

# Finance: a morality free zone

There's little hope that a quasi-religious morality could guide banking practice. Only regulation can fetter the free market



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Various prominent people of faith have recently reflected on the reasons for the credit crunch and how another market bust can be avoided. Stephen Green, UK Chairman of HSBC and an ordained priest, published a book espousing the benefits of an economic morality informed by religion. He said, "underlying all these events is a question about the culture and ethics of the industry. It is as if, too often, people had given up asking whether something was the right thing to do, and focused only whether it was legal and complied with the rules. The industry needs to recover a sense of what is right and suitable as a key impulse for doing business."

On this site, Stephen Beer, of the Christian Socialist Movement, hailed an early day motion urging government to separate "casino" banks from retail banks is concerned with the inevitable fugue that follows economic recovery. He said, "reform of the banking sector to make it better in every sense is a moral issue and one with which people of faith should engage". Faith-based economic transactions, particularly Islamic ones, do seem to point the way to more restrained behaviour. The relative success of Islamic banking is guaranteed by a spiritual decision replicated across all markets and economies by individual clients. When this spiritual imperative is absent, the closest guarantee of "compliant" behaviour is regulation and the threat of punishment: effectively replacing the fear of God with the fear of exposure and retribution on earth.

Some Muslim voices have heralded the credit crunch as a vindication of the Islamic ban on usury and the success of Islamic financial institutions during the recession as further evidence of the ban's prescience. Due to Islamic finance's lower rates of leverage, Islamic banks have lower exposure to debt and any toxicity therein. However, it must be noted that alongside this lower risk comes lower profit. This in the short-term will attract wary secular money but as market conditions improve that will be drawn once again to higher

risk investments, lured by the possibility of higher returns. While questions have been raised about how "Islamic" the majority of Islamic finance is, its millions of clients prove that people will eschew higher returns (foregoing interest on deposits for example) for religious reasons.

Since not all investors have the same faith, or indeed, any faith at all, some might argue that a form of morality detached from religion is the answer. While this may be something we envisage for society as a whole, it does not apply to the specific conditions of high finance where players seek to maximise profit in an environment where gambling is inherent: these are the conditions, by the way, that spawned the "casino banks" that risked the savings and deposits of retail banks. In my experience, morality is considered inadmissible in finance, as it reins in profit for no tangible gain. Indeed, it is more of a case of different moralities, what Stephen Green calls "this sin of compartmentalisation". As a graduate intern I overheard a new hire told off for being "a bit wet", a reference his generally cautious professional attitude.

There is an Arabic saying that states that "some people feel no shame, only fear", a rather more pithy way of echoing Hobbes' assertion that the social contract is forged because of people's fear, and is enforced by fear. In the absence of a religious motivation to act responsibly as a client or a money manager, strong regulation presents itself as the only plausible fetter. For this to be effective however, there needs to be a consensus that a flatter economic cycle and a more tempered capitalism are desirable. The incentives in money markets overshadow the abstract benefits of long-term value creation. Faith-based groups can certainly help with this redefinition, if only to demonstrate what economic players motivated by a higher cause are capable of, to lobby and to remind us of the social and human fallout of banking crises. But we cannot hope to inject a universal or religious morality into the marketplace. Beer is right in his assertion that regulation will not be in itself sufficient, but where regulation falls short, individuals will continue to operate within the realm of what is legal, and not what is moral.

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