

WHAT'S THE BIG IDEA? MORAL HAZARD



The naughty child overtones are deafening, which seems right today, as we hear the phrase ringing out from eurozone capitals. The kids (Greece, Cyprus, the banks – make your own list) are free to misbehave while someone else, the responsible adults (Germany, Netherlands, taxpayers etc) have to bear the hazard – the cost of mopping up all that carefree spending and all those madcap schemes. Yet, strip away the pejorative voice and you can see that firms could not drive the

road to success without a tankful of moral hazard – without it every agent would have to be a principal, creating a new set of hazards around self-interest. The joint stock company was created partly to circumvent the arbitrary wrongheadedness of owner-managers. We have to believe that people who look after our money and interests are bound by contracts, statutes and upstanding principles. The last of these is what economists are apt to undervalue – word as bond, handshake as deal, value

as intangible. Risk and trust are Siamese twins in business, and the solution to crisis is not to regulate every hazard out of existence but to create contexts – communities of shared responsibility – where risky innovation can flourish and people can create value through purpose, opportunity and imagination.

Nigel Nicholson is the author of *The 7 of Leadership: Strategies for seeing, being and doing* (Jossey-Bass, £18.99)

Jamie Jones