

Regenerate the Planet to Boost the Capital Market

The problem of juggling with accounts, cooking of books, inflating earnings, misappropriation of public money, and manipulation of customers has been with us all through history. The frauds sit in corporate books ticking like time bombs on river beds waiting to go off as the tide goes out. In his book *The Great Crash of 1929*, John Kenneth Galbraith, the noted economist says: "In good times, people are relaxed, trusting, and money is plentiful. But even though money is plentiful, there are always many people who need more. Under these circumstances, the rate of embezzlement grows, the rate of discovery falls off, and the bezzle increases rapidly. In depression, all this is reversed. Money is watched with a narrow, suspicious eye. The man who handles it is assumed to be dishonest until he proves himself otherwise. Audits are penetrating and meticulous. Commercial morality is enormously improved. The bezzle shrinks."

There are three types of truths. One truth is that we tell others. There is a second truth that we tell ourselves. And there is a third truth that we do not even tell ourselves. It is the recognition of the third truth, the truth we do not tell ourselves that has a potential for transformation of our lives. The third truth is one of those terrifying realities, the very mention of which destabilises us. But human ingenuity and capacity to learn and adapt is so profound that the very realisation that there is a problem provides 90% of the solution

The public was unaware of the precision and sophistication with which these are practiced in Wall Street – the world's greatest financial hub – through a culture of cosiness, conceit, concealment and corruption as has been revealed in the article "From Wall Street to Crawl Street". According to Steve Eisman, a hedge fund manager, it was a castle built to rip people off. John Gutfreund, CEO of Salomon Brothers and dubbed as King of Wall Street, breaks down while describing the greedy culture of Wall Street. According to him greed on Wall Street was a given, almost an obligation. While addressing students at Columbia Business School, he advised them to find something more meaningful to do with their lives.

This greed has continued because the governments play hostage to the moneyed class as they are scared of regulating them lest they move their assets to lightly regulated shores. Satyam's main contribution was the exposure of a sordid state of the insider trading – a hush-hush word, the third truth - in bourses all over the world. The investigations revealed large scale selling of the company's share by financial institutions days before Raju's confession of cooking books. These institutions included some of the most respectable names in corporate and financial world. Time after time, clamour from investors against insider trading has been silenced by incumbents and regulators through self-denials and proclamations – it does not happen here – leaving the common man to suffer and give a bad name to markets. The greatest resistance to clean up the financial market is from the regulators themselves. Even Martha Stewart who was allegedly involved in insider trading served in a penitentiary not for insider trading but for lying.

It was Christopher Cox himself who rolled down the Sarbanes Oxley Act. Just six months before the announcement of bailouts SEC unveiled a widely discussed blueprint for U.S. financial regulatory reform calling for less supervision of Wall Street by the Securities and Exchange Commission. The article describes Senator Phil Gramm's role in constructing the Gramm-Leach-Bliley Act in 1999 which completely deregulated the banking industry.

Good news is that today's marketers turned bloggers have done much more than any regulator could have ever done. They have punished all manipulators and fraudsters as never before. Subjected to strobe like glare of public scrutiny, these fraudsters have been named and shamed as architects of destruction. The marketers have struck at the last refuge of scoundrels – the real estate. Within a span of 12 months of the queues outside Northern Rock, the heads of the world's 5 biggest investment banks - James Cayne of Bear

Stearn, Richard Fuld of Lehman Brothers, Blankfein of Goldman Sachs, John Thain of Merrill Lynch and John Mack of Morgan Stanley lost combined personal wealth to the tune of \$2.2bn. Other fraudsters have been given the boot. Markets are in turbulence only because there are several at large. It will not calm down until all the fraudsters have been held to account.

Despite the proliferation of means to access information or , may be because of it, truth has become the biggest casualty. We were all told that short sellers are bad guys of the markets. In fact when stocks started pulverising , many regulators banned the short selling. It is only now that we can appreciate the interventions of the likes of Steve Eisman and Meredith Whitney in shorting the market that jolted the investors to face reality. Use of tax payer's money in bailing out banks offers a great dilemma. Why should we use bailouts to pay Merediths and Steves and cause a double whammy to innocent investors or tax payers who have already suffered. Banks have got into this hole only because they have been insuring credit default swaps, estimated \$62 trillion last year, four times the GDP of United States.

CDS works like this. Trader X identifies pools of subprime that have no documentation and no money down and shorts by covering it with a side bet with a bank, say Goldman Sachs. In exchange he pays a fixed premium – say \$5 million a year to the bank for subprime mortgage of \$500 million. If the subprime pool busts Goldman Sachs has to pay him \$500m. Goldman Sachs covers itself by buying insurance from AIG. AIG have got themselves into a big hole because they were covering all subprime mortgages. When the government pays AIG from TARP , AIG is paying back to Goldman Sachs , so Goldman Sachs in turn can pay Eisman. Would anyone pay taxes to government to enrich a stock broker?

It will be naïve to think that all these financial ills are confined to Wall Street or the US. Our entire financial system is characterized by this and this is what has led to total distrust in the market. Jesse Livermore , the legendary Wall Street trader of early twentieth century who made millions by short selling committed suicide on 28 Nov 1940 at the age of 63. His suicide note said "I am tired of fighting Wall Street." He said "Wall Street never changes. The pockets change, the suckers change, the stocks change, but Wall Street never changes because human nature never changes."

68 years after the suicide of Jesse Livermore, we can change Wall Street if not the human nature. As President Obama said in his inaugural address: "what men and women can achieve when imagination is joined to a common purpose and necessity to courage." We should use the current recession as a God-sent opportunity to regenerate planet and rebuild people. In our eagerness of spending public money to contain recession and create jobs it is important to think carefully on the direction of expenditure on bailouts. Generating employment is the key to contain recession.

But it will be foolhardy to do that in a way which will make us uncompetitive in the long run. Can a portion of the hundreds of billion dollars of government bailout of banks be used to plough into clean and renewable energy? The future of humanity lies in solar energy. Recognition by markets and policymakers that the only way to achieve sustainability is to speed up innovations and investments in R&D for cleaner fuels and especially solar technology. This will fuel the capital markets and pay itself many times over by creating a world which is not only prosperous but much more equitable, greener, cleaner and sustainable.

Rather than giving huge bailouts to banks and platinum parachutes to those who wrecked the economy, let us spend tax payer's hard earned money on regenerating the planet and creating jobs and building our people. Studies have shown that investments in renewable results in four time more employment than traditional sectors. So why not green the bailouts and let business be a driver in regenerating employment and boosting the capital market through clean and green agenda. The alternative is decades of strifes, strikes and suffering at a global scale.

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