounting

[10] Ibid. p. 245.
[11] Ibid. p. 246.

standards, as well as the ineffective role of regulatory bodies in the list of additional failures that were indirectly correlated with corporate governance manipulations.

When within the scope of their activities corporations began to cause certain economic or social effects, regardless of whether those effects are positive or negative, it is inevitable that those effects are personified within the directors/managers who have the authority to manage the corporation to the benefit of the shareholders. Banks, as entities in the financial system, are lead and managed by such directors and it is without a doubt that the reasons for the occurrence of the financial crisis finds serious fault within the management and the quality of decisions made by such individuals.

Corporations have continued with an ever-growing expansion of their operations within more and more markets on a daily level and as a result steps must be taken toward developing a more reliable and rational approach to corporate governance. As so, whenever possible, we must "integrate the most important legislated standards with the realities of the economic laws, so that all incentives promote the priorities we agree on, without perverse incentives or unanticipated consequences".[12] As argued by *Monks* and *Minnow*:

> *The law should be process oriented, not substantive. It should be focused on results, not structures. Structural requirements can always be subverted and too often even the best-intentioned of them end up impeding innovation. The focus should be on the relationships between the corporation and its constituents, to reduce conflicts of interests (agency costs) and make sure that the right people are making the decision (or at least are able to monitor the results of the decisions) that affect them most.*[13]

The main culprits in the global financial crisis have been identified long ago: the culprits are not Hedge funds, who many felt were the biggest threat to the global financial market, but rather the executive officers (CEO's) of the large Anglo-Saxon investment banks. These were individuals that did not lead themselves in accordance with the basic and oldest principles of their branch. Lead by the inevitable and huge wish for maximization of profit, they gave loans to individuals who should never have received them and, what is even worse, these loans were in proportions that exceeded rational limits. Also, banks entered into risks that should never have been taken. The reward systems for these managers created a situation where it paid off to enter into risky business ventures, as they received bonuses that were many times larger than the basic sum of pay foreseen within their management contracts. At times, their bonuses were 5-10 times above their fixed pay, with

[12]Monks R., Minnow N., *Corporate Governance* (John Wiley and Sons, Ltd.) 2011, p. 92.

[13]Ibid, p. 93.

managers who managed to attract more clients getting even larger benefits. Yet, in the banking business, especially when it comes to loans, it is necessary that many years pass until it is established whether profit was attained as a result of those loans. The managerial contracts guaranteed bonuses based on quantity, not quality, on a yearly basis and essentially managers were rewarded for decisions that later proved to be a total debacle. It is beyond doubt that the sub regulation in this area of business, along with the combination of managerial appetites was a direct reason for the birth of the financial crisis. Still, these practices are slowly coming to an end, with the global population suffering and enduring as a result of top-tier managerial greed. The biggest post-crisis regulative steps were aimed at managerial responsibility, especially criminal responsibility for these individuals.

What occurred within the American real-estate market, which began as a lag and later transformed itself into a banking and financial crisis, was a change of the global economy in a manner that was quicker and stronger then all institutional and non-institutional changes in the past 25 years. Today, we are witnesses to a new global economic order, which is attempting to conduct a redistribution of power and wealth on the planet and one which will change the banking and financial scene with the aim of establishing true hope for permanent economic growth.

The pattern of the most important lesson that arose from the Great Depression of the 1930’s is found within the idea that nation-states must collaborate and intervene when crises occur. The measures with which attempts toward finding a solution were taken in that period only worsened the situation and created conflicts that later developed into the Second World War. On a positive note, in today’s circumstances such occurrences have been duly avoided. This is a result of the fact that in today’s globalized society there is a non-existence of stable ideologies that oppose market economies. Namely, powerful economic leaders such as China, Russia and the USA have developed capitalist mentalities, which lead to a general consistence on this issue on e global level. Capitalism is a system that is prone to oscillations, to rises and falls that have drastic forms of repercussions. In the following phase of capitalism, we shall bear witness to a stronger and more intense state intervention from competent institutions. Regulation and control, ranging from national economies to transnational economic relations, shall grow much stronger, especially when it comes to banking, insurance, and, generally, most financial services. This new form of capitalism shall recognize the higher level of influence of the state then the model created in the late 1930s. Only in this manner, through strong time-constricted intervention by the state in economies, will we be able to avoid the mistakes that caused the existence of crises in financial and economic sectors, while at the same time avoiding deeper changes to the basic arrangement of market economies in contemporary democracies. The solution is clear: capitalism must find a way to save itself from itself.

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