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Overcoming Recklessness in Finance and the Urgent Need for Strengthening Ethics

MIKEL LARREINA*

Abstract

Lack of ethics had a significant role in the financial crisis of 2007-08 that triggered the Great Recession. Politicians, social and religious leaders have described finance as a soulless sector, particularly prone to corruption and fraud. Bankers themselves have asked for limits and have recognised that a cultural change is needed. The abandonment of a macho culture of greed and recklessness is not easy and takes time. Unfortunately, a delay in the reshaping of the financial system is a luxury that mankind shouldn’t have. Finance plays a critical role of in the allocation of resources across our society. Thus, mankind will only succeed in the challenges that we face (like limiting global warming) if the financial services industry can be trusted as an efficient and ethical auxiliary service to the real economy. Luckily, four main disruptions are emerging in Finance. They may provide the adequate scenario for a deep transformation of the financial system along ethical and responsible lines.

Keywords: crisis, cultural change, ethical values, finance, greed.

Introduction

It has been widely recognised that lack of ethics had a significant role in the financial crisis of 2007-08 that triggered the Great Recession1. This understanding has informed the changes to the regulatory framework

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of the financial system in the US (Dodd-Frank Act), in the EU (MiFID, among others) and elsewhere (BIS regulation, PRI), and has led politicians, social and religious leaders to describe finance as a soulless sector, particularly prone to corruption and fraud\(^2\).

Despite this, there has not been a large literature on wrongful ethical decisions in finance from the point of view of individual-level ethics\(^3\). Surprisingly, the business ethics literature does not typically explore the role of the individual ethical orientations and their impact on the adoption of unethical business decisions\(^4\). Some attempts are being made to systematically analyse the role of individuals’ values in the prevalence of deceptive and fraudulent attitudes in the financial services industry\(^5\).

Questionable ethical standards are not limited to certain firms or individuals, but have impregnated the sector, creating a *masculine* culture of greed and misaligned incentives, disconnected from reality\(^6\). This bias towards unethical decision-making is also present to various degrees in other relevant stakeholders of the financial system including regulators, supervisors, business schools and the media. In fact, recklessness has become a common feature linking different actors relevant in the financial markets; the chair of the Financial Stability Board finds that “the heart of

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the issue […] is a need to rebuild and transmit across institutions a sense of vocation, a need of being part of the system”

These issues have acquired a critical role in our societies due to the central role of the financial services industry, an essential tool for the functioning of the real economy. It allows surplus economic units to channel financial resources to those that may need them for investment, using an array of instruments, markets and institutions. Given the enormous challenges that mankind is facing in the early XXI century, for which an optimal allocation of resources will be needed, there is an urgent need to address the weaknesses of the financial sector. Among them, the lack of ethics is arguably its real Achilles’ heel.

This paper tries to shed some light on the ethical issues at stake in the current financial system. A philosophy of management is needed because particular philosophical options are embedded into the theory of management, in a sort of story-telling that normally does not acknowledge that other narrators might tell the tale differently. Managers apply their own ethical attitudes within a given superstructure where philosophical presuppositions play a relevant role. I argue that in the case of Finance, and due to the financial industry impact on human rights and on sustainability (maybe even on the survival of our planet), a deep and urgent cultural change is needed, in which the role of ethics must be strengthened. Philosophy should play a relevant role in informing this transformation.

In terms of sections, this paper is organised as follows. The next section addresses the role of ethics in the development of the financial bubble and the crisis; the first insight is that recklessness and lack of ethical considerations permeated many of the technical causes of the crisis. Next, the role of ethics in the government responses to the crisis will be briefly presented; I argue that the reaction to the crisis in Europe did not consider the well-being of citizens or the impact on the planet when it favoured austerity

over other alternative solutions (like a Green New Deal). Then, why this financial crisis has been different to others in the past will be discussed; I argue that losing a decade in the fight against climate warming at this stage may be potentially catastrophic. An analysis of how the culture of greed in the financial industry resists change comes next. Then, the potential use of some philosophical approaches to the financial industry will be presented. Finally, the emerging disruptive trends in Finance will be explained, and it is concluded that they may create a unique opportunity window for reforming the financial system and profoundly modify its business culture by incorporating ethical values.

**Lack of values caused the Great Recession**

In the years leading up to the meltdown of the financial system, the opacity of many instruments and markets favoured an excessive accumulation of risks, particularly those related to an inflated real estate market in the US (and in other countries like Spain, Ireland and the UK). A significant number of market participants could not understand the consequences of their actions; misinformation drove them to act against their own interests. Investors most times did not understand the risks involved in their investments, while employees in financial intermediaries faced ill-designed incentives schemes and politicians, regulators and supervisors abdicated their responsibilities.

When the bubble burst, some systemically relevant institutions collapsed between the summer of 2007 and that of 2008. Then, the *Minsky moment* arrived with the US decision to let Lehman Brothers fail in mid-September 2008; in the blink of an eye, panic spread globally. Liquidity evaporated as investors fled to safety, paralysing financial markets: the global economy was virtually brought down. In 2018, the...
severe consequences of the recession are far from being over: the financial crisis developed into an economic crisis, which has exacerbated previous problems and ignited social and political crises across the globe.

A large literature has analysed the reasons of the 2007-2008 collapse of financial markets, and the Great Recession that followed, highlighting the excessive complexity of many financial instruments and the high leverage of systemically relevant financial intermediaries. These research works have pointed to the critical role of ethics (better, or lack thereof) in the crisis. Particularly, the three most detailed accounts of the crisis (namely, the EU-commissioned De Larosière report, the US Congress’ Financial Crisis Inquiry Report, and the British report on Banking Standards) found that widespread unethical behaviour and lack of values, together with misaligned incentives were essential to drive the financial system into a deep crisis.

An ethical analysis of the cases exposed in the US Congress’ Financial Crisis Inquiry Report finds that a number of the actions that financial markets participants undertook would be deemed immoral under Kantian categorical imperative and Rawlsian Principle of Equal Liberty. Systemic deception had corrupted concepts as critical to the financial system as fiduciary duty, credit and trust; consequently, given its auxiliary role in the well-functioning of the real economy, it also undermined the latter. Only the adoption of sound ethical standards can pave the way for a healthy and lasting recovery.

Other weaknesses detected in the aforementioned reports include weak corporate governance; lack of transparency; uncontrolled development of securitization; an overgrown shadow banking industry; poor risk-management; poor regulatory and government control; and blindly relying on credit ratings agencies.

