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The People’s Ledger: How to Democratize Money and Finance the Economy

Author: Saule T. Omarova

The COVID-19 crisis forcefully underscored the urgency of digitizing sovereign money and ensuring broad access to affordable banking services. It pushed two related ideas—the issuance of “central bank digital currency” and the provision of retail deposit services by central banks—to the forefront of the public policy debate. To date, however, this debate remains fundamentally incomplete. Framed by reference to fast payments and financial inclusion, most reform proposals in this vein do not offer a coherent vision of how the act of “democratizing” access to sovereign money would—and should—change the key systemic dynamics of finance. This lack of a systemic perspective both obscures and dilutes the full transformative potential of these increasingly popular ideas.

Taking the debate to a qualitatively new level, this Article offers a blueprint for a comprehensive restructuring of the central bank balance sheet, as the basis for redesigning the core architecture of modern finance. Focusing on the U.S. Federal Reserve (the Fed), the Article outlines a series of structural reforms that would redefine the role of a central bank as the ultimate public platform for generating, modulating, and allocating financial resources in a democratic economy—the People’s Ledger.

On the liability side of the ledger, the Article envisions the full migration of demand deposit accounts to the Fed’s balance sheet and explores the full range of new, more direct and flexible, monetary policy tools enabled by this shift. On the asset side, it advocates a comprehensive restructuring of the Fed’s investment portfolio, which would maximize its capacity...
to channel credit to productive uses in the nation’s economy. This compositional overhaul of the Fed’s balance sheet would profoundly transform the operations and systemic functions of private banks, securities dealers, and other financial institutions and markets. Tracing these structural implications, the Article shows how the proposed reforms would make the financial system less complex, more stable, and more efficient in serving the long-term needs of the American people.


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**Technology v Technocracy: Fintech as a Regulatory Challenge**

**Author: Saule Omarova, Cornell Law School**

This article examines fintech as a systemic force disrupting the currently dominant technocratic paradigm of financial regulation. It offers a five-part taxonomy of (i) the key fintech-driven changes in the structure and operation of today’s financial system, and (ii) the corresponding challenges these systemic shifts pose to the continuing efficacy of the regulatory enterprise as it exists today. This exercise reveals the fundamental tension at the core of the fintech problem. In the fintech era, the financial system as a whole is growing ever bigger, moving ever faster, and getting
ever more complex and difficult to manage. The emerging regulatory responses to these macro-level changes, however, continue to operate primarily on the micro-level. Surveying the presently fragmented efforts to regulate fintech, this article highlights the limiting effects of the technocratic bias built into their design. Against that background, it outlines several alternative reform options that would explicitly target the core macro-structural, as opposed to micro-transactional, aspects of the fintech challenge—and do so in a more assertive, comprehensive, and normatively unified manner.


Why is this Happening? with Chris Hayes: Saving the Economy with Saule Omarova

Why is this Happening? Podcast Talks with Saule Omarova

Are we doing enough to keep the economy alive through this crisis? So far, economic relief efforts have been messy, convoluted, and inequitably distributed. But while we talk about the steps taken to save the economy, we first need to know the structures in which that recovery originates. Who
decides where the money goes, how are those decisions being made – and can these mechanisms be more effective? Not just in this current pandemic-induced economic contraction, but on a more permanent institutional level. How can we ensure our financial system is stable enough to weather these types of crises? After dedicating her academic career to answering these types of questions, law professor Saule Omarova joins to discuss her proposal for what that new type of institution can and should look like.

You can find the episode here: https://podcasts.apple.com/us/podcast/why-is-this-happening-with-chris-hayes/id1382983397?i=1000473624817

S. Omarova, Crises, Bailouts, and the Case for a National Investment Authority

April 1, 2020

Saule T. Omarova, Cornell Law School

The COVID-19 crisis is unlike any other we’ve seen so far. An effective response to this massive crisis requires massive coordination and redeployment of the nation’s financial, physical, technological, and human resources—not unlike a full-blown war effort. Currently, however, the U.S. lacks an
institutional mechanism for an economic mobilization of the type it undertook during the Great Depression and both World Wars of the last century. There is presently no institutional analogue to the New Deal-era Reconstruction Finance Corporation (RFC).

