



A Culture of Greed

A basic definition of “business ethics” boils down to knowing the difference between right and wrong, and choosing to do the right thing, while maintaining a sense of moral duty and obligation.

Over the past few months, American International Group (AIG) has received almost US\$200 billion in federal bailout funds, without which would have undoubtedly led to the collapse of the insurance giant. AIG probably did not deserve to be bailed out to the extent that it has been, but if it were left to fail there would have been a tsunami of counterparty failures that could have led to the collapse of the entire US financial system. So, the US government stepped in and provided extravagant amounts of taxpayers' dollars, on four separate occasions.

Last week, AIG paid US\$165 million in bonuses to executives at the very unit that was responsible for creating the exotic derivative instruments that just about caused the firm's downfall. How can this be right? Has the concept of business ethics gone out the window? And who is accountable in all of this?

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Some proponents of the bonus payments, including Edward Liddy (chief executive of AIG), have attempted to justify the payouts by coining them “retention” payments – incentive for top employees to remain with the company despite alternate attractive job opportunities. Under different circumstances – excellent company performance and profitability, for example – this could be a valid argument. After all, what is a corporation without its human capital? However, this has not been the case with the institutions who have received federal funds.

Critics of Wall Street and the banking industry have described them as being driven by sheer greed, an industry that contributes little or no benefits to society in general. Whether there are added societal benefits is another discussion altogether; what we are interested in however is this culture of greed.

Over the last couple of decades, Wall Street has increasingly become a bonus-driven industry, in which potential employees are drawn to banking jobs based on the size of the impending compensation package. In recent times, the hunger for compensation got so unbridled that many bankers may have lost sight of everything other than taking the risks to make the money which would “justify” the bonuses. This culture of greed clearly precipitated the financial crisis, leaving taxpayers to not only foot the bill, but finance today's bonus payouts. It is ludicrous at best.

In early February, it was estimated that the banking industry paid out \$18.4 billion in bonuses last year – shameful, according to US President Obama. Taxpayers should be afforded the privilege to claw back at the hundreds of millions of dollars of compensation awarded to top executives at Merrill Lynch (CEO Stanley O'Neal walked away with \$161 million in pay, after leaving the then-\$8 billion mess), Citigroup (Chuck Prince meandered away with a \$38 million bonus), and of course AIG

(whose former CEO walked with a \$47 million severance package).

To add fuel to the fire, after news broke on last year's irresponsible bonus-spending, traders and executives at AIG were awarded a further unjustifiable \$165 million in bonuses. While this may be a needle in a haystack when compared with the total bailout package, it may have just been the straw that broke the camel's back. The public is now infuriated, and rightly so. Whether there were previous contracts stipulating that bonuses be awarded is irrelevant given the current financial health of AIG. Additionally, further irresponsibility comes in the form of Citigroup's \$10 million expenditure on renovations for its New York offices after receiving \$45 billion of the government's bailout money. Though the funds are not being dished out in the form of bonuses, the concept is similar in that the public is now financing the luxurious lifestyles of the banking chiefs. This is where the question of business ethics has to come into play, and there does not appear to be a single shred of integrity left on the parts of the said executives and others involved, when looked at from this angle.

Government Aspect

If the public had any bit of uncertainty as to how their tax dollars were being put to use, the AIG bonus scandal would have no doubt cemented anxiety and anger about the government's handling of the bailouts, fuelling a firestorm for the White House. It is simple – reports on the bonuses paid to AIG executives have undermined whatever political capital President Obama may have earned in the last few months. Distrust in the Government is a very difficult trait to break, and I am of the opinion that the President's political sway may now be compromised and his ability to persuade Congress to authorize future bailouts may now be in jeopardy. The key here is transparency – something that has clearly been lacking in the financial system for quite some time now. It seems as though the American taxpayer keeps learning about the terms of the AIG bailout after the fact, when in actuality AIG owes the US public over \$170 billion; and until the debt is repaid the public deserves to be kept in the loop.

Why then, did the Federal Reserve and the Treasury Department not put terms into the original bailout agreement that would have prevented this gross perversion of justice? The government has owned 79.9% of AIG since September – could they not have taken note of the unwarranted bonus payments at other firms and safeguarded themselves against being taken advantage of by traders and executives?

It seems as though Obama's February statements (regarding tougher restrictions on executive compensation) are now null and void. It almost appears as though the government is one step behind when it comes to their own bailout terms, and all they can do is reflect on the failed strategies gone by, and make statements expressing outrage and disappointment accordingly. Obama, this cannot be allowed to happen again.

Ethical Obligation

So we come back to the initial question: What is the right thing to do? Were it not for the American taxpayers, AIG and several big banks would cease to be in existence. Now is the time for such corporations to make the tough decisions that would honour the trust that the federal government and the taxpayers have given them. The right thing to do would be to void bonus contracts, to spend as prudently as possible on the bare necessities, and to fulfill the moral duty they owe the general public by making every attempt to dig themselves out of the mess that they have created.

*** (At the time of writing this article, the US House of Representatives overwhelmingly approved a 90 percent tax on the bonuses at AIG and other companies that have received bailout funds. Of course, the vote came amid a national outcry over the bonuses paid to AIG employees, and is still pending approval by the Senate).*

Current Happenings in Local and International Markets:

- Solid first quarter for Scotia
- TCL hit by soft construction market
- 10% of JMMB to go to T&T gov't
- National Commercial Bank Jamaica Ltd. Ratings Lowered to 'B-/C' From 'B/B' by S&P
- Carib Cement's profit jumps on improved efficiencies, but FX losses drag down bottom line
- Royal Bank, Scotiabank Climb in Rankings as U.S. Banks Stumble
- Barclays In Talks to Sell iShares, Makes 'Strong Start' to Year
- AIG Says \$105 Billion Flowed to Goldman, SocGen, U.S. States
- Printer, copier maker Xerox cuts 1st-quarter outlook by nearly 80 percent
- Bank of Japan Expands Government Bond Buying to Stem Recession
- U.K. Unemployment Rises Most Since at Least 1971
- Bonus Tax Heads to Senate After House Passes 90% Levy

Table 1: Regional Market Performance (as at 19 March 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	826.26	-0.87	-1.98	-1.98	-15.59
All Trinidad	1,123.77	-1.74	-2.40	-2.68	-8.58
JSE Index	80,365.92	-0.69	-1.79	0.27	-24.65
JSE Select	1,727.57	-2.65	-1.95	-12.96	-41.94
All Jamaica	63,835.57	-1.60	-2.97	-13.73	-41.25
BSE Composite	867.35	-0.60	-4.89	-5.71	-14.95

Table 2: International Market Performance (as at 19 March 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	784.04	4.44	0.65	-13.20	-39.62
Nasdaq Composite	1,483.48	4.02	2.82	-5.93	-32.87
Dow Jones Industrial	7,400.80	3.22	-0.87	-15.67	-38.83
German Dax	4,043.46	2.21	-4.07	-15.94	-36.44
FTSE 100	3,816.93	2.83	-5.01	-13.92	-31.17
Nikkei 225	7,972.17	10.75	5.48	-8.86	-34.98
Hang Seng	13,130.92	9.41	0.83	-8.73	-39.95
DJ Eurostoxx	2,039.58	3.92	-3.56	-16.80	-42.21

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