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‘Greed is Good’: A Hard Lesson to Unlearn

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Synopsis

A recent survey about greed culture in Wall Street showed an alarming tendency: despite much effort by governments to strengthen regulation and supervision of finance, greed and corrupt practices might not be declining.

Commentary

THE CULTURE of greed in finance was popularly depicted in a 1987 movie “Wall Street” by the behaviour of a Wall Street trader Gordon Gekko, who believed in greed as the guiding principle for the conduct of business. Played by Michael Douglas, Gekko argued for upholding the greed principle in business during a shareholders meeting by declaring: “Greed, for lack of a better word, is good.”

Since the bankruptcy of Lehman Brothers in September 2008, preceded by the US subprime mortgage loans meltdown, it has been commonplace to blame greed as the major cause of the global financial crisis and the great recession that followed. The devastating impacts of the global financial crisis, however, had crystallised the resolve of world leaders to deal with the problems.

Greed culture in finance

In the process governments, together with the monetary authorities of advanced countries, had been bailing out banks and other institutions. However, they were simultaneously also adopting stiffer regulation and supervision of the banking and financial system in general by raising the bar on the rule of risk taking. These had been done through rules to discourage excessive risk taking and limiting proprietary trading, known as the Volcker Rule; more stringent capital requirements in compliant with the Basel III rule; and others.

In the US these new rules are the provisions contained in the related regulations - the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011. Other countries, both advanced and emerging, have been doing likewise to make their financial systems more viable in the face of increasing risks and uncertainties.

These rules and regulations showed resolve of the governments and monetary authorities the world over in dealing with greed in finance, by adopting regulations aimed at punishing illegal activities in finance, and limiting the use of public funds to bail out banks. Many argued that excessive risk taking and leveraging, which had become prevalent and even the norm in finance, had its roots in moral hazard and greed.

Disturbing trend

As the fifth year of the global financial crisis approaches there has been some striking revelation from a survey by a US law firm Labaton Sucharow on greed culture of Wall Street. The survey was conducted through interviews involving 250 industry insiders, including traders, portfolio managers, investment bankers, hedge fund professionals, analysts, advisers, and others from a number of financial institutions operating in Wall Street.

The results of the survey, which have been very disturbing, could be summarised as follows:

- Only 36% of those in the industry feel that Wall Street has changed for the better since financial reform in 2008;
- 24% say they would agree to insider trading activity to make US\$10 million if they could get away with it. For employees having less than ten years' experience, the percentage is 38;
- 28% feel that the financial service industry does not put client interest first;
- 52% feel it is likely that their competitors have engaged in unethical or illegal activity; 24% feel employees in their own company are likely have done so;
- 29% believe the financial services professionals may need to engage in unethical or illegal activity to be successful; and
- 26% believe the compensation plans at their companies encourage unethical or illegal activity.

Of course the survey still has to be subjected to some scrutiny regarding its accuracy. And one cannot paint with a big brush to say that all financiers are the same. However, these findings may make the public wonder whether they could trust these institutions with their money.

Nevertheless, something is definitely wrong in the financial sector if close to one third of the players believe in the need to engage in illegal activity to be successful. In addition they would be willing to commit insider trading if they could get away with it because they think their competitors are no different and that their institutions do not put client interest first. Certainly all are completely the reverse of the claim these institutions make, like putting client interests first and upholding high standard of integrity and treating public trust as sacrosanct.

Will greed ever stop?

The survey shows some disturbing signs: one is the willingness of a financier to commit insider trading and the need to commit illegal activity to succeed in finance. In this, the percentages are higher for those working relatively shorter periods, such as less than ten years. This implies that the younger executives who would become future leaders of the financial industry are more prone to commit these unethical activities to advance their career.

If the above survey is valid the future of finance is certainly discouraging. Why? Since in the high and increasingly risky and uncertain world, the financial industry may be in the hands of financial leaders many of whom are willing to put rules aside and have the tendency to leave business ethics behind. They would do so due to the belief that others would do the same. Market players believe in the philosophy that greed is good.

The good news, though, is that more and more cases have been brought to court and that many more have been indicted. The perpetrators have been put in jail or had to pay huge amounts of fines or both. Hopefully these will discourage the financiers from violating regulations and business ethics in the future.

To name some notorious cases, there are the billion dollar Ponzi schemer Bernard Maddoff; the rogue trader UBS' Kweku Adoboli who caused his bank to lose billions of dollars; securities fraudsters such as Raj Rajaratnam of Galeon, Rajat Gupta and Fabrice Tourre of Goldman Sachs; and the indictment of SAC Capital. Many more may still come to light to bring further disrepute to the already battered global financial system driven by unfettered greed.

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