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Reforming the financial landscape

By K Jayshankar

The bashing of Wall Street continues unabated. The knives are still out against the fat-cats in the financial sector and investment bankers continue to be the favorite targets. The cries of "vengeance will be mine" still echo with politicians continuing to rail against the banking fraternity. Clearly, the ghost of September 2008 and 2009 have not been exorcised yet.

The latest move against the financial sector is the reforms that have been favored by the US law makers. Many call it the most sweeping rewrite of financial rules since the 1930s. The intention is honorable: that the world must avoid a repeat of the financial mess of 2008-09 which led to an unprecedented global recession and the final step of bailouts by helpless governments across the globe.

Why is it that this time the anger is so intense? One reason is that the banking sector does not look like having learnt its lessons. Bankers have a clear case of short term memory loss as they had forgotten that they had been rescued by the tax payers' funds recently. So while Wall Street 2 has Gordon Gecko threatening to make up for lost time, even Oliver Stone would not have anticipated the extent to which greed flourishes in the financial markets. The moment business revival started, the banking sector was in hurry and rushed to claim goodies. The obnoxious attempt by bankers to feather their own nest with stupendous bonuses reflected not just poor taste, but also complete lack of sensitivity to other sections of society who had been inflicted severe doses of pain which the financial fraternity had caused because of their avaricious actions. Their gluttonous appetite and their haste for booty collection and aggrandizement caused outrage in streets, legislatures and media worldwide. And when there is public outcry, politicians are quick to get into the act as they sense opportunity for vote collection. After the Dodd-Frank Bill (not yet a law, though expected to become one soon) initiating major changes in the US financial markets, there are further steps that President Obama has been seeking.

It is payback time in US now and the steps include the recent move to levy 0.15 per cent tax on the liabilities of the biggest US financial institution to recover costs to tax payers who funded the financial bailout in the very recent past.

Taxes on the financial sector in general and the banking sector in particular are also on the agenda of some European nations including the new coalition government in Britain. The Chancellor of the Exchequer in the United Kingdom, George Osborne, has already outlined widespread regulatory changes with the intent of applying some of the lessons learned through the mistakes of the recession period. Suddenly, the financial sector is under siege, a situation they have never been under before.

However, it is important to remain sane and not get carried away. A cool assessment of the situation (with some understanding of past financial environment) would indicate that the cries for blood against the banking industry verges on misplaced feelings of revenge. Risk is at the heart of any business venture and attempting to play safe undermines the logic of entrepreneurism. It is fashionable to attack the financial markets but we forget that they play an important role in shaping development. For all the recent turmoil that they have caused, the same financial markets were being heralded as instruments that not just unlocked capital opportunities but also became the vehicle that channelized overseas capital flow into emerging markets through foreign institutional investments.

Another interesting development in the recent weeks is the debate about whether it is time to withdraw the incentives provided to reboot the major global economies. While some nations are worried about the early inflationary signs becoming visible in some sectors, there is an equally loud plea from the US Government that it would be too hasty to withdraw the stimulus package offered to revive the economy. President Obama has with his usual eloquence said that 'We can't all rush to the exits at the same time'. This view is shared by the Indian government and espoused before the recent G - 20 Summit in Canada. The Indian banking sector came through brightly during the recent global crisis and has viewed with concern the series of protectionist steps taken in some of the developed nations. They have also voiced their distaste for the move in the developed nations to tax banks. While it is not their point that markets should not be regulated, they have watched with concern at the swing of the pendulum which has dramatically headed wildly to another extreme after having been too liberal in the past (a situation which has been uncharitably called as 'regulators sleeping at the wheel'). The need for balance is their voice of sanity in these turbulent times.

A last thought: will banking were be the same again? Quite emphatically one can conclude that the landscape in the financial sector has changed. It is no one's case that there will be no further business cycles, (you can sure that we will find new ways of self-destructing!) but suffice it to say that for sometime at least, state regulators will be the sheriffs watching for the bad guys (rogue traders, sharp operators, financial whiz-kids, I-Bankers, etc.) to bring peace to the town where social banking, development banking & micro-finance will become more respectable professional options.

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