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Wall Street's Culture

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Abstract: Modern finance has become a very complicated field, which raises many questions about its economic and social mission. Many bankers' ignorance of complex knowledge and care for the future are hostile ingredients that transform the markets' volatility, through spillover effects, into economic and financial crisis and social anomy. What fuels the wildfire does not necessarily mean black swan events, but often it is the result of (un)conscious and (un)intended decisions of certain economic policy makers. The current financial system is discredited. It is necessary to reform the financial institutions and practices, with the core principle that money should serve the economy and society and not vice versa. In a world of financial capitalism, a world driven by money and adjacent institutions appear to be defective and unjust to many of us. The conflicts' arena must be manageable. The hopes rely on the institutions that represent financial capitalism, institutions erected by people, and where they do not work, they have to be changed.

Introduction

Reinhart and Rogoff showed dozens of crises that erupted in all parts of the world since the nineteenth century until the twenty-first century. (Reinhart & Rogoff, 2009, pp. 348-391) It seems that a crisis with a higher or lower amplitude is inevitable in the configuration of any economic system. The contagion effects of local crises could spread widely, the rebound of the private decisions of some interest groups inexorably affecting the life and the destiny of any human communities. We can strengthen all the above citing the most famous crisis of the interwar years. Liaquat Ahamed (2014) stresses that the global economy collapsed between 1929 and 1933 not because of a single trigger, but it was the result of an accumulation of heterogeneous, but interrelated, events, conducted many thousands of miles away: the German economic crisis that began in 1928, the Wall Street Crash (1929), the banking panic triggered in the United States in 1930 and the financial crisis experienced by Europe in 1931. Interesting is the fact that the author finds analogies and similarities between these past crises and other much recently triggered: the Mexican peso crisis (1994), the dotcom bubble in 2000 and the global financial crisis that started in 2007. (Ahamed, 2014, pp. 454-457)

What fuels the wildfire does not necessarily mean a "black swan" type of event, but often, as we will see below, it is the result of (un)conscious and (un)intended decisions of the economic policy makers.

For the period 1929-1933, the moral authors of economic policy decision errors are few major players. First, the politicians who took the major decisions by the end of World War I, at Paris Peace Conference, created the desire for revenge and many severe national antipathies since they established huge international debts which had a negative impact on the international financial system. For exemple, Germany, France and England owed together, updated, a colossal amount: US $ 4.6 trillion. Secondly, the group of the most important four bankers of the time, the Governor of the Bank of England, the Governor of the Federal Reserve Bank of New York, the President of the Reichsbank under the Weimar Republic and the Governor of the Banque de France, excessively and stubbornly trying to revive the gold standard, was held responsible for the economic and financial distress at the time, as well as the difficulties for harmonizing international relations. Also, they were considered guilty because they have obstinately followed the economic paradigm that does not always work perfectly, namely that, in crisis, the economies automatically adjust (the famous "invisible hand" of Adam Smith), so no need for any intervention like "lender of last resort". When some of them finally understood the need for concerted intervention, the gold standard was a tough obstacle and threw their economies in a generalized deflation. (Ahamed, 2014, pp. 458-460) The disaster eventually followed ... National economies were managed by an elite, unable to understand the importance of the historical moments, to anticipate the consequences of poor economic policy decisions and to decide in accordance with the "moment of grace" experienced through all over the world.

After the crisis from 1930s, the financial and banking sector was regulated excessively (Bhidé, 2010, pp. 228). But 1980s caused a paradigm shift in this ideology and a deregulation and liberalisation processes started because it was considered that an economy always ran a self-correcting pattern and behavior. Competition was stressed to be the most viable filter for every bad management on higher risk-taking and the result was the transfer of this segment of supervision from the institutional regulator to the private one, the bank alone (Turner, 2009, pp. 87). Although these trends were not universal, especially in the United States of America and United Kingdom, the bankers followed a two-step pathway: first, they were free to run for the best profit opportunities, and second, they entered a financial market with higher leveraged mortgage-backed securities, very risky behaviors as we have seen (Bell & Hindmoor, 2015, pp. 5). Other economists considered that the crisis from 2007-2008 represented the end of the "mystical Anglo-Saxon model of liberalisation and regulation" (Mackintosh, 2014, pp. 1).