Most of them can be linked to hubris, wishful thinking and carelessness, as the responsible parties failed to take diligent action\textsuperscript{17}. In fact, explaining the crisis only through technical reasons as the mispricing of risk, excessive leverage, or the growing role of shadow banking would be “like saying the Titanic sank because too much water came in”, technically correct but missing the underlying cause. The fundamental reason for the crisis was the unethical greedy behaviour that directed it towards the iceberg\textsuperscript{18}.

Both public and private players failed to heed the warnings, undermining with their actions and inactions the stability of the system. Tellingly, the banking industry itself wondered in 2005 whether a banking crisis was still possible in Europe\textsuperscript{19}. In this sense, the deregulation that favoured many of the behaviours that precipitated the crisis brings to mind this version of a Chesterton line: you shouldn’t take a fence down until you understand why the previous owner put it up\textsuperscript{20}. Particularly, if it is considered that the financial sector had already provided large evidence of crony capitalism\textsuperscript{21}.

Interestingly, the crisis was not unavoidable: developed economies, and particularly the top global financial centres, nurtured for a long period the elements that created the financial meltdown, during which the situation could have been reverted\textsuperscript{22}. Whistle-blowers within the industry warned early about the problems, and a number of academics raised concerns, mainly during 2005 and 2006\textsuperscript{23}. Had attention been paid

\textsuperscript{19} J. Caruana, “Introductory Speech” at the conference “Supervision of International Banks: Is a Bank Crisis still Possible in Europe?” (Brussels: European Banking Federation, 28th October 2005).
at these stages, the consequences of the crisis could have been greatly mitigated. Unfortunately, regulators did not stand up to their responsibilities and forgot that their role was to take away “the punch bowl just when the party was really warming up”\textsuperscript{24}. Politicians praised the “ingenuity” of the financial industry and saw no point in limiting it\textsuperscript{25}. The fault, as the US Congress Commission put it “lies not in the stars, but in us”, namely in government failure and regulatory failure\textsuperscript{26}.

Regulatory bodies and supervisors should ensure that the market is fair and even (preventing deceitful manipulation and the use of inside information), providing an essential external evaluation, and controlling risks. Their actions should increase trust in the system and its efficiency, and favour that investors participate in the market. They failed, maybe subconsciously desiring to ignore red flags (and even smoking guns) in order to avoid “spoiling the party”\textsuperscript{27}.

Inappropriate regulation pushed market participants “to make similar errors at the same time”, what aggravated the crisis and may cast reasonable doubts on whether more regulation might have prevented the bubble\textsuperscript{28}. For instance, the procyclicality of Basel II rules definitely weakened the financial position of many banks.

There are a number of reasons for their failure, although there are four that in my opinion can explain better what happened: many regulators were understaffed; in a number of countries, their top managers were politically biased; the industry exerted excessive influence on lawmakers and regulators; and researchers who received large attention were not independent from the sector they analysed\textsuperscript{29}. As a consequence,
the playing field was skewed in favour of financial intermediaries, who
took advantage of the situation.

In fact, an ideology-driven negligence can be found in those regu-
lators who relinquished their powers; this is the case of Alan Greenspan,
the Fed Chairman during two decades (and financial guru), advocate of
self-regulation and under whose guidance the financial bubble grew and
burst. Greenspan believed that markets were too complex to be properly
controlled, and that regulation inhibited market action and undermined
market self-correction\(^{30}\). To his surprise, reality was quite different: in
2008 he recognised in a US Congress hearing that he was in “in a state of
shocked disbelief”\(^{31}\). Greenspan was not alone in this approach: the “low
priority” supervisors conceded to the monitoring of risks prevented that
they could exert supervision efficiently\(^{32}\). Some even talked of a “kinder
and gentler supervision”, only to admit years after that soft supervision
was a failure, even contradictory in its terms\(^{33}\).

Iceland was particularly successful in analysing and denouncing the
criminal negligence of regulators and supervisors. The sparsely populated
country, left in ruins by the collapse of its banks, its currency, and its Stock
Exchange, had a parliamentary commission conducting a deep investi-
gation of the crisis\(^{34}\). It found that the Icelandic banking supervisor had
failed to fulfil its tasks properly, and its Board of Governors “must therefore
be considered negligent”\(^{35}\). The Icelandic Prime Minister and the Minister


\(^{34}\) Steingrímur Sigfússon, *Rising from the ruins* (Reykjiavik: , Icelandic Ministry of Finance, 2010).

\(^{35}\) Rannsóknarnefnd Althingis, *Report*, 158.
of Finance were also accused of similar unforgivable failures in their duties as their inactions “were unacceptable” for the fundamental interests of the nation\textsuperscript{36}.

This passive negligence, or regulatory imprudence, should be deemed unethical, as the supervisor’s deliberate option for inaction significantly impacted what market participants chose to do\textsuperscript{37}. Furthermore, given previous experiences, relying in the self-control of the financial industry was utterly absurd and raises suspicions about the underlying reasons of regulatory changes. The supervisors’ lack of interest in regulation and supervision, facilitated the operations of those who developed deceptive and fraudulent strategies harming their clients and counterparties, and, more generally, favoured the building up of systemically-risky leverage that affected society as a whole. In terms of Rawlsian justice, this negligence worsened the opportunities of a large set of individuals who were affected by the consequences of the crisis (to name a few: young people graduating from University at the “wrong moment” and suffering several years of unemployment or underemployment; small savers who lost their savings; dependents on welfare; or homeowners who suffered foreclosures). The old saying \textit{qui custodet ipsos custodes}, gains a different perspective if mixed with the fact that \textit{when the cat is away, the mice will play}. Who can control that the controller does indeed control? Regulators “could have clamped down on the excesses in the run-up to the crisis. \textit{They did not}”\textsuperscript{38}.

In this issue, the questionable moral standards extend to the fact that large lobbying allowed this sector to lavishly favour those who agreed with their dislike of regulation. In some sense, they could \textit{purchase} the parliaments that could adopt favourable norms for the sector\textsuperscript{39}. In the period 1998-2016, financial firms devoted more than 7 milliard US $ to lobbying in the US Congress (roughly 16% of the total amount lobbied in that period)\textsuperscript{40}.