Without such a permanent federal agency, the country must rely on ad hoc crisis-containment measures that are notoriously politicized, messy, and prone to corrupt influences. It’s already clear that neither the U.S. Treasury nor Federal Reserve are equipped to manage and oversee the implementation of the multi-trillion emergency relief package approved by Congress. And significant misuse and misallocation of federal relief are bound to have disastrous long-term financial, economic, and political consequences.

To manage this process, we need an RFC-like institution. Having a permanent institutional platform for coordinating the national crisis response, including bailouts of private companies, would help to ensure that these emergency measures are executed in an efficient, transparent, and democratically accountable, and socially just manner.

My colleague, Bob Hockett, and I have long advocated creation of a National Investment Authority (NIA) as a modern version of the RFC. Our original focus was on the NIA’s role as the federal instrumentality functionally located between the U.S. Treasury and Federal Reserve and tasked with implementing a long-term strategy of national economic development. At the heart of this strategy is the NIA’s proactive use of financial tools to channel private capital into transformative public infrastructure projects, with a view to facilitating socially inclusive and sustainable growth of the American economy. Led by the NIA Governing Board (the NIA Board), an independent
federal agency structured similarly to the Federal Reserve Board, the NIA would lever private investment in public goods through federal grants, loans, guarantees, securitization, and large-scale private equity-style asset management.

Although not originally envisioned as such, the NIA is perfectly suited for taking on the RFC-worthy task of managing the nation’s response to the COVID crisis. The NIA would be well-positioned to coordinate nationwide production mobilization efforts, oversee financial bailouts, and manage post-bailout public stakes in private companies. Below is a brief outline of how that regime would work.

**Production Mobilization**

Most urgently, the NIA would act as the principal manager of federally appropriated funds for purposes of organizing the crisis response on the national scale. NIA’s dedicated asset-management teams will work with other federal, regional, and local authorities, medical professionals, and other relevant parties to identify specific bottlenecks in the supply chain of critically needed products, prioritize concrete action items, and organize financial and other resources needed to scale up or repurpose individual facilities’ production capacity.

Putting the NIA at the center of this mobilization campaign will facilitate and optimize what would otherwise be an impossibly difficult process. It will concentrate key resources and decision-making powers in the hands of an agency specifically designed to conduct business much like a private equity firm. Neither the U.S. Treasury nor Federal Reserve are able to act inside private firms and markets in a similarly
direct way.

**Bailout Process and Oversight**

While direct public financing of private business entities is often a necessary part of crisis response, neither the Fed nor the Treasury are equipped to manage that process. Outsourcing management of the federal government’s bailout-related assets to Blackrock, the world’s largest private asset manager, is a stark reminder of that institutional gap.

The NIA will be a publicly-owned Blackrock equivalent. Working with the Treasury, it will coordinate emergency assistance to, and manage public stakes in, private companies. The NIA’s professional asset-management teams will allocate funds, negotiate the terms of assistance, and run the portfolio of public assets—strictly with a view toward maximizing the public’s overall welfare.

The NIA would lever its regional offices and expert teams to work closely with the authorities, businesses, and communities on the ground to conduct simultaneous emergency public investment auctions across the country.

The NIA Board would set transparent and uniform guidelines for choosing individual recipients of public investment, determining the amount and structure of each such investment, and imposing specific conditions on each recipient. The NIA’s overarching goal would be to provide support to businesses and organizations of all sizes and types, specifically to stimulate economic activity and to prevent/minimize loss of jobs and income in all communities.
Accordingly, the NIA guidelines would mandate maximizing payroll retention and uninterrupted provision of social services to employees and communities as part of any bailout package. For large corporations, the NIA would also condition emergency assistance on specific changes to their dividend and stock buyback policies, executive compensation structure, and corporate governance—with a strategic view toward correcting systemically destabilizing structural imbalances in the U.S. economy.

The NIA’s auction policies and procedures would seek to eliminate potential conflicts of interest, favoritism, outside interference, etc. Working closely with the Treasury and the Federal Reserve on coordinating the bailout process with the broader financial and monetary stability goals would provide an additional checks-and-balances mechanism.

The NIA’s assistance award decisions would be fully documented and subject to audit by the Government Accountability Office (GAO) or special federal audit panels. The NIA Board would also be required to provide regular public reports to Congress and the Treasury on the status of its public capital support programs. Finally, Congress can mandate additional public oversight the NIA’s bailout management process (including appointment of a special Inspector General, etc.).

