Business and Economics Journal
ISSN: 2151-6219

Pezzani, Bus Eco J 2016, 7:2
DOI: 10.4172/2151-6219.1000214

Short Communication Open Access

The "Shamans" of Finance, Derivatives and "Thalidomide"

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Short Communication

Legal disputes in relation to derivatives stipulated in recent years by the Italian public administration are becoming increasingly critical in terms of correctly defining the responsibilities of such transactions. We are still shouldering the derivative contracts entered into in 1993 whose ever-opaque closing cost could be over 20 billion euro, an enormous financial manoeuvre compared to the 230 billion lire at the time of negotiations. Also emerging now are the real responsibilities of investment banks that have been overlooked for too long; the facts have been known for some time but it would seem that the tip of the iceberg is only now beginning to emerge. Last year, the US Justice Department condemned the record compensations of JPMorgan and BOFA for fraudulent conduct in the management of the subprime loans that caused the crisis from which the banks themselves were saved, loading the cost of the operation on public debt (if this is the case, then why were they saved?). The subject of derivatives, after the sub-primes, is even more devastating. In 1989, before the financialization of the real economy, these were 1/20 of world GDP; in 1999, two years after the Nobel prizes awarded to Merton and Scholes [1] for derivatives, they were double the world GDP, and at that point, despite the potential risk of financial devastation, Greenspan entirely deregulated them and in ten years have come to be 20 times world GDP with an incredibly high concentration. In fact, 95% of global transactions are in the hands of five investment banks. It has now emerged that JPMorgan is exposed to 70,000 billion in derivatives, the news caused the collapse of its share; Goldman Sachs for every dollar of equity seems to have 2,245 dollars in derivatives. The United States has dictated an exit strategy from the financial crisis based on liquidity flooding. In short, the only cultural model they know. They have treated a drug addict by increasing the fixes and now find themselves with an incalculable mass of money but without a real counterbalance since the gold reserves have been largely depleted. Thus, conveying the idea of strengthening the GDP is absolutely essential but having delocalized a large part of the real economy, it would seem unlikely to offset the growing monetary mass. The actions of Treasury Secretary Jacob Lew, albeit important in view of the incalculable financial volumes, appear to be a nostrum. If the dollar collapses with an economy built on relocation and therefore on imports, devaluation would result in the collapse of domestic consumption, but who is to blame for this cultural disaster? Is responsibility to be attributed to the inability of the aforementioned authority in the Italian case or the cultural context in general that over time has helped to make such instruments become a sort of incontrovertible truth?

For now, as confirmed by the High Court in London last year, it seems easier to attribute it to the public administrations (no public administration in Italy has gained but only lost, a financial Caporetto). The Court, however, has forgotten the apologies of economists to the Queen and their motives that in 2009 clearly indicated the responsibilities of a culture of finance for its own sake and increasingly distant from the real world. In this way, continuing to avoid putting a cultural context in default that helped to turn the operators, investment banks and scholars of the Academy into sort of "shamans of finance", namely, unfathomable and magical healers with imperative power that cannot be questioned. Let us try to clarify the true scope of responsibilities.

Certainly a political class that is morally and culturally unfit for the role of preserving the common good but more inclined to gain consent in the short-term and to maximize their own good having been rendered an "incapable" object of circumvention which, however, remains a criminal offense. Thus, responsibility begins from there but a magic carpet was laid before them that guaranteed a low level of risk. In addition, the Stability Pact, as conceived until 2007, favoured a series of prohibitions and restrictions which, paradoxically, pushed the entities towards stipulating the derivatives, thereby enabling circumvention of the Pact.