It is obvious and logical that the new financial technologies have played an important role in precipitating the crisis we are experiencing, feeding the anger towards bankers, brokers, investors, speculators, fund managers, issuers of financial derivatives and, in general, towards everyone dealing with money management, who supposedly created the financial bubble to become rich and impoverish the world. In the souls of men resentment continues to smolder, together with skepticism and a vivid sense of helplessness. New social turbulences were therefore expected.

We have at least two problems: how to create a viable financial sector and what place and what role to find for it in an open society? Do current financial practices support or undermine a market democracy in a healthy society? These are topics for a serious debate, to which Robert J. Shiller (2014), the winner of the Nobel Prize for economics in 2013, invites us to discuss.

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One of the problems we quickly see is the centrality of financial innovation, from the stock market to mortgages. It supports globalization. Another one concerns the morality and the substance of the financial system, to which the roles and responsibilities of the actors are linked. Another problem aims dynamics, extreme developments at all levels. It is noticed that despite the debate, there is a profound misunderstanding on all these issues, particularly regarding the role that markets and institutions must play in the global society.

Despite Shiller's optimism regarding the capacity of financial science and of its powerful tools to help all men, doubt persists among the general public who tends to think that people in the financial world conspire to the detriment of many in their own favor, instead of having in view all the interests of all members of civil society, maybe even more of those in need. Why? Can the conspiracies in the financial world be denied? History says no. Were they made in favor of the elite? History says yes. Then, we get another serious question: do these instances of manipulation and calculated deception, have a general, systemic character, or are they just particular cases?

Modern finance has become a very complicated field, which raises many questions about its economic and social mission. The current financial system is discredited. People working here have no financial credibility; ethics and the sociology of finances have been abandoned, but the need of money remains as well as all the conditionings created by financiers for the production of money. It is necessary to reform the financial institutions and practices, with the core principle that money should serve the economy and society and not vice versa. Financial and communication technologies must be modernized to make microfinance, for example, reach the poorer. New and more flexible types of loans have to be designed. Then, if all spiritual traditions condemn interest, or usury, why do we practice it with such zeal (except for the Islamic financial system)?

We found that through some financial engineering, money can make money, in other words, money can be made without working. For this, we created a whole scaffolding of rules and instruments, institutions and a whole science. How do authors like this Shiller imagine that such a castle made of cards, such a casino economy, can withstand a la longue? Only fools and those interested can believe that. They talk about "participatory forms (!) of using the risk capital". In other words: "Give us your money to play the roulette." And losses must have been socialized or subsidized from tax-payers' money and household savings (Jönsson, 2014, pp. 373). Hence, the internet is full of sites of "crowd funding" or "spontaneous collective financing".

Public finances have a predominant public dimension, but were largely diverted for the private interest, so they need to be reinvented, starting with their legal infrastructure. We need a new financial literacy. Who sets the rules? Politicians are the first who need to understand and write new letters. We need good macroeconomists to develop sound economic policies, a terrible challenge; we need new pension schemes, social benefits and many other institutions built on the principle of intergenerational risk sharing, but with updated rules, avoiding the famous speculative "bubbles".

The belief that prices can not fall caused a mass phenomenon, but it must be abandoned. Such bubbles must be detected in time and defused before they infect the entire economy. Pricing models for capital assets and intricate formulas for calculating option prices can enrich you, but the financial sector is not only concerned with this, or just with risk management, but must deal with the asset of servicing the company objectives. The financial system must be democratized by extending its benefits through more imagination, innovation, skill and selflessness. Finance must be reinvented.