In a different kind of negligence and hubris, Greenspan had also ruled out effective human intervention in markets. As automated trading systems (ATS) reacted in fractions of a millisecond, they could

\begin{itemize}
  \item \textsuperscript{36} Rannsóknarnefnd Althingis, \textit{Report}, 83.
  \item \textsuperscript{37} Connor, Flavin and O’Kelly, “The U.S. and Irish”: 61; Booth, \textit{Verdict on the crash}.
  \item \textsuperscript{38} National Commission, \textit{The Financial Crisis Inquiry Report}: XVIII.
  \item \textsuperscript{39} National Commission, \textit{The Financial Crisis Inquiry Report}: XVIII.
  \item \textsuperscript{40} CRP, \textit{Lobbying, ranked sector}, Washington D.C.: Center for Responsive Politics, 2016.
\end{itemize}
not be delayed in order to allow for human supervision. In a presupposition far from being proved right, ATS were supposed to be efficient; his position, maybe inadvertently, was based in the paradigm of the *homo technologicus* as a more evolved subtype of the *homo oeconomicus*\(^\text{41}\). The enormous market disruptions provoked by high frequency traders and their automatic algorithms in 2010, 2015 and 2016 should shatter this belief\(^\text{42}\). The threat they pose is even bigger: as Stephen Hawking declared “*the long-term impact [of Artificial Intelligence] depends on whether it can be controlled at all. [...]Although we are facing potentially the best or worst thing to happen to humanity in history, little serious research is devoted to these issues*”\(^\text{43}\). Professor Hawking explicitly mentioned the threat of artificial intelligence “*outsmarting financial markets*”. If a singularity affecting Stock Exchanges or other markets occurred, we would face a *black swan* without the adequate tools for safely dealing with such events\(^\text{44}\).

Lack of attention was widespread: while the financial risks were building up, most citizens of developed economies disregarded the imbalances that the ongoing global growth was generating. They might have been blinded by a hollow sense of wealth characterised as *affluenza*, a kind of mental disorder defined by placing a high value on money, possessions, appearances and fame. This phenomenon had affected English-speaking developed nations first, and later other developed economies\(^\text{45}\). What is beyond doubt is that only a minority questioned the system or recognised the reasons behind the discontents of globalization\(^\text{46}\).

During the bubble, artificially cheap Chinese products flooded global markets and kept inflation at bay in advanced economies. Besides, as historically low interest rates favoured indebtedness and fuelled a massive

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real estate bubble, large fractions of the middle class did not feel any need to question the status-quo.

Thus, the prevailing belief that the growth of the financial industry was indispensable to the ongoing global growth went undisputed, and was considered morally appropriate: any challenge to the established paradigm would be misguided, according to this generally-shared view.

Lack of values led the response to the Great Recession

The response to the Great Recession also hinted to underlying ethical issues, developing solutions (particularly in Europe) which were detrimental for welfare and human rights and benefited a tiny percentage of the population. It has been less studied yet from an ethical point of view, although the morality of the actions of many policy-makers, media tycoons, research centres and so-called experts may fail to abide by generally accepted ethical principles. Authors like Varoufakis or Krugman have described how some decisions were taken disregarding their direct effects on large groups of people; there is little doubt that some of these behaviours (bullying debtor governments; asymmetrically distributing burdens; using inside information; protecting from losses specific groups of people; allowing tax havens to prosper…) are unethical according to Kant or Rawls.

While financial companies across the globe were bailed out in the period 2008-2013 (most of them between 2008 and 2010) with limited cost to shareholders and managers, Governments had to run large deficits to pay for the bail-outs, to protect the jobless and to restart their economies. At first, investors fled to safety and were eager to fund these deficits by purchasing low risk public debt; later, as the markets calmed down, their appetite for treasuries diminished. The quick increase in public debt moved rating agencies to downgrade many sovereigns, sometimes even below the investment grade, triggering sales from institutional investors. Thus, in 2010-2011 participants in debt markets pressed Treasuries of peripheral Eurozone countries, forcing their Governments to rebalance their accounts in order appease them47.

47. European Commission, Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis (‘Banking Communication’, (Brussels: European Commission, 2013); Larreina, The Financial System.
To complicate things further in the European Monetary Union, the failures of design of the single currency area were made visible at a time of politically biased governments whose decisions made the crisis worse. The designers of the Eurozone in the early 90s would have been surprised to see that their successors twenty years later would not adapt it to changing circumstances nor correct its flaws. To illustrate this point, let’s analyse a simple and evident issue: the inflation-related Maastricht criterion, which defines the best performing country in terms of price development as the one which has the lowest level of inflation. When it was written down into the European Treaties, inflation was much higher and most experts did not think that deflation would ever come back to haunt our economies... and those that did, quite likely thought that under such circumstances, Treaties would be reinterpreted or amended. Unfortunately, deflation came back and no reinterpretation was made: according to the European Central Bank and the European Commission, the “best performing” EU country in 2016 in terms of inflation was Bulgaria, which suffered from 1% deflation.

Governments were not only passive in the amendment of some ill-designed rules (although they did correct other weaknesses), they also chose to push a wave of cuts in welfare and social rights in the Eurozone, which were particularly severe in Mediterranean countries, Portugal and Ireland.

Public spending was drastically reduced, including investment in infrastructures and public servants pay-rolls. Despite being at odds with basic Keynesian principles, as the paradox of thrift, and with the findings of those that had studied both the Great Depression and the liquidity trap in Japan (like Bernanke, Krugman or Svensson), this austerity approach became the European official response to the crisis already in 2010. The further reduction in aggregate demand that it implied, in a time of world-wide debt deleveraging of households and non-financial companies (when an export-driven recovery was impossible) made the crisis more


protracted and harmful. This had been evident since 2010, as the economic situation resembled the debt-deflation of the 1930s, and many similar austerity exercises had proved fatal to the countries affected50.

Initially, it could seem to be a matter of academic discrepancy, as relevant authors like Reinhart and Rogoff provided evidence in 2010 for a cap in public debt (although it referred to emerging markets mostly raising funds in foreign currencies)51. Nevertheless, that was not the case: as early as 2013 it was made public that Reinhart and Rogoff had made some errors that questioned their results. Even earlier, the dramatic negative impact of austerity was clearly visible in many countries of the Eurozone, in sharp contrast with the evolution of the US under the Obama administration, which came out from a deeper financial crisis sooner. From billionaire Soros and academics like Tilford and Whyte to Brazilian Minister Mantega and US Secretary of Treasury Geithner, EU governments were repeatedly asked to “be cooperative, take challenges, and act fast”, in order to avoid the “catastrophic risk” associated to the “threats of cascading defaults”. In 2013 the IMF suggested a change in policy, admitting they had underestimated fiscal multipliers: the real effects of austerity were much worse than expected52.

Unfortunately, this did not lead to any immediate and significant change in the austerity policies: against relevant evidence, the European


Commission said at the time that “the case for a link between past forecast errors and planned fiscal consolidations is not robust” and that any debate about fiscal multipliers and the consequences of austerity was unhelpful\textsuperscript{53}.

