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## SIN NO. 4: TOO GREEDY

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*“In this world there are two ways to get rich. N°1: Produce something valuable and sell it to others. N°2: Find people pursuing the first strategy, and steal from them.”*

(N. Gregory Mankin)

*“Where large sums of money are concerned, it is advisable to trust nobody.”*

(Agatha Christie)

**VIRTUE: THERE WAS MONEY FOR SOMETHING**

Money as a medium of exchange, a unit of account, a store of value, a standard of payment.

## THE FLAWS

Remember Gordon Gekko (played by Michael Douglas) in Oliver Stone's movie *"Wall Street"*, saying that *"greed is good."*? The film's main characters were a stockbroker and a corporate raider, inspired by the likes of Icahn or Boesky –no room for blue-collar workers here. Released in 1987, it was supposed to describe the financial excesses of the 1980s. What would the story be about the 1990s, and the 2000s? The script could be much of the same, just more digital, more immoral, and more criminal too. Golden boys (and girls) carrying a gold card getting onto the gravy train, bringing up the golden goose before cooking it, and then of course being given the golden handshake. Excesses are not exceptions but tend to evolve into rules, as the subprime crisis illustrates it. "Business -or at least finance- as usual"?

Making money with money seems to have become the favorite occupation for an increasing number of market doers –we mean makers, we mean players. Some economic analysts and authors even regard greed not as an excess but as a fundamental flaw –or sin<sup>2</sup>- on which the whole system has been or is now based. They might not be wrong. Bill Watterson, author of the comic strip "Calvin & Hobbes", said: *"To make a business decision, you don't need much philosophy; all you need is greed, and maybe a little knowledge of how the game works."* In her passionate and rather terrifying book *"The Shock Doctrine"*<sup>1</sup>, Naomi Klein points to *"a nagging and important question about free-market ideologues. Are they "true believers"..., or do the ideas and theories frequently serve as an elaborate rationale on unfettered greed while still invoking an altruistic motive?"* Note that many don't even waste their time (and even less their money, except perhaps for flying to Washington to ask for a loan, or to Davos to talk about ethics, of course) to refer to any form of altruism.

Admitting that capitalism is not greedy per se, and leaving human nature -and thus sins- out for a while (well, not really), what are the starting points of this greed? We see four of them as primary origins: the first is a consequence of the economic system; the second one is ideological; the third lies in the economic fabric; and the last relates to financial products. Let us review them briefly.

The capitalist system is based on and nurtured by various types of economic, social and other inequalities. Consider them a useful growth ingredient, a cost, a necessary evil, or a very unpleasant aspect, inequalities and injustice do and will always exist. The trouble is that wealth

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<sup>1</sup> Naomi Klein: *"The Shock Doctrine. The Rise of Disaster Capitalism."* (Penguin Books, 2008).

disparities in income, assets and other benefits have seriously increased in some parts of the world. And that greed fuels those, and vice versa.

The conservative ideology, progressively (!) endorsed by segments of the left (and not only in the “third way”), promotes an ownership society (George W. Bush said in June 2002 that “*Part of economic security is owning your own home.*”<sup>2</sup>) that implies an extensive use of credits and has resulted in growing indebtedness, encouraged these last years in the U.S. by the subprime mechanisms, themselves nurtured by a greed for possession and an addiction to credits. Then came the rude awakening: you are not the real owner until the last installment is paid!

The size and the role of the financial sector -and related services and assets- in developed economies have “*exploded*”, as Martin Wolf put it<sup>3</sup>. FT’s chief economics commentator refers to a study by McKinsey Global Institute showing that the ratio of global financial assets to annual world output (GDP) had soared from 109 percent in 1980 to 316 percent in 2005, making the global stock jump from about \$10 billion to \$140,000 billion. London’s City financial sector weighs 30% of Britain’s GDP, for example. Martin Wolf was right in saying that “*unfettered finance*” had reshaped the economy. For better, and to a larger extent, for worse, e.g. through an income shift from labor to capital; and from core remuneration to other lavish compensation packages, incentives or greed-motivated “rewards”.

The growing diversification of financial assets (e.g. equity and debt securities weighing as much or more than traditional bank deposits; “backing” systems -an unfortunate choice of words in many cases!); a growing sophistication of financial, credit and insurance services generate interstices for abuses and embezzlement sometimes packaged as “complex products” which turn into “toxic assets” when the bad days come. Greed is not far, it is even at the heart of it.<sup>4</sup> Worse, some products and techniques are heavily based on rapacity, directly or indirectly, as FT’s Gillian Tett describes it in thrilling words with which she shows that the “*Genesis of the debt disaster*” was simply originated by honorable bankers and insurers in respectable institutions who started playing with CDOs and “Bistro” deals, et al.<sup>5</sup> Greed derivatives, sort of.

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<sup>2</sup> Quoted by the Herald Tribune (December 22, 2008).

<sup>3</sup> In an insightful article published in the Financial Times: “*The new capitalism. How unfettered finance is fast reshaping the global economy*” (June 19, 2007). The author came back on the same issue in a FT column (April 2, 2008), where he points to the six-fold increase in the share of financial sector profits in U.S. GDP between the low of 1982 and the high of 2007.

<sup>4</sup> If even a conservative banker like Evelyn de Rothschild wrote that “*Ethical standards must be restored in finance*” (Financial Times, May 9, 2008) there must be trouble somewhere.

<sup>5</sup> “*Genesis of the debt disaster*”, published in the Financial Times (May 1, 2009) makes a gripping -and worrying- read. It is an edited extract from “*Fool’s Gold*”, a book written by Gillian Tett (Little, Brown, 2009).

*“Is there some society that doesn’t run on greed?”* often repeated Milton Friedman. Fine, if we can say so. But what is the point for, say, Bill or Melinda in making 100, 200, 300 times more money than, say, Joe or Sarah?

Continued in **“The Seven Deadly Sins of Capitalism”**