Michael Lewis in his latest book, “Flash Boys: A Wall Street Revolt” (W. W. Norton & Company, New York, 2014) stressed that Wall Street’s culture is harmful twofold. First, the preeminence of short-term gains despite the long-term ones always will encourage risky behaviors and, therefore, will corrupt the economic incentives. Second, many bankers don’t know what the market is going to do in the future, while they pretend to know more than they are prepared to see. Governments tried to solve these problems adopting better regulations and, in many cases, quantitative relaxation mechanisms. (Ide, 2014) This issue emphasize a dangerous feature of the financial system: many bankers’ ignorance of complex knowledge and care for the future are hostile ingredients that transform the markets’ volatility, through spillover effects, into economic and financial crisis and social anomy.

We live in a world of financial capitalism, a world driven by money and adjacent institutions which appear to be defective and unjust to many of us. It is an invented world, partly virtual and which continually reinvents itself, not always thoughtfully. The characteristic financial system must be expanded and democratized, humanized, moralized, so that its impact on ordinary people can be mostly positive. In addition, the system should be more transparent, so that the information and resources to be used actively and intelligently by all interested persons almost permanently.

The current financial establishment must abandon cynicism, selfishness and aggression. The new financial inventions need rationality and humanism. Only in this way can the so blatant inequalities be reduced. Otherwise, social movements, from left or right, can reignite, leading to chaos. This brings a charge to the conspiracy between the government and the leading financial sector, plus an excessive concentration of money and power in the key financial centers, while the others perform the work. Financial kings dominate the governors like puppets for mutual enrichment. That caused the crisis.

If we do not attack its deep roots, the crisis can repeat itself. Why were the culprits not punished? The Inquiry Commission of the Financial Crisis in the US Government described the booms as “madness”. In the US, people gathered using social media, but went from peaceful demonstrations to fights with thousands of participants, whose motivation nobody understands. Is that so? No one thinks about the frustrations of those meaningless people deprived by the crisis, about the real shortcomings within its system and about the aberrant behavior of its managers. Why not adopt corrective laws and regulations?

In 2008, The Telegraph announced that “Lehman Brothers’ British staff reacted with fury when told that colleagues at Lehman’s New York office were expected to share in a $2.5 billion bonus bonanza while they would be paid just until the end of the month.” (Butterworth, 2008) While other examples should be easy to list, some bankers considered bonus controversy an error. AIG CEO Robert Benmosche declared this scenario "was intended to stir public anger, to get everybody out there with their pitch forks and their hangman nooses, and all that–sort of like what we did in the Deep South [decades ago]. And I think it was just as bad and just as wrong." (Daily Finance Staff, 2013) Also, it is interesting to notice that the bankers' share of earnings in the United Kingdom, "those at the very top of the pay distribution", hadn't reduced during the period 2007-2011 (Bell & van Reenen, 2013, pp. F1).

The rewards for the finance people are enormous for their effort, and inequalities are blatant. In addition, governments have saved fraudulent rich bankers with money from taxes from the poor, which is downright scandalous. Is that capitalism? How healthy and how sustainable is the rise in credit of the economy? Does it solve or does it create more risks? Where are Ricardo's savings? Not to mention the fact that most debts are made for weapons, for self-destructive technologies. How can such systems not implode? Instead of returning to the great classical equilibrium, it is still virtually innovating. How to integrate the correct and moral behavior in the culture of Wall Street?

The irony is that, given the degree of interconnectivity of the system, we do not need less finances, but a better one, because the generalized suspicion hinders that good innovation, in healthy financial instruments. The current political climate is also an obstacle. And money can be neither better nor worse than the society it represents. Let's look in the mirror...

Fear and power

Generalized fear delays the return to a better management of the real estate risk, for instance, or a better regulation of the capital indebtedness. Unfortunately, the response to the crisis was not the innovation of correcting the system's gaps, but how to not let the guilty die and how to manage public debt after fictive liquidities were evaporated. The second Keynes did no reach maturity yet. Thus, the information revolution is still used for nonsense; countries still have different economic structures, but experience the same policies in a global hyper-concurrence on markets with typologies in extension etc. Insurance contracts must be rethought in substance. If good will existed, the financial industry would be able to regain the potential to offer hope, while using more energy and intelligence.

