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Book Reviews

Barbara Pogonowska

Paul H. Dembinski

Ethics and responsibility in the financial world

Studio Emka, Warsaw 2017, p. 143, ISBN: 978-83-65068-18-7

The rise in interest in ethical issues in the finance sector, concerning in particular the financial market, is definitely connected with the global crisis, which – on a larger scale – was identified by the community of economic researchers and practitioners in 2007. Since then many works have been published which describe sources and consequences of the financial crisis in a quantitative ethical perspective, whereas Paul H. Dembinski belongs undoubtedly to a small circle of economists who have raised ethical issues in business activities, particularly in the financial area since the 1990s. It is also worth noting that apart from his research work in the area of financial ethics, the Author is also engaged in activities of institutional nature in Observatoire de la Finance foundation, which he set up in 1996 in Geneva. The foundation managed by Dembinski is well-known due to the publication in March 2008 of the “Financial activities in the service of the common good” manifesto. Hence, also due to this fact the book entitled “Ethics and responsibility in the financial world” deserves special attention.

The Author defined the purpose of his work as “the incentive for rethinking ethical issues in the financial world after 2007” (p. 11). This reflection is necessary because the structural and legitimising shock experienced by the finance sector does not allow to avoid the necessity to answer the question: “what will happen next in the area of ethics and responsibility in the financial world?” and to neglect ethical issues resulting from occasional (cyclical) or structural (permanent) reasons connected with the nature of finance (p. 12).

The reviewed work comprises six chapters (the Introduction constitutes the chapter 1), each of which discusses ethical issues of individual dimensions of the contemporary practice concerning the functioning of the financial sector and the existing conceptualisation of this practice. The Author draws our attention to

the positivist paradigm, rooted in the finance theory which is deprived of the ethical reflection and highlights only the technical and extremely formalised dimension of the functioning of the financial sector (p. 15 and p. 32). The Author also draws our attention to the euphoric atmosphere of thirty years of the financial world (p. 16) and the connections of this euphoria with the reductionist view on human nature, i.e. the *homo oeconomicus* idea. The reference to the current theoretical paradigm allows undoubtedly to understand better the finance specificity and to reconstruct more completely the uniqueness of the ethical dilemmas in question. However, these analyses and considerations would be incomplete and basically groundless if the Author did not follow the explicitly expressed values he had accepted. The issue is crucial not only from the point of view of the reasoning clarity but also for obtaining validity of conclusions formulated, including the conclusions of the practical nature (e.g. the “Mind the GAP” approach, p. 52 or the “Jubilee 2000” project, p. 96). The Dembinski’s axiological foundation for ethical evaluations which, at the same time, are decisive for understanding the role and meaning of the financial sector, are superior values expressed in the form of the following concepts: the community good (p. 24), the common good (p. 44), the social order (p. 120), not the purposes which may be easily operationalised and which assume achieving “fair distribution of risk and profits between different groups of financial relation protagonists” or maintaining “financial stability at the macro level” (p. 24). Adopting the perspective of the superior values is important mainly due to the fact that finance has not become again the source of the social risk.

The obligation of the reviewer is to present the content of the work being evaluated. Basically, it could be said that the Author analyses from the ethical perspective problems concerning globalisation and financialisation of the economy, functioning of equity funds from the point of view of their owners, shareholders, managing persons, savers, and users of the capital (companies, public authorities), etc. However, such an approach would be unfair in the case of this work, as it is an in-depth presentation evaluating possible connections and dependencies between decisions and choices of the financial sector’s particular entities, as well as consequences of these decisions for the situation of entities which do not take the relevant decisions and choices. The Author provides similarly careful and ethically balanced reflection while analysing accounting and audit standards, functioning of banking institutions, information asymmetry, understanding asymmetry, as well as the role of information technology and financial innovations, social consequences of cultural superficiality, behaviours of teams managing finances or finally such pathologies as *dark pools*, LIBOR manipulation, *insider trading* and *flash orders*. Nevertheless, on no account is it another simple criticism of “inherent” greediness of entities from the financial sector. Dembinski’s work certainly encourages the reflection on ethical dilemmas of the financial world in which we all take part.

Attention should also be paid to considerations concerning categories of sustainable finance, *ex ante* and *ex post* responsibility, the concept of a fulfilled life and fair institutions, as specified by P. Ricoeura, the hypotheses of criticism and the conclusions of financial models constructed exclusively on technical bases. Another indisputable achievement of the P.H. Dembinski's work is methodological reliability expressed in careful definitions of concepts used therein. The Author is aware of multiple meanings of such expressions as "ethics", "morality", "responsibility" and even "finance". In order to avoid possible ambiguities, the Author defines how individual concepts adopted in the text are understood and uses them consequently in further deliberations. The following extracts may serve as an example: "finance should be defined as the creation of promises, obligations and undertakings referring to current and future payments as well as their management and trading" (p. 22) and "finance is a place where private promises or obligations are sold for money, i.e. for public promise" (p. 25). These definitions are further used by the Author for the determination of long-term contracts, e.g. life insurance contracts in categories of accepted (for the insured person's family) level of risk which should be covered by the financial promise of the insurer (p. 64).

The reviewer's obligation is also to indicate gaps or moot points of the P.H. Dembinski's work. An objection that can be formulated concerns too much trust put by the Author in cognitive capabilities of behavioural theories of finance, also in the context of its position in the financial study programmes as a (separate) alternative for dominating technical positivist theory. It may seem that using reasoning of the psychological nature in the conceptualisation of financial market with comprehensive descriptions and explanations in terms of social conditions has not been necessary, as the altruistic and emotional dimension of business entities, including professionals from the financial group, is created and maintained culturally. Another slightly archaic measure used by the Author is using the concept of the coexistence of reasons defined by Aristotle. However, taking into account the content of Dembinski's entire work, this concept is not exposed too much and, in a sense, it supports the cultural presentation of the context in which the existing image of the financial sector is questioned as an area free from and independent of the ethical dilemmas. The logical inconsistency included in the title (responsibility is an ethical category) may be explained by the intention to highlight the meaning of this concept within the concern for the common good. Opinions and evaluations formulated in the review prove that the "Ethics and responsibility in the financial world" is an important book for the entire scientific community of economists. In the first place, the reviewed book should draw interest of financial researchers and practitioners from financial institutions, as well as economic and business ethicists. The cognitive but also educational and practical dimension of the P.H. Dembinski's work also deserves attention of students who may decide about the shape of this world in the future according to the message included in the "Ethics and responsibility in the financial world".