In theory, the Treasury or the Federal Reserve can structure their emergency bailout efforts in a similar fashion. In practice, however, it is extremely difficult to ensure the necessary degree of uniformity, transparency, and integrity across multiple bespoke bailout facilities, managed by multiple public and private agents. The NIA’s strong statutory mandate, specialized expertise, and organizational accountability would render the entire process more
transparent, fair, and susceptible to effective public oversight and input.

Managing Public Assets: The “Golden Share” Option

The specific form of emergency public investment in a troubled company—an outright grant of money, a loan, guarantee, or purchase of a particular type of preferred or common stock—will vary on a case-by-case basis. However, in certain cases—for example, where public capital injections are particularly substantial (either on an individual or an aggregate industry basis), or where the recipient-firms provide critical public goods or services (finance, transportation, energy, healthcare, etc.)—it may be desirable for Congress to mandate that the NIA receive and hold, on a permanent basis, a special “golden share” in each such firm.

In the 1980s-1990s, golden shares were used by governments around the world—including the UK government under Margaret Thatcher—to reserve exclusive rights to control key business decisions by newly privatized companies in strategically significant industries. Elsewhere, I proposed the “golden share” regime for systemically important financial institutions, as a macroprudential tool. But this instrument can be easily adapted for purposes of structuring public stakes in bailed-out entities.

In brief, the “golden share” regime would work along the following lines.

The “golden share” would entitle the federal government, represented by the NIA, to receive a specified economic
interest in the firm (under the terms negotiated by the NIA as part of the bailout). It would also grant the NIA, as the sole holder of the federal government’s golden share, special, exclusive, and nontransferable corporate-governance rights in the relevant firms. The golden share could not be redeemed or eliminated other than by an Act of Congress.

The NIA would occupy a permanent seat on the firm’s board of directors. The NIA’s primary fiduciary duty, however, would run directly to the American public. In this role, the NIA would have two distinct modes of operation:

- Ordinarily, the NIA would perform mainly observational functions. While not interfering with the company’s routine operations, the NIA would actively monitor corporate actions with a view to preventing the company or its shareholders from circumventing the conditions of the bailout funding. The NIA’s affirmative vote would be required for corporate decisions authorizing significant stock buybacks and dividends, outsourcing or elimination of jobs, changing executive compensation, adopting aggressive tax-planning strategies, and other actions potentially inconsistent with public capital support.

- Upon the occurrence of specified triggering events—including corporate actions inconsistent with bailout conditions, significant deterioration in the firm’s financial condition, or signs of a systemic crisis—the golden share would be “activated,” and the NIA would assume the role of the firm’s “manager of last resort.” From this position of corporate control, it would be able to take fast and direct action necessary to protect public interest: make concrete operational changes, redeploy resources, and so forth. Once the
danger subsides, the golden share would revert to its (relatively) passive state.

Importantly, in an emergency situation similar to the COVID-19 pandemic, the NIA would be able to use the golden share trigger to assume its production-mobilization role, discussed above.

While it may be possible to structure the public stake in bailed-out entities as a special class of common or preferred shares that carries similar rights and powers, the proposed golden share is far more effective for purposes of protecting the public’s interests in a corporate setting. A streamlined and flexible tool of corporate control, it can be quickly scaled up to enforce compliance with bailout conditions—and to ensure that private firms benefitting from public support do not abuse that advantage going forward.

Enhancing Accountability: A Public Interest Council

To enhance the NIA’s democratic accountability, Congress should establish a special Public Interest Council (the Council) representing an explicitly public interest-oriented perspective in matters within the NIA’s ambit. A detailed proposal for designing this type of a public accountability regime can be found here.

The Council would comprise academic experts and public interest advocates, all of whom are independent of both the financial industry and regulators. Congress would appoint members of the Council for staggered terms, based on publicly solicited nominations.
The Council would play primarily an advisory and evaluative role. It would submit mandatory reports to Congress, containing its assessments and non-binding recommendations for improvement of the NIA’s performance of its statutory functions.

This institutional channel for inserting public interest into the NIA’s accountability and decision-making structure would serve as an important check against excessive private-sector influence or political incumbents’ overreach.

Ultimately, public accountability is the key to understanding why we need the NIA in the time of Coronavirus. We need the NIA to ensure that the crisis is managed in a transparent and democratically accountable way, so that the American public is protected from the deadly effects of corruption and ineptitude. A permanent federal instrumentality with a clear statutory mandate, organizational depth, and institutional expertise in capital allocation and asset management would serve as an urgently needed—and presently missing—tool of mobilizing the nation’s productive capacity and putting our public money to good use.

