ESTINATAIRE(S):

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1. Finance and Ethics: between vice and virtue

1.1 The euphoria years

Jean Fourastié gave us the term *trente glorieuses* to describe the boom years between the end of WWII and the first oil crisis. But what term should we give to the period that followed the *trente glorieuses,* a period that seems to be disappearing before our eyes? As we cannot precisely judge their duration, let us simply call them the euphoria years. These years are characterized not so much by their economic performance — which was nothing special — as by an euphoric obsession with the economic above all else.

Suspicion of politics increased throughout the *trente glorieuses,* culminating in the late 70s with the triumph of a new orthodoxy, whereby the unfettered market was seen as the only social institution capable of ensuring collective and individual happiness. Because the market promised to invariably transform private vices into public virtues, the role of politics was at last circumscribed and its power to do harm limited. During this period when the economic reigned supreme, politics was reduced to a watching brief, ensuring that nothing was allowed to upset the smooth running of the market, which — as the temple of implacable reason — would look after the rest. Whilst this view found widespread support amongst the general public and a broad spectrum of experts, it was not considered an act of faith or an ideology, but rather as the logical consequence of scientific reasoning, validated by mathematical proofs. This era was coloured by the deep-seated conviction that human nature had finally revealed its ultimate secrets — those of *homo economicu*s — and, as a consequence, the blueprint for the perfect society was within reach. Such breakthroughs were reason enough for euphoria, all the more so as the "end of history" had been announced!

The triumph of the market heralded profound changes in the hierarchy of values. In the face of these changes, humanity was deprived of its quality as a unique and inalienable actor, now viewed as a maximization algorithm that, like *homo economicus*, was to be "satisfied". This cold economic rationality was one of the powerful engines of the euphoria years, even at times taking over the role of core and foundation of social ties.

At the same time, ethics and morality were overlooked during the euphoria years as such questions are addressed by the market without the need for any human agency. This phenomenon found expression even in scientific and technical curricula. Primacy passed firmly to the side of professional and technical prowess and courses

with an ethical component systematically passed into obsolescence. Where the word ethics was employed it referred exclusively to codes of professional ethics.

1.2 Financialization

The euphoria surrounding the all-market concept served as a crucible for the extraordinary growth of modern finance as it progressively confirmed its ascendancy over the remainder of the social. The term financialization is a little over-used nowadays and has thus lost its precise meaning. In its broadest sense, financialization refers to the process by which financial considerations increase their grip on all other dimensions of social life. During the euphoria years, the spectacular growth in financial products and techniques, as well as the “financialization of mentalities” were the engines driving financialization.

On the supply side, two events paved the way for finance's march to victory. The first is from the world of ideas and dates back to 1959: 1990 Nobel laureate Harry Markowitz's publication of his paper on risk diversification. The second is institutional in nature: the 1975 inauguration in Chicago of the first formal options market. Thus were conditions in place for “risk” and its hedging to become one of finance's central concerns, and a merchandise that could henceforth be bought and sold on ad hoc markets. Anchored in a solid theoretical corpus and given wings by unprecedented technological advances, financial innovation endlessly offered new risk coverage mechanisms, thereby fuelling the process of financialization. Over time the world of modern finance has become structured around two now universal poles: risk and return.

On the demand side, a certain number of changes in attitudes occurred during the euphoria years. During this time, the economic wormed its way into the heart of the social, and the financial into the heart of the economic. This change is reflected in the structure of social ties: monetary exchanges and financial relationships are as much constituent elements of social belonging as their absence is a factor in exclusion. Social ties are less directly interpersonal; relationships with things have tended to replace relationships with people.

In both the collective and individual senses, the most visible common project in western societies is the promise of a future living off unearned income. This private income of our dreams frees us from the constraint of labour as well as from that of interacting with our fellows. It presages the post-modern individual, freed from ancestral ties and taboos, no longer rooted within a community. Alone in the face of the profusion on display, they dispose of sufficient means to immerse themselves body and soul in an exuberant consumption wherein the ability to pay is the only determining factor. Assets thus become one of the main guarantors of a person's security, a phenomena that only accelerates the achievement of that “utopian security” whereby it is enough to amass

sufficient capital (usually financial) to be able to then live off the interest.

These changes can be summed up as the financialization of mentalities; changes that have fuelled a demand for security that finance was capable of offering — or so it appeared. Financial constructs were thus able to offer our societies — with their falling birthrates — a plan for personal security founded on the future profitability of capital. This plan led to the establishment of pension and investment funds, financial institutions claiming to guarantee an actuarial promise. In other words, during the euphoria years finance came to occupy an increasingly architectural function within modern societies, as it was a means of building the foundations for a collective future based on the promise of pensions, life assurance and sureties.