Similarly, the failures of the single currency framework in areas like debt-mutualisation, banking union, and economic convergence (including greater labour mobility) were improved at a dismayingly slow pace\textsuperscript{54}.

Finally, the decision to implement austerity even in countries unaffected by the debt-markets pressure showed that it was an ideological choice. In fact, Germany was issuing debt at negative interest rates, hence, being unnecessary to take any action to increase the appetite of market participants for its bonds.

These decisions followed an ideological position to favour austerity, similar to that colourfully explained by Grover Norquist in 2001: “I don’t want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub”\textsuperscript{55}.

The European pro-austerity block might have been milder than Norquist in its expressions, but not in the consequences of their actions for the weakest of our fellow citizens, who were unnecessarily harmed. As an example, we can cite the Spanish modification of the otherwise-untouchable Constitution, which gave preference in the budget to debt payments over any other use of funds. That change took place through a special procedure in a single evening in August, and was directly linked to the later freezing of public pensions that enraged Spanish pensioners. More generally, the European Union suffered a deterioration of labour conditions, quality of life, public capital and public services, which affected disproportionately the Southern countries of the Eurozone (in the case of Greece, it even arguably caused significant deterioration in human dignity). Across Europe, austerity fuelled the surge of populist and far-right parties further producing social and political instability\textsuperscript{56}.


\textsuperscript{54} Tilford and Whyte, \textit{Why stricter}; Larreina, \textit{The Financial System}.


The lack of values of the austerity response to the crisis can be summarized in the following comment of an ECB official during the troika’s review of Ireland conducted in 2012:

there are different aspects of the problem to be balanced against each other, and I can understand that the government came to the view that all in all, the costs for the Irish people, for the, for the stability of the banking system, for the confidence in the banking system of taking a certain action in this respect which you are mentioning could likely have been much bigger than the benefits for the taxpayer which of course would have been there. So the financial sector would have been affected, the confidence of the financial sector would have been negatively affected and I can understand that there were, that there was a difficult decision, but that the decision was taken in that direction.57

Unfortunately, it seems that when the balance of the different options was made, the dignity and human rights of Irish citizens were not given a high priority.

It must be noted that the negative consequences of austerity in the Eurozone were greatly mitigated by the decision of ECB’s president, Mario Draghi, in 2012 to do “whatever it takes” to preserve the euro, particularly conducting an aggressive purchase of bonds. This action would not have occurred under the previous presidency, and was approved in the ECB’s Governing Council against the opinion of the Bundesbank’s president who publicly opposed the move. Other hawkish policymakers and commentators also despised the so-called quantitative easing, despite the evidence that Swedish early increase in interest rates had sent the country into recession58.

Similarly, the Juncker EU-wide investment plan of 2015 signalled a change of direction in the austerity policies (even though it is quite likely too moderate).
This financial crisis has been different

The recent financial crisis has put the discussion of values and ethics high up in the list of priorities in Management studies, particularly in Finance. Eleven years after the first signs of the financial industry's distress in the summer of 2007, societies across the globe are still suffering the very visible and hard economic consequences of that financial folly.

Many reputed researchers of financial crises have said that, despite what market participants may claim while bubbles grow, they are not different from previous follies. Financial crises are frequent and economic recessions deriving from them are generally deeper and more protracted. They also have an "enormous human and economic cost". This was particularly true in the 1929 crash and the Great Depression that followed it. The Great Depression is cited among the causes of World War II, a human-created catastrophe which annihilated entire populations, killed dozens of millions of civilians and military, and ended with the development and launch of the atomic bomb. Even though authors like Keynes or Friedman provided different roles in the development of the Great Depression to the speculative bubble that burst in 1929, both considered that the former was a consequence of the latter.

Intellectual arrogance and lack of historical perspective contribute to the building of bubbles. Banking and other financial institutions have periodically experienced manipulative conduct driven by misaligned incentives; in such circumstances hubris and recklessness degenerate


into a “consensus of self-interest or self-delusion”\textsuperscript{65}. As mentioned, these episodes have “remarkable similarities”; thus, it would be useful to keep vivid memories of previous failures and analyse the “animal spirits” that caused a protracted and generalised lack of common sense\textsuperscript{66}.

In the upcoming to the financial crash, the common view is that “a new era has arrived” in which “the existing state of affairs will continue indefinitely”\textsuperscript{67}. As Minsky described, those who dare to announce that the Emperor wears no clothes are treated like modern Cassandras, being mocked at (e.g. professor Roubini’s denigratory name professor Doom) while their warnings are ignored\textsuperscript{68}. Market participants indulge in believing their own infallibility, blind to the risks that are building up\textsuperscript{69}. Organizations with vested interests generously fund research praising neoliberal practices, and mainstream media amplify their impact reaching larger audiences\textsuperscript{70}.

While the effects of the 2007-08 crash have seemingly been much more benign than those of the crisis of 1929, its long-term effects are still unknown. Unfortunately, the impact of the Great Recession goes well beyond the normal measurements (cost in terms of GDP, loss of jobs, increase of inequality, reduction in the quality of life, social turmoil, the rise of political extremism, destabilization…). For more than a decade, mankind has devoted excessive attention and resources to deal with the financial crisis, losing valuable time to fight global warming. At this stage, time seems to be a very limited resource. In the best scenario, having postponed more than a decade the necessary measures to produce significant

\textsuperscript{65} Banking Standards, Changing Banking.


\textsuperscript{67} Hyman Minsky, Stabilizing an Unstable Economy (New York: McGraw Hill, 1986); John Maynard Keynes, General Theory, 152.

\textsuperscript{68} Hyman Minsky, Stabilizing; Carsten Valgreen et al., Iceland: Geyser crisis, (Copenhagen: Danskebank Research, 2006); Rajan “Has Finance”.


changes in our economy, implementing them will be harder and costlier than otherwise. In the worst scenario, we might even have lost the last opportunity to limit climate warming to 2° Celsius higher than at preindustrial levels.

Never before has Humanity needed to face enormous challenges in an extremely short period of time, and has been “distracted” by financially-related smoke and mirrors.

Our species has lived through natural dangers that could have easily wiped us out millennia ago (seemingly, we did wipe out our cousins *Homo Neanderthalensis*) when the total population was down to only thousands of family groups. The estimated ancestor population of *Homo Sapiens Sapiens* 70,000 years ago ranges between 700 and 2,700 individuals⁷¹. This was just one of several genetic bottlenecks that happened before the population started to expand some 35,000 years ago. When the late glacial climate warming ended around 10,000 years ago, the human population had reached between 5 and 7 million people, according to modern estimates⁷².