For an issue brief further outlining the case for an NIA, see here.
Banking: Intermediation or Money Creation

Prompt for Discussion

Contributors: Morgan Ricks, Marc Lavoie, Robert Hockett, Saule Omarova, Michael Kumhof, Zoltan Jakab, Paul Tucker, David Freund, Charles Kahn, Daniel Tarullo, Stephen Marglin, Howell Jackson and Christine Desan, Sannoy Das

Commercial banks are, indisputably, at the center of credit allocation in virtually all modern economies. Astonishingly, however, it remains controversial exactly how banks expand the money supply.

According to one view, banks operate as intermediaries who move money from savers to borrowers. The basic idea is that banks extend the monetary base by lending out of accumulated funds in a reiterative way. In round 1: a bank takes a deposit, sets aside a reserve, lends on the money; round 2 – the money lands in another bank, that bank sets aside a reserve, lends on the money; round 3 – the process repeats. Money’s operation is effectively multiplied in the economy because banks transmit funds constantly from (passive) savers to (active) borrowers, thus distributing money across those hands. The system works because savers, who are content to
leave their funds alone, are unlikely to demand more than the (respective) reserve amounts back from any round. Banks balance their flow of funds over time as borrowers repay their loans.

According to another view, commercial banking activity amounts to “money creation” rather than the pooling and transmission of existing funds. Banks fund the loans they make by issuing deposits (or promises-to-pay in the official unit of account) that are treated by the wider community as money, not only as credit. They have, in effect, immediate purchasing power. The constraint on banks’ lending capacity is not the sum of previously accumulated funds, but the banks’ ability to clear obligations owed to other banks against obligations demanded from other banks. That activity depends on national payments systems coordinated and stabilized by central banks.

We open this roundtable to proponents of each approach to banking. We invite them to argue their case, to respond to one another, and to elaborate the implications that their view has on matters including the definition of money, the role of private capital accumulation, the relationship of commercial banks to central banks, and the behavior of the money supply.

**Contributions**

August 3, 2020

**Roundtable Wrap-up**

Sannoy Das, Harvard Law School

March 12, 2020

**The Power of Paradigms in Histories of Economic Development**
March 5, 2020
Thinking about whether and why money matters is more important than debates about “views” on banking intermediation
Sir Paul Tucker, Harvard Kennedy School

February 27, 2020
What Do Banks Do?
Stephen A. Marglin, Harvard University

February 19, 2020
Focusing on Risk
Daniel K. Tarullo, Harvard Law School

February 13, 2020
Towards a Mixed View
Howell E. Jackson, Harvard Law School

February 5, 2020
What Do Banks Intermediate?
Robert Hockett, Cornell Law School
Saule Omarova, Cornell Law School

January 29, 2020
Banks Are Not Intermediaries of Loanable Funds
Michael Kumhof, Bank of England
Zoltan Jakab, International Monetary Fund

January 23, 2020
R. Hockett & S. Omarova, What Do Banks Intermediate?

February 5, 2020

Robert Hockett, Cornell Law School
Saule Omarova, Cornell Law School

Apparently there still are people who believe that the principal role of commercial banks is to ‘intermediate’ between depositors and borrowers – lending the funds of the
former to the latter at a premium, conveying a portion of that premium to the former, and pocketing the remainder.

Why would anyone think this?

One reason might be the frequency with which we are told it’s the case. Open most any website or law school, business school, or economics course casebook or textbook, and you’ll find a near-ritual incantation of what we call ‘the intermediated scarce private capital myth.’ (‘Surplus units’ place ‘loanable funds’ into banks, which then ‘lend them out’ to ‘deficit units’ at a profit, etc.) And that’s not to mention the oft-heard assertions and asides of the politicians, pundits, reporters and columnists whose words fill our heads every week – people who themselves simply assume the truth of the myth and then pass it along.

A second reason for belief in the depositor-borrower intermediation story might be a certain ‘materialist’ or ‘physicalist’ cast to our idioms, and hence to our thoughts, about money – cultural holdovers, perhaps, of the days when the most often encountered or otherwise salient money-forms were metallic or paper. If money is physical substance, the unconscious thought would presumably run, then surely its lenders must first have piled it up. It must have been ‘taken in’ before it can be ‘lent out.’

