11th International Anti-Corruption Conference: Workshop 5.2

Presentation Abstract

1. Panelist Name: Dr Justin O'Brien	2. Workshop Title: Corruption and Networks
3. Title of case-study or paper: Corrupting Networks: The Causes and Consequences of Conflicts of Interest on Wall Street	

The malfeasance crisis in the United States' capital markets is not merely the result of venal personalities – although there are many in this story – but a system that allows for full expression of those characteristics. The central argument of this paper is that the 'rotten apple' theory, positing the problems in corporate America as merely the result of deviancy by an individual or a single firm, is an intellectual deceit not supported by the facts. Looking beyond the undoubted greed exhibited by corrupted actors, the paper critically examines the structural imbalances within the contemporary American regulatory framework, the reasons for the failure of federal oversight, and the long-term political implications of the erosion of confidence in the probity of the system.

Examining the networks that have facilitated the corruption of Wall Street has global application. The politics of business has become the business of politics. Across the world the lesson is clear: just as too much governmental interference leads to dysfunctional economies, left to its own devices the market is incapable of adequate self-regulation. While the triggers for the collapse in each jurisdiction differ, a common failing has been an imperfect corporate governance structure. Now, that shortcoming has migrated to the United States with devastating effect. Off-sheet balance loans, accounting irregularities, deliberate misleading of investors were dysfunctions not simply confined to emerging markets. The most advanced financial system in the world was not, in itself, an antidote to the corrosive effects of deregulation on terms conducive to the corporate interests who controlled it.

The paper provides a critique of the neo-liberal agenda, which centers on an excessive and ultimately misguided ideological belief in the efficacy of market self-policing, tracing its origins to the deregulation of the Reagan era. It argues that this ideological aversion to the role of government in driving the economy embedded within the political and economic systems a disdain for regulation, leading, in turn, to the dismantling of legal restraints. In the context of a fundamental weakening of the state's role, the asymmetrical relationship between the three pivotal actors in contemporary governance - regulators, corporations and politicians – becomes even more pronounced, lowering, in the process, the 'moral cost' of corruption.

Utilizing in depth interviews with major corporate and political actors, the paper argues that Wall Street has been systematically corrupted by endemic conflicts of interest. It traces the distribution of power within the industry itself. It maps how internal risk management systems, developed by legal and compliance departments, were rendered subservient to the profit centers, most notably the investment banking divisions. Moving outward, it examines how the vast sums involved created further conflicts of interests for those providing professional services, most notably the accountants and legal counsel, leading to a breakdown in social trust.

The paper further argues that the collapse of Enron served to open a Pandora's Box. Enron is a symptom of the corrupting tendencies endemic in the business and political model not the cause. The paper disentangles the formal and informal networks linking corporations, federal regulators and political parties to reveal the structural impediments to credible economic and political reform. Through examining the role played by the New York State Attorney General in investigating the operation of the financial model, the paper assesses the long-term implications of state regulators usurping federal responsibility.

If, as argued, the corruption of the market - and the political structure that underpins it - has systemic flaws, then the corrective action needed to restore confidence necessitates a radical approach. Unless the extent of the crisis is identified, codified and explained, the search for solutions will be compromised from the start. The paper concludes that in the absence of paradigmatic change, while optical illusion will provide the appearance of reform, the underlying fundamentals will remain intact, awaiting another bull market to unleash a further speculative orgy with equally dangerous consequences.