Thanks to a combination of luck and social competitive advantages (both intraspecies, as language and empathy; and interspecies, as the ability to join forces with wolves and domesticate them in order to hunt together or to guard cattle), our species has overcome difficulties and thriven⁷³. In historic times, not only natural events but also our own actions have caused local calamities; to name a few, we can cite the societal degradation of Easter Island, the collapse of the Classical Mayan civilisation or the expansion of the Black Death as black rats followed trade routes from Central Asia to Europe. In these cases, societal degradation was limited to a region, and there were other regions unaffected where mankind could still prosper.

As mentioned, this time, our global village faces common threats that affect all human beings: in 2018 the doomsday clock⁷⁴ is closest to midnight

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⁷⁴. The Doomsday Clock reflects since 1947 the level of continuous danger in which
than ever before, except during 1953; a time when “our civilisation hang in a precarious balance”. That year, both the US and the Soviet Union had tested their own Hydrogen bombs, thermonuclear devices far more destructive than those that destroyed Hiroshima and Nagasaki.

In January 2018, the Bulletin of Atomic Scientist stated that:

world leaders failed to respond effectively to the looming threats of nuclear war and climate change […] To call the world nuclear situation dire is to underestimate the danger — and its immediacy. On the climate change front, the danger may seem less immediate, but avoiding catastrophic temperature increases in the long run requires urgent attention now.

It is particularly chilling to read in 2018 what Rabinowitch wrote back in 1953:

In this period, the survival of our civilization will depend on whether the political leaders of all nations, including any power-drunk dictator in whose hands the fate of a nation may rest now or fall in the future-will be rational enough to abstain from actions which might precipitate an atomic holocaust.

Had Eugene Rabinowitz been still alive, he would not have felt reassured when the president of the USA, Donald Trump, wrote in January 2018:

North Korean Leader Kim Jong Un just stated that the “Nuclear Button is on his desk at all times.” Will someone from his depleted and food
starved regime please inform him that I too have a Nuclear Button, but it is a much bigger & more powerful one than his, and my Button works!77

At the time of ending this paper, the White House announced that president Trump would meet the leader of North Korea to discuss denuclearization; given their personalities, a negative outcome of the meeting cannot be discarded78.

In the last 70 years, mankind has developed a number of technologies that can easily destroy the only planet where we live; in fact, the only planet (for the time being) where we are certain that life exists, not to mention intelligent life. The so-called Fermi paradox (if extra-terrestrial civilizations are frequent, “where is everybody?”) gives a different, more anguished perspective to the current path of habitat destruction79: maybe advanced civilizations annihilate their planets before they engage into interstellar voyages.

The true impact of the financial crisis in the beginning of the XXI century may be beyond what it seems at first sight, if we consider the relatively new ability of humans to completely erase our species and our planet, and the potentially dramatic consequences of doing too little too late to keep global warming within controlled levels. We should consider that the investments needed for the transition to a low emissions economy and for ensuring hard decoupling are enormous. These huge costs and the evident existence of free-riders and race-to-the-bottom deregulations, are typically listed as explanations for the slow pace of change80. These problems should be addressed soon; otherwise their consequences will be irreversible81.

Besides, nuclear threats and climate change are not the only crises that gloom over our future. Some authors predict that several crises will be triggered simultaneously; it is possible that we have not realised about some of these potential dangers yet\textsuperscript{82}.

The financial crisis begun in 2007 undoubtedly slowed down the process of adopting responsible measures to tackle environmental threats, despite appeals since the beginning to institute a \textit{Green New Deal}; in the decades to come we will see whether our planet could afford the luxury of this delay.

\textbf{A giant with feet of clay}

The harmful consequences of the financial follies of the period 2000-2007 should have forced a total restructuring of the financial system\textsuperscript{83}. This was in fact the intention of the G-20, whose leaders stated in 2009 that they would “\textit{not allow a return to banking as usual}”\textsuperscript{84}.

Shocks may serve to radically reshape an industry, society or region\textsuperscript{85}. Contrary to what could be expected, the financial debacle has not been “\textit{severe enough}” to provoke such restructuring yet\textsuperscript{86}. Indeed, changing the financial culture will not be easy and will take time, given that culture is very resilient. And if firms don’t change their mind-sets, there will be a very significant risk that old habits of behaviour will continue\textsuperscript{87}.

“\textit{Greed, for lack of a better word, is good}”; this popular line from the 1980s film \textit{Wall Street} managed to describe the mood of the industry. Many top financial managers thought that way, as became evident when the crisis unfolded. The movie \textit{The Wolf of Wall Street} describes the “\textit{business}” activities of one of them, a real financial fraudster who deliberately swindled low-income investors in the 1990s. Worryingly, more than

\begin{thebibliography}{9}
\bibitem{} Michel Rocard, ”Un Système Financière à Repenser”, \textit{Le Monde}, October 3, 2011.
\bibitem{} G20, \textit{Leaders’ statement – 2nd April 2009} (London: Group of Twenty’s summit, 2009).
\end{thebibliography}
twenty years and a Great Recession after, New York bankers cheered in a theatre when the film about this modern-time snake-oil salesman was shown in a pre-screening.

The mainstream culture in the financial services industry is still based on this premise, and has favoured frequent frauds and deception (to name a few: Barings’ rogue trader, Société Générale’s 2008 scandal, Madoff securities, manipulation of interest rate benchmarks, manipulation of exchange rates and commodity prices, asset mis-selling, etc.).

The prevalence of the so-called short-term greed, oblivious to the broader consequences of the banker’s actions, is not due to ignorance or poor logical reasoning. In fact, large numbers of highly-motivated, talented and ambitious young University graduates and postgraduates have joined the ranks of financial firms. They came attracted by the prospects of large pay-checks and an intellectually challenging industry conferring high status and power. Thus, a new social group of Masters of the Universe was created in a number of global financial centres, but mainly concentrated in London and New York.

Greed has permeated many firms and large sections of the industry itself, becoming a socially shared norm within the sector which has influenced individual behaviour. No wonder that its reputation has been negatively affected, equalling finance to “flawed business practices”. The social ties within the industry have influenced individual and group decisions, facilitating a social identity where recklessness and the commission of illegal activities are tolerated. Generalised greedy compensation practices reinforced a shared identity, and played “a predominant role in setting and reinforcing its cultural norms”. Bankers themselves recognise this as
problematic; in fact, four fifths of British bankers think that the financial system “would benefit from cultural change”\textsuperscript{96}. The wider society would also benefit from it.