A third reason might be a passing acquaintance that some people have with ‘fractional reserve banking’ or ‘reserve requirements’ – a legal necessity (as discussed below) that might be mistaken for a natural or metaphysical necessity. But this one, we’ll see, cuts more than one way.
Finally, a fourth reason for the persistence of the depositor-borrower intermediation story might be the temptation to draw a false conclusion from a perfectly legitimate premise. That premise is the numeric equality between the sum of quantified liabilities and equity on one side of any bank’s balance sheet, on the one hand, and the aggregate value of assets on the other side of that balance sheet, on the other hand. It is remarkable how often this tautologous equality is taken, sometimes by otherwise quite able minds, to reveal the necessity of pre-accumulation.

Of course, a regulatory stricture like a reserve requirement is no natural or metaphysical necessity. And a conventional accounting identity that literally mandates the balancing of both sides of a bank’s balance sheet says nothing about causal direction. What determines regulatory stricture and causal direction alike in this case is the same thing that determines regulations and accounting conventions themselves – social and legal practice. And pursuant to contemporary practice, ‘loans make deposits,’ not vice versa. No pre-accumulation required.

How can that be? The answer, as laid out below, shows something ‘big.’ It shows that those between whom banks ‘intermediate’ are, if anyone, not depositors and borrowers, but ‘us’ in our joint public capacity and ‘us’ in our individual private capacities. That might sound abstract and philosophical at first, but this characterization captures the deepest reality of contemporary finance – a reality that grows eminently recognizable when you follow us down a short path that starts broad and ends narrow.

Broadly speaking, social and legal practices of the kind just mentioned ‘make’ our money, banking, and finance. And these practices, as currently conducted, do not make banking into
private intermediation. They make banking into public credit-dissemination – or, if you prefer, public-private intermediation, in a sense just now hinted at and which we’ll explain. They do so, moreover, not through the institution of banking alone, but through the broader institutional landscape that is our payments system – of which banking is only one part.

Let’s start with money…

A money is, at its core, simply ‘that which pays’ in a system of paying and ‘that which counts’ in a system of accounting. Payment and accounting systems are in turn sets of conventions, often hardened into positive law administered by a state, that determine who owns what and who owes what to whom, both before and after particular transactions. Once you let that sink in, it is not at all difficult to see why banks, which are publicly licensed both to lend and to maintain the accounts that constitute the core of contemporary payments systems, would not have to pre-accumulate money to lend money.

Imagine, for example, a system of commerce and finance in which people make payments by inserting chips, swiping strips, or key-punching blips that debit their accounts and credit the accounts of their payees. Imagine further that which particular chips, strips, and blips ‘count’ in the making of such payments are determined by public authority. If this same authority likewise permits the institutions that administer the mentioned accounts also to ‘lend money’ by crediting those accounts, then there is simply no need for those institutions to pre-accumulate anything at all. Not absent some separate legal pre-accumulation requirement, at any rate.
In imagining what we’ve just asked you to imagine, you have not imagined anything fictitious or fanciful. You have imagined the American payments-cum-banking-cum-credit-money system. It is that simple. There is little more to it – nor need there be.

To see this, turn now from money to ‘moneylending’ …

When you step into a publicly licensed bank to ‘borrow money,’ what you are doing is seeking to swap, temporarily, your private promissory note for the equivalent of a public promissory note, known as a ‘Federal Reserve Note.’ You likely are doing so because your note will not be accepted in payment – that is, as money – anywhere other than at this publicly licensed institution itself. By contrast, the public notes whose equivalent you wish to borrow – also known as ‘dollars’ – are accepted everywhere.

You will have to meet certain publicly imposed conditions for your proposed private note / public note swap – that is, your loan – to be approved. We’ll return to those conditions in a moment, but for now assume that you’ve met them… Once the bank’s loan officer determines that you have met all the conditions and approves the requested loan, the bank will now ‘lend the money.’ It does this in one or more of three ways: it (1) opens and credits an account in your name, (2) credits an account that you already have, or (3) conveys to you a cashier’s check with which you can credit some other account.

