

CONCLUSION

A recurring concern for my first-year undergraduate students contemplating a career in finance is that they will turn into hypocrites: spend several years in college being exhorted to act in the service of humanity, perhaps studying great thinkers, absorbing humanistic values, and devising solutions for a better society, and, as soon as they leave their idealized intellectual community, become cogs in a gigantic machine optimized to generate short-term profits.

For those lucky enough to attend a prestigious university, the window during which they can concentrate on their studies – and ponder humanity’s great challenges – has diminished. In a number of top US colleges, investment banks have started recruiting during a student’s first undergraduate year. To be sure, this is a first-world problem. In fact, even in the United States and most advanced economies, such concerns are only relevant for those at the top of the pyramid, who will end up populating commercial and investment banks, alternative asset funds, and other financial institutions.

In the preceding pages, we delineated how career paths in these traditional, profit-seeking areas of finance can be informed by humanistic values. We considered a simple framework to evaluate what a virtuous path in finance might look like, inspired by the Aristotelian tradition and its emphasis on moral character, practical wisdom adapted to context, and moderation, as well as by Adam Smith’s understanding of human beings as inherently motivated by a combination of self-interest and interest in the welfare of others.

The framework projects simple messages: Serve your customers faithfully. Do not extract value from others. Treat colleagues with dignity. And, as much as possible, apply your finance skills and resources toward the collective interest. This approach embraces certain virtues, in particular that of self-restraint. Jack Bogle – as close to a wise man as the industry will ever have – perhaps said it best by titling one of his most thoughtful books *Enough*.¹ Among the scourges of modern times, he bemoaned the primacy of maximizing wealth, which increasingly trumps other considerations and places business objectives above professional values.

Recognizing that individual behavior is largely driven by incentives, which, in turn, are shaped by market forces and regulation, the framework's aspirations are modest: it seeks to influence the behavior of a subset of finance professionals operating within the industry's existing structure and context. It is unlikely to hold much sway with those who thrive by knowingly gaming others. Rather, it targets well-intentioned individuals who are self-interested, neither altruistic nor greedy, likely ambitious in achieving upward mobility, yet keen to succeed while upholding their values and contributing to society. For all the demonization of finance in popular culture, I suspect that this is a large group within the industry. Moreover, the sharp rise in interest in the use of finance as a tool to address social and economic problems, particularly among students and young professionals, suggests the potential for a generational shift in the approach to finance.

The framework challenges traditional concepts of success, understanding that many industry professionals will continue to enthusiastically play the game by its own rules and be motivated by conventional markers of success such as financial compensation and promotion. It doesn't purport to offer a comprehensive solution to the finance industry's ills. But it aspires to nudge an important group away from self-serving ends toward serving clients and society more earnestly.

Greater awareness of ways in which the industry impacts society could also inform decisions made by institutions – for instance, by explicitly considering the impact of their activities on the collective interest, a national pension fund or a university endowment may decide to no longer allocate capital to certain investment strategies if they determine that those strategies generate excess returns by extracting value from the rest of society.

If individuals targeted by this book are well-intentioned to begin with, why is such a framework necessary? Because the industry, more often than not, is cloaked in complexity and opacity, skewed by information asymmetry, and rife with conflicts of interest, presenting unusually fertile grounds for cultivating cognitive biases. Finance professionals are so deeply embedded in a daily web of short-term objectives, high pressure, and engrossing incentives, that they can all too easily become oblivious to the practical implications of their actions: the casual boosting of hidden fees which surreptitiously shift value from the customer to the financial service provider, the nominal successes on behalf of clients which entail extracting value from other constituents, the asymmetric risk-taking which generates large private gains and negative social returns. While finance has been a critical enabler of prosperity across the world and much of the industry inherently serves society, the opportunities for finance professionals to self-serve remain pervasive. By responding to their financial incentives and echoing the conduct of their successful peers, well-meaning individuals can unwittingly slip into self-serving mode, even when paying heed to the rules of the game.

Is it unrealistic to suggest following guidelines that might clash with systematic short-term profit maximization? It is unlikely to boost anyone's career in the short term. Embracing deeply held values may be helpful in the long term, but that benefit remains speculative.