The cultural context, however, seemed to guarantee an absolutely profitable risk-benefit ratio. Since the first Nobel Prize for Economic Sciences in 1990, a type of halo of incontrovertible truth has been attributed to finance. The economy that began as an instrument for the "polis" (political economy) increasingly took on its own self-referential dimension and became superordinate to the polis whose demands were ignored. Economics and finance are studied in the mindset of a positive science - with only the basic use of exact sciences – a science that was born as and remains a social and moral science; man's nature is a decisive factor in his choices but is ignored. Studies are increasingly assuming a scientific connotation whereby information asymmetry becomes an instrument of power in the hands of insiders and creates a position of cultural subordination against third parties. The theme of information symmetry was the basis that "defined" the rationality of markets [2] because operators with the same information decide in the same way: untrue! Decision-making likewise presupposes that operators are not affected by the socio-cultural context in which they operate so it is natural that with the same information, a Sicilian will make the same decision as a Latvian. Information parity thus stands for information symmetry that occurs in the mythological condition of perfect competition but in reality, the financial environment is oligopolistic hence the opposite of information symmetry, which does not exist; even if one wanted to try to create it, the goal of profit maximization would not allow it and would thus rule it out. The conditions and assumptions on the rationality of markets did not materialize, yet every single day we hear the media talk about the spread that goes up and down asymmetrically with respect to the rationality that it should be a direct expression of: a chewing gum-spread. Even if the markets are not rational and the economy is not the foundation of society, then the assumptions on which the edifice of neo-liberalism were built collapse and the "measurable" facts corroborate the failure of a cultural model that has led to the collapse of the world.

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Received July 11, 2016; **Accepted** July 22, 2016; **Published** July 27, 2016

Citation: Pezzani F (2016) The "Shamans" of Finance, Derivatives and "Thalidomide". Bus Eco J 7: 214. doi: 10.4172/2151-6219.1000214

The ends of such finance are internal and therefore the "autonomy which is the foundation of the dignity of human nature and of every rational nature" (Kant, Groundwork of the Metaphysics of morals, 1785) is negated. Autonomy, often recalled rhetorically, becomes a fig leaf and the means to affirm higher interests, which "reinforces the suspicion that the program of human rights consists in its imperialist misuse" [3].

Such a context of information asymmetry characterized a dramatic situation at the end of the 50s when Thalidomide was put on the market, a drug for pregnant women with an excellent risk-benefit ratio compared to the drugs in use at the time. This drug, however, had only been tested on non-pregnant guinea pigs, contrary to its final application, and the results were dramatic because the innocent women who had taken it gave birth to amelic and phocomelic children. Whose fault was it? The women who had taken the drug, the physicians who had prescribed the drug or the creators who had patented it as truth? In the presence of information symmetries, academic opinion became a determining factor to ascribe truth and help build the confidence of patients [4]. The German company that manufactured the drug last year constructed a building as a memorial and apology to the victims after 40 years; let us hope we do not have to wait that long in relation to similar problems because as the great JM Keynes said, in the long run we are all dead.

On the issue of finance and its products, responsibility also lies with those who, unwittingly or not, have helped create a false truth. Politics, finance and the Academy must begin to answer to their responsibilities. There would seem to be a return to the use of cash and derivative markets in the Eurozone, for instance, to hoist up the South. But is this the right way? We need to think carefully about past mistakes and avoid repeating them especially when the evidence of this dynamic in the US seems to have only worsened the problems. The public administration should not be signing derivatives because you cannot play roulette with other people's money, especially when the croupier manipulates the roulette. If one's debt is held by third parties, one dramatically becomes a hostage, as our recent history has demonstrated.

The instability that we are facing has been caused by men, not by natural and unpredictable events, and these men have often graduated from top universities [5]. What moral values are taught in these universities? What responsibilities do these men and their teachers have who helped put us in this tragic situation? It is time to start thinking about this because to err is human, but to persevere is diabolical and this is today, a fortiori, not acceptable.

Given the failure of a cultural model that has exchanged the roles by assigning the economy and finance the end and man and society the means requires returning to the starting point and give full meaning to. the term "human dignity" so that society is the locus of alliances and shared solidarity and not a tragic terrain of tribal wars and continuous clashes between individuals, between gangs, between power groups and interests that are too distant and asymmetric with respect to the sense of a shared common good.

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