As the banking culture has not changed, scandals of fraud, deception, and malpractices have continued well after 2008. Banks have continued to “\textit{phish for phools}”; it may even become the expected conduct in the firm\textsuperscript{97}. When discovered, top managers typically deny any responsibility, and deeply regret the inappropriate behaviour of the employees who have been caught\textsuperscript{98}. Despite claims that financial firms would do their most to stop abuses, the reality is that fraud and recklessness is endemic in a number of companies and market segments, being socially admitted within the industry\textsuperscript{99}.

The financial sector shows predominant discourses of hegemonic masculinity, what is consistent with its cultural traits\textsuperscript{100}. In a highly competitive, male-dominated context, managers and employees of financial firms are culturally pushed to secure their sense of identity and social recognition through visible success like the achievement of the highest levels of pay. Hence, competitiveness is pursued at any cost, and is not restrained by ethical values\textsuperscript{101}. There are as well many ethical individuals and organizations in the sector, but for the time being they have not succeeded in reshaping the industry’s mind-set.

An example of the resistance to cultural change is the field of pay. There is a clear connection between ill-designed compensation schemes and excessive pay on one hand, and the excessive accumulation of risks and the creation of incentives for fraud, on the other hand\textsuperscript{102}. It’s been demonstrated that compensation in this industry was not performance-based,

\begin{itemize}
\item \textsuperscript{96} Salz, \textit{The Salz Review}, 82.
\item \textsuperscript{97} Akerlof and Shiller, \textit{Phising}.
\item \textsuperscript{99} Smith, “Why I am leaving”
\item \textsuperscript{100} Knights and Tullberg, “Masculinity”.
\item \textsuperscript{101} Larreina and Gartzia, “Human”.
\end{itemize}
had negative externalities to the society, and basically was a “Managerial Aristocracy indulged by their shareholders” that “paid themselves a lot”\textsuperscript{103}. In many cases, excessive compensation camouflaged the extraction of rents from shareholders, taxpayers and citizens\textsuperscript{104}.

Despite the regulatory advances on limiting pay, much more is needed in order to minimise the problem of excessive compensation in the financial system. As of 2015, there are still more than 5,000 high-earners in the European financial industry (those with a salary higher than 1 million euros)\textsuperscript{105}. More worryingly, two British asset managers with fixed salaries around 200,000 euros received bonuses of 28.11 million \( \text{€} \) and 33.57 million \( \text{€} \) respectively. This largely exceeds the cap on variable compensation, and quite likely creates the kind of wrong incentives that the recent reform tried to avoid. If the industry still has this kind of compensation schemes, the continuation of looting and bonus-pocketing strategies cannot be discarded\textsuperscript{106}. As Upton Sinclair put it, “it is difficult to get a man to understand something if his salary depends upon his not understanding it”.

Beyond compensation, other relevant issues remain. For instance, the excessive political influence of this industry (e.g. lobbying and revolving-doors) has been instrumental in delaying structural changes\textsuperscript{107}. Dependence on financial sector contributions and expectations of using revolving doors may explain soft attitudes in supervision: the hopes of holding a future position in a financial firm, where incomes would be disproportionate, could be an incentive not to exert too much pressure on

\textsuperscript{103} Ajay Kapur, Niall MacLeod and Narendra Singh, Plutonomy: buying luxury, explaining global imbalances (New York: Citygroup Equity Strategy Research, 2005); Andrew M. Cuomo, No rhyme or reason: The leads I Win, Tails You Lose Bank Bonus Culture, (New York: New York State Attorney General’s Office, 2009).


\textsuperscript{107} Eileen P Flynn, Ethical Lessons; Larreina and Gartzia, “Human”; U4U, Open letter to the College concerning the appointment of J.-M Barroso as Non-Executive Chairman of Goldman Sachs International, Brussels: Union for Unity Regroupement Syndicale, 2016.
them\textsuperscript{108}. Rawls already warned against these behaviours, as they attack the equality of political liberties: it can be expected that excessive attention will be paid to the financial industry’s needs and that any proposal that may endanger its goals will fall into political oblivion\textsuperscript{109}. Collusion of the financial industry and political spheres may explain the low pace of progress in eliminating tax havens and putting pressure on vehicles developed to serve evaders\textsuperscript{110}. The global web of tax havens and tax holes has had a decisive impact in weakening welfare estates, camouflaging risks and hiding the actual ownership of many companies.

In this sense, it would be necessary to have a much more integrated and democratically-controlled global supervision of financial firms. Traditional international cooperation in this field is not enough to ensure global financial stability if international markets are integrated and there are large global private players. In this context, the \textit{financial trilemma} points to a regulatory race to the bottom when competing countries keep the sole national responsibility for financial policy\textsuperscript{111}.

The political impact of finance may go even beyond, and affect democratic processes. It may deeply influence elections (or attempt to), favouring candidates perceived to have a neoliberal orientation\textsuperscript{112}. For instance, in the 2002 presidential elections in Brazil, financial markets negatively over-reacted to the good prospects of candidate Luis Inácio \textit{Lula} da Silva\textsuperscript{113}. This kind of interference has only become more common after the crisis: politically-biased financial media has gone to the extreme of stating that economies were “\textit{in peril proving voters aren’t careful}” and that “\textit{the world economy is paying a price for democracy}”\textsuperscript{114}. This is

\begin{itemize}
\item \textsuperscript{108} Kapur, Macleod and Singh, \textit{Plutonomy}.
\item \textsuperscript{111} Dirk Schoenmaker, \textit{Governance of international banking – the financial trilemma}, Oxford: Oxford University Press, 2013.
\item \textsuperscript{114} Rich Miller and Simon Kennedy, \textit{Economies in peril proving voters aren’t careful about what is wished for}, Bloomberg, September 6, 2011.
\end{itemize}
worrisome, particularly if we consider that “bond markets prefer dictators to democracies”. Rawls, again, noted that the principle of equal participation would be severely affected if those who own the media control the course of public debate. In an extension of this idea, if the official truth the media announces as factual is actually ideologically biased, and there are no alternative communication channels, the public would be utterly confused about where its interest lies.

The former are just a few examples on how the financial system remains essentially the same, with bankers “going back to the old ways”, to how they operated prior to the crisis. Thus, there is an urgent need for cultural change: failing to complete a deep transformation of the financial industry undermines confidence and jeopardises the integrity of our society.

What role for philosophy in the future of Finance?

So the question seems clear: what can philosophy do to catalyse this cultural shift? In a sector where Machiavellianism has flourished, and many participants go against what is fair or even advisable, a return to principles and values is needed. The recognition of the equal dignity of the human beings may be a sufficient base to shatter the current culture of greed. The obvious lack of concern for the effects on others of our decisions would be questioned, and decisions would take into account their impact in systemic risk.