The ‘credit’ just mentioned comes in monetary form, just as you wished. (That is why some speak of bank loans as ‘bank money’ or ‘credit-money.’) What makes it monetary is the fact that you can now either ‘withdraw’ it in the form of public
promissory notes (Fed Notes, dollar bills), ‘draw on’ it in the form of dollar-denominated checks to yourself or to others, or deploy it more quickly in making dollar-denominated payments to others by using a chip, strip or blip of the kind mentioned above.

The check, chip, strip, or blip is associated with the publicly licensed institution with which you hold your account. (Take a look.) And because the institution in question is publicly licensed and publicly integrated into the publicly administered payments system, your check, chip, strip or blip will ‘count’ in the making of payments.

We, the authors of this post, are not a publicly licensed banking institution publicly integrated into the publicly administered payments system. Hence although we could purport to lend to you as a bank would, by putatively opening an account in your name and conveying to you an impressive-looking checkbook or chip card or strip card, you would be in for an unpleasant awakening were you to try to use these as payment media. They simply won’t ‘count’ anywhere. There is but one way for us to ‘lend money’ to you: by pre-accumulating Fed Notes or their equivalent, then lending them to you. This is the case precisely because we are not banks.

And there is the key. The pre-accumulation, depositor-borrower intermediation story would be true of us, the two authors of this post, as unlicensed lenders unauthorized to issue – to generate or ‘create’ – publicly recognized payment media. But it is not true of licensed bank lenders that are authorized to issue – in effect, to bring into existence – such payment media. It is not true, in other words, of banks.
Why is it not true of banks?

The reason it is not true of banks is because ‘we’ — not the authors now but the public — have chosen not to make it so. We have chosen instead to allow licensed banking institutions, the authorized issuers and distributors of our monetized public full faith and credit — again, our public promissory notes, our Fed Notes, our money — to go about their business in manners that aid with our business. ‘Our’ business, in turn, is to issue and channel claims upon resources — again, dollars — in manners that optimize the production of yet further resources. That is precisely what productive lending does.

Our banking and broader financial system in this sense constitute a species of public-private partnership, a partnership we believe best interpreted as a franchise arrangement. The franchisor is the public in this conception. The franchised good is its monetized full faith and credit — its money supply. The banks and other financial institutions authorized to lend are the franchisees — authorized purveyors of our money. And the licensing and broader regulatory regimes to which we subject these franchisee institutions are the quality standards to which we hold them, of a piece with the standards that we find enforced in all franchise arrangements.

We set our ‘money quality’ standards with a view to encouraging and facilitating productive activity and associated economic growth, while simultaneously discouraging misallocation and over-generation (a.k.a. ‘inflation’) of our money. We also aim to preserve the ‘safety and soundness’ of the franchisee institutions themselves, in light of both (a) their status as parts of our money-disseminating and payments infrastructures, and (b) their capacities to communicate their
own maladies, virus-like, systemically to other institutions.

It is that latter imperative which prompts the reserve requirements that often enter popular and academic discussions and sometimes mislead. What many such discussions miss is that these requirements are merely liquidity-maintenance measures, nothing more. They only kick in once a high aggregate deposit threshold is met, and even then stipulate only small fractions of summed deposit liabilities. Their very ‘fractionality,’ moreover, ironically suffices to discredit the intermediated scarce private capital myth: for an institution that can lend ten or more times what it pre-accumulates is an institution that needn’t pre-accumulate at all.

If we must speak of ‘intermediation’ where banks are concerned, then, let us get the terms of the relation right. Banks’ essential function is not to intermediate between depositors and borrowers. It is to intermediate between our public political selves and our private commercial selves. That is the deep truth – the plain and unmediated truth – of our public-private finance franchise.

Further Reading:


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**Ethical Finance as a Systemic Challenge: Risk, Culture, and Structure**

**Author: Saule T. Omarova**

This Article analyzes the principal themes in the newly reinvigorated public debate on the role of ethical norms and cultural factors in financial markets and identifies its key conceptual and normative limitations. It argues that the principal flaw in that debate is that it tends to ignore the critical role of systemic, structural factors in shaping individual firms’ internal cultural norms and attitudes toward legitimate business conduct. Reversing the causality assumption underlying the current academic and policy discourse on institutional culture, the Article discusses how broader reform measures seeking to alter the fundamental structure and dynamics of the financial market—on a macro-rather than micro-level—would profoundly, and far more effectively, alter individuals’ and firms’ normative choices and attitudes. The key to making finance ethically sound, therefore, is to make it structurally sound—and to do so on a systemic level.