1.3 The difficulties of intermediation

The rapid rise of financialization created a unique opportunity for financial services companies that they needed no prompting to exploit. Furthermore, during the euphoria years financial services' share of OECD countries' national product grew to the unprecedented level of between 5 and 10%. Although rapidly expanding, the task facing this sector was by no means trivial. From the purely technical viewpoint it was, as stated in the economics textbooks, required to transform savings into investments. However, the reality was to ensure intermediation between financial techniques and instruments firmly anchored in the risk-return nexus on the one hand and, on the other, individuals' and societies' hope for a realizable future living off unearned income. This hope was underpinned by the emotionally-charged demand for future security and prosperity. Thus, unawares and despite itself, the financial services industry became the repository for the yearning for security that had by now taken root within western societies.

The finance sector gambled on the growth of its professional services. It created new techniques and instruments that bound ever more closely together finance and the so-called real economy. Victim of its own success in both practical and intellectual terms, finance turned in on itself. As a consequence, and more than any other sector of the economy, financial practitioners had difficulty in articulating their responsibilities in terms of ethics, even as the impact of their decisions increased considerably during the euphoria years. Three developments have combined to prevent financial practitioners from clearly perceiving the true consequences of their actions:

- modern technology isolates practitioners from the realities of the real economy, encasing them in a virtual universe of signs, far-removed from the all too real consequences of financial decisions. The models used are inevitable simplifications, even though their very complexity is often enough to provide practitioners with a (false) sense of rationality;
- owing to its growth and internal specialization, the finance sector has developed into a world that is institutionally and culturally distant from

other sectors of the economy, complete with its own rites and remuneration practices that have nothing in common with those prevailing in non-finance enterprises;

- finance thinks of itself as the embodiment of a quasi-perfect market in the sense of a theoretical ideal that, thanks to its very perfection, reduces the individual actor to insignificance. From such a start it is but a small step for all practitioners to recognize themselves in this image, finding within it all manner of ethical justifications for ignoring their responsibilities with the cry of “It's not me, it's the market!”. This is a perversion, since every practitioner is all too aware, more so even than the outside observer, that they in fact profit from the market's imperfections, and that the perfect market is a theoretical construct whose limitations are well know to one and all.

1.4 Towards the service of the common good

At a time when widespread scepticism has resulted in a decreased output from the furnaces of high finance, institutions and practitioners find themselves trapped between the hermetic world of finance with its hyper-rational, sanitized and mechanistic appearance on the one hand, and, on the other, by the promises broken and trust betrayed by the outrageous behaviour of some.

In common with every type of intermediary, and also because of the particular way that it operates, finance is exposed to especially pronounced ethical tensions, primarily relating to conflicts of interest. This is a concept that refers to situations where a single actor is beset by two loyalties: loyalty to the function or mission and loyalty to her or his own pecuniary advantage. When subjected to closer examination, it becomes clear that this is more a question of confused motivations — one material, the other not — than of a conflict in the true sense of the word. Everything depends on the manner in which these confused motivations are managed. Thus the term conflict of interest actually conceals the true heart of the problem, which is confusion and hence ethical dilemma. Conflicts of interest are no longer matters for individuals, enterprises are also affected, especially financial enterprises. However, in order to hold in check any possible remorse on the part of colleagues facing such accusations and to prevent harm being done to the enterprise, these ethical dilemmas are reduced to silence by procedures of unmatched sterility. Thus, staff at financial institutions (especially) are “motivated” to achieve results by the use of remuneration mechanisms that are both sophisticated and obscure. In this way they become willing hostages to their own pecuniary self-interest.

The malaise afflicting modern finance arises from the fact that it refuses — at least for the time being — to acknowledge the overridingly ethical dimension of the problem, preferring instead to place its faith in regulation. Thus the most oft-heard answers to the long litany of scandals can be expressed in a few words: more transparency, more surveillance, but rarely more ethics or responsibility — in the extra-legal sense of the word. However, attempting to answer these ethical cataclysms through regulation

serves only to obscure the true nature of the problem and to add to the complexity of the system, with the danger that one day it will grind to a standstill. This fact notwithstanding, the world of finance has still not begun to examine ethics from a non-utilitarian standpoint. There are a multiplicity of reasons for this situation. The guardians of the temple of monetary orthodoxy, as well as some practitioners, fear that questioning ethical aspects will threaten their edifice, and they persist in replacing ethics by the arithmetic of interest. Bankers, especially in Switzerland, are terrified by the idea that the issue of ethics will serve as a pretext for a debate into the issue of banking secrecy. And so, hostages to their own illusions, they prefer to keep quiet and wait... for the storm to blow over.

Finance profited from the euphoria years, more so than any other activity. The time has now come for a measured examination of the practices, modes of remuneration's and organizational conditioning, starting from the premise of concern for the common good and of responsibility freely accepted. Such an exercise should ideally start from within, predicated on a thorough understanding of the technical and regulatory construction of professional practices. Only by establishing harmony between how responsibility and concern for the common good are experienced and applied within enterprises, and the ethical aspirations and convictions of their staff can the financial sector rediscover respectability. Finance can only exist where there is confidence.