A theme of the book is that finance professionals have examples to emulate – individuals who are self-interested, ambitious, and successful and yet are able to express their humanistic values as finance professionals. The vast majority of those are anonymous and unheralded. They comprise professionals at all levels of the organization, who, for instance, diligently score credit to extend loans at the appropriate price, guide customers toward the saving instruments that are best suited to their profile and circumstances, oversee the operational minutiae of replicating market indices with virtually no tracking error, or identify the best product to insure a family's assets. By engaging in core financial services which support real economic activities with their clients' interest in mind, they help people achieve their goals and, in doing so, benefit society.

We delved into specific examples – individuals who merit our attention for having deviated from the path of least resistance, the one that would have maximized their own material wealth by simply going

along with their peers. At times, they stand out less because of the bravura of their action – diligently penny-pinching expenses on behalf of customers or promoting diversity in the workplace may strike readers as pedestrian – than for the simple fact that so few people in the industry take that path. Being involved in the industry and familiar with the countless pressure points that lead finance professionals to conform, I have found myself inspired by their example.

There are those who exercised self-restraint – a deceptively simple goal made complicated by the fact that it typically entails lower profits in the short-term, often going against the grain of corporate priorities and colleagues’ own financial goals. They left money on the table, in an industry where doing so is often perceived by peers as a sign of either incompetence or confused logic. In a reversal of industry practices, Andy Okun and his partner Stephen Modzelewski systematically set up terms for their hedge fund that skew in favor of their clients, even when those terms are not particularly valued or even known by these clients. The Japanese “herbivores” are endeavoring to introduce a low-cost active asset management model to Japan and sway their peers. Highly successful endowment managers such as David Swensen and Andy Golden have stuck with their beloved academic institutions for decades, eschewing the call for greater pay elsewhere.

All of those individuals may have taken their cues from those in past generations who broke ranks during their time. John Whitehead determined that Goldman Sachs wouldn’t engage in hostile take-overs at the time they took off, despite heavy demand from clients. Warren Hellman decided to retire from Hellman & Friedman, the firm he co-founded, without “cashing out,” to motivate future partners by paying it forward.

Others created new models that simply served customers better, even if it meant lower profits. Jack Bogle revolutionized the asset management industry, slowly at first and then drastically, by introducing index funds and tirelessly advocating on behalf of shifting savings into passive asset management.

Some migrated beyond the industry to apply their skills and resources toward the collective interest. We discussed a broad group of people, comprising statesmen such as Robert Lovett and entrepreneurs such as Michaela Walsh. Most encouragingly, we noted how young professionals can make a considerable difference at an early stage in their career: for instance, Erin Godard, who, at the age of 28 and with only five

years of professional accounting experience, created an accounting training institute in Rwanda which can generate outsized social returns.

Finally, there are those who were willing to agitate, mostly on behalf of others, often at a personal cost. They went beyond the baseline expectation of my framework – to work in finance in a self-interested manner while upholding humanistic values and contributing to society. For these professionals, self-interest and collective interest meld, at least in the situations discussed. Nick Benes has long forgone personal wealth creation in order to help Japan move toward better corporate governance. David Webb has assumed the role of governance vigilante in all matters Hong Kong, to great effect. Natasha Lamb has led a relentless shareholder campaign in the United States pressuring large listed companies to abide by contemporary norms of diversity, showing remarkable traction.

Not all of these individuals were successful in balancing the collective good with their personal interest. Alayne Fleischmann's brave intervention at JP Morgan was made at enormous personal cost. She exemplifies the long list of whistleblowers who were willing to put their livelihoods and reputations at risk in order to call out egregious corporate misdeeds that were hurting customers.

Perhaps it is fitting to end this book with the example of the architect of the US financial system, Alexander Hamilton. Of the many virtues that Hamilton exhibited as a public servant, his ability to resist enriching himself is particularly striking in light of his role as the effective founder of the modern US financial system and his recurring struggle throughout his life to provide for his family. He differs from most examples in this book in that he was not trained as a financial professional. His life was devoted to public service, except for stints running a law practice in New York. While he lived in an era whose mores would be foreign to the contemporary professional, the tensions between the public mandate and the private interests of public servants – such as the temptation to benefit from graft, influence peddling, and the revolving door – remain perennial challenges, making this example timeless.