Among the moral limits of the financial system, a prohibition to manipulate, commit fraud and harm others should exist. Unfortunately, the rational fool who pays no attention to moral rules of conduct described by Amartya Sen seems to have prospered within the financial industry. Thus, a reinforcement of the sense of commitment to the common good may

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120. Eileen P Flynn, *Ethical Lessons*.
help put up again the ethical constraints. Consequences on others should have a relevant position when considering how to channel savings across the society. Professional ethical values (public service, client commitment) complemented with acting with good faith could provide moral ground to the different circumstances in which financial firms interact with clients and counterparties\textsuperscript{122}. The complexity of many financial products complicates further the decision of clients who may not understand which is their best option, and would therefore need honest advice\textsuperscript{123}. Following Sen’s reasoning, Finance must thereof be at the service of the people, and empower them to pursue their life objectives. Under these premises, active manipulation of markets, fear-spreading, and bullying governments or constituencies would not be allowed. This would, at its turn, favour a participative democracy, as special corporate interests would lose a large part of their current relevance.

To my understanding, complying with regulation and strengthening the already existing departments of social responsibility is not enough. The challenges that mankind faces are numerous and demanding; hence, further action is required to develop an ethical financial system. In order to have some chance of success in those challenges, our global society will require mobilising financial resources efficiently, and providing the real economy with the funding it needs.

A new vision of how finance should function must emerge, within more general and modern theoretical frameworks in economics and management\textsuperscript{124}. It would include the different actors involved in the financial system (savers, investors, policymakers, regulators, intermediaries, taxpayers, clients, borrowers...) and their role in an ethical finance\textsuperscript{125}. In this sense, it should recognise that people may play simultaneously several roles, what may create confusion about which is their best course of action from an individual short-term perspective, but not so if the global well-being or even the long-term selfish interest is considered.

\textsuperscript{124} Elliot, \textit{A Green}; Jackson, \textit{Prosperity}.
\textsuperscript{125} Carmen Ansotegui, Fernando Gómez-Bezares and Raúl González, \textit{Ética de las Finanzas}, (Bilbao: Desclée de Brouwer, 2014).
The approach of the *ethics of cordial reason* of Adela Cortina is interesting in this regard. Paraphrasing her, *good finance is ethical finance*\(^{126}\). And it should take into account the interest of non-human living beings and of life itself: an ethical behaviour would take responsibility over the Earth and the valuable, vulnerable and defenceless beings that live on it. It is the role of the *homo sustainibiliticus* to assume the triple bottom line and to be attentive to economic, environmental and social concerns, within the boundaries of energy, resources and information limitations\(^{127}\). This will give bio-centric ethics the leading role in philosophical discourse.

The financial system should also preserve the right of future generations to have a fair set of opportunities, not dwarfed by current decisions of greedy individuals. Similarly, the rights of those excluded must be defended. That would reverse the trend of the financial services industry of behaving as a *free-rider* insensible to the negative externalities it provokes around and accumulating *negative social capital*\(^{128}\).

Pope Francis has beautifully expressed a similar opinion:

> environmental deterioration and human and ethical degradation are closely linked. Many people will deny doing anything wrong because distractions constantly dull our consciousness of just how limited and finite our world really is. As a result, whatever is fragile, like the environment, is defenceless before the interests of a deified market, which becomes the only rule.\(^{129}\)

For him, the self-destructing behaviour of Finance, where speculation and the pursuit of financial gain seem to be the top priorities pushes our world to a breaking point.

Another relevant approach is that of analysing the connection between finance and human rights. There is not a clear integration of both fields, but some advances have been done in order to define *economic crimes against humanity*\(^{130}\). In any case, a first step towards reducing the

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distance between both areas is to acknowledge the critical role of finance in achieving the development goals and in respecting the human rights of all\textsuperscript{131}.

Connected to it, the role of free will must be analysed in finance. When employees of large multinational banks were asked by their bosses to target financially illiterate people in order to sell them inadequate products, what should a moral financial worker have done? We have not seen many bankers opposing their bosses’ instructions, nor becoming whistle-blowers, nor quitting their companies in order not to collaborate with unethical practices. Sure, some people did behave like this, and their complaints and memoranda have helped to bring down the wall of silence, the omertà, that tried to cover financial wrongdoing and regulators’ malfeasance\textsuperscript{132}. We should be grateful for them; Avenues should be named after those who leaked tax-heavens files, who informed authorities about fraud, or who did their best to prevent the financial meltdown.

Unfortunately, most financial workers did not behave that way. Many of them, because they lacked the knowledge or the broad perspective and did not recognise the impact of their actions\textsuperscript{133}. But many others did not report misconducts or risky behaviours because they valued more their own self-interest: whistle-blowing would have spoiled their prospects of a large bonus, they could have ended being dismissed with diminishing new employment opportunities, and very likely no corrective action would have been taken\textsuperscript{134}. These rules-abiding financial employees would think that it was their duty to protect the interest of their bosses (quite likely not that of the shareholders, the clients or the citizens in general). In a case of blind obedience to superior orders, financial employees jeopardised our societies without ever wondering the rightfulness of their actions. In 1934, the US Senate Committee analysing the financial market already warned that “while the banker may make mistakes, he must never make the mistake of offering investments to his clients which he does not believe to be good”\textsuperscript{135}.

\begin{itemize}
\item \textsuperscript{131} Dowell-Jones and Kinley, “Minding”.
\item \textsuperscript{132} National Commission, \textit{The Financial Crisis Inquiry Report, 222}.
\item \textsuperscript{134} André Azevedo Alves, Philip Booth and Barbara Fryzel (2016): “Business Culture and Corporate Social Responsibility: an analysis in the light of Catholic social teaching with an application to whistle-blowing”, \textit{The Heythrop Journal}.
\end{itemize}
The banality of evil can be seen as well in the absolute indifference on the consequences for others of episodes like the real estate bubble, the mis-selling of financial products, or the bullying of Greek government when it refused to engage into self-harming policies\textsuperscript{136}. Societies can suffer great pain due to financial sector’s decision: some pundits may say “it’s the Markets’ will!” but in fact is just the actions of reckless individuals working for soulless organizations left in their own by negligent lawmakers and regulators. The case for a specific ethical analysis of these issues seems urgent.

A new philosophical approach to the financial system may change how resources are assigned to sectors, projects and initiatives. This might liberate the necessary funds for dealing with climate change and the other social priorities of mankind. It may also challenge the current allocation of human capital to finance, and stop the brain-drain effect that affects other sectors\textsuperscript{137}. Quite likely, the social return of these bright individuals could be higher if they worked in other sectors or under different paradigms.