Financiers get to hold too much power, and their desire for power poisons. It is said that these financial elites rule the world even easier by using rapid advances in the technology of information. "Expert thinking" has become more expert and "complex communication" has become more complex. New technologies increase wealth, which increases power and even pleasure. They are the new "golden calves", fact noticed by George Akerlof (1976, pp. 599-617). Yes, there are castes that offer huge economic benefits by simply belonging to them: from good jobs, protection, business opportunities and this is present everywhere. This leads to concentration of wealth and power, but also fierce conflicts. Also, leaving such a caste may attract big trouble. Sometimes financial instruments in themselves create the caste structure and here the great danger prevails; other times they are just simple means in themselves.

Robert Shiller informs us that the capitalist financial system is still a work in progress; it is gradually improving, until there is no stone on stone, if we may add. It is defined as a long list of financial practices, specific roles and responsibilities. They say it democratizes! ... They did not give up usury, but the spirit of caste, including in India. Well, how else could globalization be possible? A flock and one shepherd...

Aristocracy and "High Society" of the nineteenth century is not lost, as some fantasize, but it transforms. "A more egalitarian spirit is abroad in the world, and it is supported by democratized finance" (Shiller, 2014, pp. 467). Or that, please forgive, is either stupid, or writing after orders (other cases are: Fukuyama, Huntington, Th. Friedman, Krugman and many others). President Roosevelt caused a real democratization of financial markets. But here we speak about another moral caliber and other times.

There are other ways to conquer and maintain self-esteem than the acquisition of wealth; this is not necessarily the meaning of our lives. Human potential can be fulfilled in various forms, fair and honest. Then why almost all crowd in the field of finance, trying to get rich by all means? Why is the redistribution of power and wealth produced so large-scale, without any connection to real merit? Where there is a large dose of randomness, entropy and waste increases, until the death of the system, if the principles do not change. We are at a crossroads and it is difficult to see new principles. Maybe in Asia. It is estimated that over ten years or even earlier China will overtake the nominal GDP of the United States. This is an opportunity to change the principles, with high costs, but it would be better than an implosion ... Many years ago, it was written about three implosions: the USSR, the European Union and the US, in that order. Unfortunately, the evolutions in the meantime seem to confirm this opinion.

Castes

Our economy is driven by elite monopolizing the power. Returning to the caste system, they would be the new Brahmins, who serve to the Money God.

The second caste would be composed of kings and soldiers, who represent the first and keep them safe. The third is composed of those who work in various fields and pay taxes from which those in the first caste get their wealth. Finally, the last caste, the outcasts, consists of those who were disinherited by fate - about two billion people, of which half in Africa. Also, it is interesting to see that in 2012 the United States recorded about 46.5 million people living in poverty or almost 15% of total population. (Chandy & Smith, 2014, pp. 3)

It is easy to see a strengthening of the first, second and fourth caste, and a dilution of the middle class who bears the brunt. Resources, wealth and power are increasingly concentrated in the first two levels, strongly unbalancing the system. What we had got out of here? Logically: social "anomie" and tensions.

We do not have a safety net as the states in the modern era used to have, the tax systems are less progressive, and attempts to change lead to capital flight. In the globalized capitalism, we need to provide the risk protection on our own, by private arrangement or caste. The Government can be a facilitator at most. Let us see what Shiller observes: "Democratization of finances goes hand in hand with its humanization (How exciting!). In this respect, it is important for the finances to be human (!) and to incorporate our increasing sophisticated knowledge about the human mind in its systems, its models and its predictions." (Shiller, 2014, pp. 471) Then, he continues with "neuro-economics". This author should take by the hand another great Nobel winner, who in 2005, in a reception speech categorically declared that, nowadays, economic crises are not possible, and he is now fighting with electrification in Africa because he has one year left out of the ten self-imposed and he must finish with global poverty! ... If our elites are like that, do you realize how imperfect is the system?