Arguably the most brilliant of the US Founding Fathers, Hamilton left a legacy whose range almost defies reason, against all odds. He distinguished himself first as an agitator in favor of US independence and as a valiant soldier and military leader whose charge at Yorktown contributed to the British defeat. After independence was achieved, he relentlessly advocated in favor of a constitutional

convention and then helped promote the Constitution by drafting fifty-one of the eighty-five installments of the Federalist Papers. They are still regarded as the most authoritative source on the original intent of the US Constitution.

In the eyes of historians, his symbiotic partnership with George Washington through the War of Independence and Washington's presidency, his prowess as a military leader, and his critical impact as a constitutional theorist often overshadow the fact that he was the chief architect of the United States' modern financial system. As the nation's first Secretary of Treasury from 1789 to 1795, Hamilton revolutionized the country's financial system. A self-starter and autodidact, he studied financial history with a particular interest in how the Bank of England had managed its large national debt. Recognizing the potential power of sovereign debt, he founded the country's first central bank, restructured the national debt, established the US dollar as the national currency, and launched the Treasury debt market.²

Hamilton also understood the necessity for credit flowing to private enterprise and spurred the development of commercial banks. He did so by encouraging state governments to charter banks which would lend to private businesses and individuals. Between 1790 and 1795, the number of commercial banks grew from three local banks with limited connections to twenty, while new branches of the Bank of the United States were established in several cities.³ He also actively supported the development of securities markets, leading private brokers to establish exchanges in Philadelphia and New York.

Hamilton perceived the modern financial system as an enabler of growth and national power. He was prescient in his vision. Most historians and economists did not systematically make that connection until the end of the twentieth century. His motivation was visceral, having sensed that the war against the British had lasted longer than it should have because the British were much better financed than the Americans.⁴

What was remarkable besides his prodigious achievements was his restraint from deriving any kind of personal financial benefit. He cared about national power and prosperity, but devoted very limited attention to his own material comfort. There would have been no lack of opportunities to personally gain from being at the helm of a rapidly expanding financial system.

He exercised great discipline in averting conflicts of interest, eliminating all outside sources of income when he was in office, in

contrast to George Washington, Thomas Jefferson, and James Madison.⁵ As a member of Congress, he waived the pension he had been entitled to as an officer because he was deeply involved in the debate on veteran benefits.⁶ He also waived his right to “bounty” land that went to officers. In establishing the Treasury Department, he created internal compliance rules that prevented employees from transacting in government securities.⁷

These were not benevolent gestures from a man of means whose lifestyle was assured by substantial assets. On the contrary, he frequently found himself in need of money, not because he spent it but because he made so little of it, and did not take advantage of his exalted status in society or his unique position in finance while he built up the financial system. To his credit, he left office in a much weaker personal financial state than he did entering it. As Treasury Secretary, he made \$3,500 a year, much less than he would have made in private law practice.⁸ Among his many responsibilities, he oversaw the Customs Service, which meant that he had purview over enormous amounts of cash – yet, he handled transactions with utmost integrity.⁹

Hamilton resigned from the Treasury Department unashamedly invoking his need to make money to support his family. Even then, he refrained from the easy money available to men of his status. A clear opportunity presented itself when an old classmate offered to enroll him in a lucrative real estate project soon after he left office.¹⁰ Hamilton graciously declined, likely because his friend represented foreign capital which might present a conflict of interest in the future. He died leaving his family in a financial bind, prompting a discreet fundraising effort among his friends on behalf of his wife Eliza and their seven surviving children.¹¹

The US financial system – the most expansive and powerful in human history – was established by a man who embodies the antithesis of the concept “grab what you can when you can.” Of course, the current system would be unrecognizable to Alexander Hamilton, but the moral challenges faced by its participants endure. Even if Hamilton’s circumstances were unique, his eagerness to succeed on his own terms and his ability to refrain from self-serving – no matter how common or expected that behavior may be – permeate the individuals we discussed in this book, from this US Founding Father to Erin Godard, who is still in her twenties. Their stories point to a path in finance that may appeal to well-intentioned professionals who are keen to contribute to society and uphold their values, while improving finance from within.