The ethical revision of finance would also rearm governments and regulators so that they could recover the courage and capacity to impose reasonable restrictions to the financial system\textsuperscript{138}. Supervisors would be morally entitled to “take away the punch bowl just when the party was really warming up”\textsuperscript{139} and would dare control the business culture of financial firms.

Finally, a deep reform of the financial system may rebuild trust and terminate with the culture of short-term greed. This will not be done easily, as it will require the dismantlement of a global Peter Pyramid, an overgrown system that just occupies too much space and demands too many resources and attention\textsuperscript{140}.

In this process, self-regulation will not be the appropriate path: relying on good people’s good will is not enough to produce orderly financial


\textsuperscript{137} Christiane Kneer, \textit{Finance as a Magnet for the Best and Brightest: Implications for the Real Economy}, (Amsterdam: De Nederlandsche Bank, 2013): 22.

\textsuperscript{138} Rannsóknarnefnd Althingis, \textit{Report}.

\textsuperscript{139} Martin, \textit{Address}.

\textsuperscript{140} Lawrence J. Peter, \textit{The Peter Pyramid, or will we ever get the point?}, (New York: William Morrow & co., 1986).
markets\textsuperscript{141}. Confirming this idea, the CEO of investment bank Morgan Stanley publicly admitted that “we cannot control ourselves [...] regulators have to step in and control”\textsuperscript{142}. As the Bank of England put it, “codes of conduct are of little use if nobody enforces them”\textsuperscript{143}. The celebrated image of the race of devils which can organize themselves and agree on common norms that would not differ from those of more ethical groups (showing that an organised and operational society doesn’t need to be composed of angels), finds a limitation if translated to our current financial system, in my view. The Kantian example required intelligent devils, whose hostility would affect their fellow citizens, and who would fear the troubles of the state of nature. In the case of the modern financial system, greed seems to blind the senses of many actors; and more importantly, those attacked cannot respond (as they include non-human beings, future generations not yet born; and the have-nots). Besides, the actors will not be likely affected by these actions themselves.

This is the so-called tragedy of the horizon: the heaviest consequences of recent actions will be felt beyond the normal cycle of business, politicians, and regulators\textsuperscript{144}. In fact they might well be felt beyond the life cycle of their causal agents. Hence, only time-travel paradoxes would actually limit a group of Kantian devils from uniting to reap short-term benefits at the cost of provoking destruction in a relatively distant future when they may presume not to continue existing\textsuperscript{145}. Thus, it seems out of logic to expect self-control from clusters of greedy individuals who pretend to monetise their actions now at the expense of future generations and whose motto could be “après moi, le deluge”.

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The seeds of disruption in Finance

Fortunately for us, for future generations, and for other species living on our planet, in 2018 a number of potentially disruptive trends in Finance have emerged. They may just be a new rebirth of the crony and casino capitalism that has spoiled our societies, with an oversized and “socially useless” financial sector. But they can also reshape the financial system and deeply transform it.

In my understanding there are currently four disruptive movements in Finance that to some extent may be intertwined: Brexit, FinTech, the rise of activist investors and ethical-responsible investments, and the entry of new social groups into the financial system.

The first potentially disruptive trend for the current financial services industry is the British decision of leaving the European Union, which may occur in March 2019. If at that moment the decision is not reversed, and no agreement has been reached that allows London-based financial firms to access the single market, the subsequent hard Brexit would seriously affect London’s role as the first financial centre of the world. In this increasingly plausible scenario, a large fragment of the London’s financial centre could be relocated towards other destinations in the EU or Switzerland (Frankfurt, Paris, Dublin or Zurich have taken positions in order to attract this sector). This relocation, could be accompanied of a downsizing of the sector, and could profoundly affect the culture of bankers.

The second potential game-changer is FinTech, new companies that offer innovative financial services through the use of technology. This segment may potentially affect the long-term structure of the financial services industry. FinTech may turn finance (marginally, moderately or radically) towards a human-scale collaborative industry.

Another visible trend, pushed by a growing number of ethically-concerned investors is the emergence of ESG finance, which pays attention to Environmental, Social and Governance issues. Ethical banking, activist investors, responsible investment and green bonds, for instance, have experienced an accelerated growth since the outburst of the financial crisis. This growth is expected to continue, and may move these instru-

ments and institutions from a niche interest to a mainstream position in the heart of the financial system\textsuperscript{148}.

Finally, a growing number of social groups with a more diverse profile are becoming more active in the financial system. For instance, women are joining the financial companies in larger numbers, and are progressively gaining representation among senior management\textsuperscript{149}. Women may tend to display communal leadership styles that take social and interpersonal factors into account\textsuperscript{150}. Thus, a more balanced-between-genders financial system may change its cultural traits, and incorporate ethical beliefs into the decision-making process to a greater extent\textsuperscript{151}. Young generations, as millennials or even generation Z are getting involved in finance as investors, borrowers, and freshly-recruited employees. Their set of values may help accelerate the transition towards a sustainability-friendly financial sector, as they prefer to work for (and conduct business with) organizations committed to ESG values\textsuperscript{152}.

The combination of these trends, and maybe some other disruption not yet evident, might produce the needed momentum for radically restructuring the financial system. In this new financial industry, a more ethical business culture may emerge, as the seeds for change in this direction have already been sown.

**Conclusion**

The financial industry has developed a reckless culture, in which unethical behaviours have been praised and rewarded, and self-regulation has not worked. Lack of ethics had a significant role in the financial crisis of 2007-08 that triggered the Great Recession; but it also has been present in the government responses to the crisis.


\textsuperscript{151} Knights and Tullberg, “Masculinity”.

I argue that this financial crisis has been different, because it has delayed taking definitive action against global warming and the destruction of ecosystems. This lost decade has been a luxury that mankind shouldn’t have had.

Even today, the financial industry keeps a culture of short-term greed, able to defend itself from unwelcome political intervention. Given its critical role in the allocation of resources across our society, Finance must be at the service of the people, taking also into account the interest of life itself and that of future generations. Hence, a deep reform of the financial industry is needed in order to address mankind’s current challenges.

This necessary transformation might be achieved in the short term thanks to four main disruptions which are emerging in Finance (Brexit, Fin-Tech, ESG finance and the arrival of new social groups to the industry). They may provide the adequate scenario for a radical restructuring of the financial system along ethical and responsible lines. Certainly, the current culture will struggle to survive, trying to accommodate these trends to the pre-existing framework.

Next years will see whether significant change occurs, as the time-window for addressing climate change in a manageable way is progressively narrowing. In this critical period, philosophy may help society to get control over finance back, strengthen ethical practices, and minimize threats to mankind and the planet.

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