Further on quoting: "We must continue to perfect a system that provides outlets for the expression of native aggression of people, allowing them to be selfish." (Shiller, 2014, pp. 472) That sounds at least cynical. However, the author has a quality: occasionally he tells the truth, noting the indifference towards the poverty-stricken of the last caste, with reference to the philosopher Peter Unger in his well-known book, "Living High and Letting Die: Our Illusion of Innocence", and he is surprised that it is hard for him to notice it. However, his moral arguments, perfectly futile, are considered selfish and delusive.

Human nature would be essentially focused on an inexhaustible thirst for power. Nietzsche would be proud of such an idea, which moreover is also the basis of the two world wars. He wrote that "the will to power is the primitive form of affect (...) and it is particularly enlightening to accept power instead of individual "happiness": there is a longing for power, for power increase (...)

any driving force is will to power, there is no other physical force, mental or dynamic besides this." (Nietzsche, 1901, pp. 11)

These should therefore be philosophical foundation. But Shiller overbids his theory by stating that "neuroscience shows many patterns of behavior in the brain, including altruistic impulses, which cannot all be derived from any unitary "psychic force" (Shiller, 2014, pp. 236). In other words, man would be a kind of agglutination of innate and disparate mental concepts, perhaps reacting to stimuli. That's according to the new science of "neuro-economics".

Yet Adam Smith wrote "The Theory of Moral Sentiments", in 1742, where he does not speak at all about the will to power, but about other feelings, more noble ones, that would give an impulse to economists, including, for example, the desire to be appreciated. Then there is an enormous literature that contradicts the lust for power, especially in essentialists, phenomenologists etc. What follows from these investigations is that dignity, for example, overcomes the brutal desire of power. Smith speaks of "the zeal for approval and esteem of those who live near us, which is of so great importance to our happiness (...). We not only like to receive praise, but also to do something praiseworthy." (Smith, 2013, pp. 18)

What did you do with economics? From holotropic it has come to be hylotropic, a false picture by human nature. But who wants to be falsified? We do not. We do not think that if we had a venal behavior we would be praiseworthy. This applies to those who actually have it.

Moral Relativism

There had been a lot of moral philosophies of surrogate type. All sorts of thieves and assassins, including economic ones, are regarded as heroes. Corruption, bribery, lying is put in a place of honor at the table with the king. Yet, capitalism is seen as the most moral system, more than any other, where power was used without consideration. Now the system is more perverse and more centralized. The financial elite absorbs all the resources from all over the world. Is it democratic?

The hostages of our age are the guarantees given in financial assets, pledge and mortgage. It is still a kind of slavery, on limit, all that remains to be sold is your work. This system of warranty, including repurchase agreements, which extends and amplifies the disease, is the one in which the crisis was born. Mortgage is still the equivalent of an exchange of hostages from feudalism, only that the hostages are our homes. But tragedies are still lived on human level.

The authors' hopes rely on the institutions that represent financial capitalism, institutions erected by people, and where they do not work, we do not understand why they cannot be changed. The problem is that they work well, but for the very few. The so-called “financial democracy” is nothing but propaganda...

Instead of conclusions

Let's go back to where we started. The progress of the technology of information serves some financial elite, who acts as a ruling caste. Financial innovations are not just tools, such as technology. More than the latter, they serve structures of immoral interests at the expense of the many. Here, the structures of artificial intelligence are scheduled to serve the elite who rules the world. What exceeds human intelligence, especially in terms of goals and decisions, can be dangerous. This is good only as a tool. It must continue to offer space to our aggressive impulses and our lust for power. The conflicts’ arena must be manageable. And it is amoral too, which is a great advantage to discourage the quarrelsome.

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