THE AUSTRALIAN

Greed is a deadly sin perhaps, but it helps drive our economy

By **HENRY ERGAS**, COLUMNIST
OCTOBER 5, 2018 •

Anyone who has followed the evidence being given in the financial services royal commission will not be surprised that Kenneth Hayne refers to "greed" more than 50 times in the interim report.

But the second of the seven deadly sins is hardly a recent phenomenon, and its perennity and ubiquity were the despair of moralists long before St Paul taught us that *Radix omnium malorum avaritia* — covetousness is the root of all evil.

Adding to the moralists' despair was greed's ability to appear under a bewildering array of aliases — including cupidity, avidity, avarice, acquisitiveness and simony — and to endlessly acquire new forms as social circumstances changed.

As a result, the issue is not whether greed is a factor in the behaviour the report highlights: what the rabbinical sages called the *yetzer hara*, or evil impulse, has haunted human existence since the dawn of time. Rather, it is why it has been able to operate on such a scale.

The report asks many questions in that respect. But while those questions are certainly relevant, they seem disconnected from any broader framework that could guide the commission in understanding and addressing the issues it faces.

There is, in other words, little consideration in the report of the underlying forces at work, and of their implications for the commission's tasks.

Nowhere have those forces been more important than in reshaping the arrangements under which people in the financial industries work, and hence the incentives they face. Moreover, those changes are merely a microcosm of broader transformations of the employment relationship in the advanced economies, with implications that go well beyond the financial industries alone.

It is, no doubt, information technology that has made the transformations possible. In particular, measuring individual performance is far easier now than it used to be: for example, highly accurate tools allow firms to monitor each person's sales effort and the revenue it generates, as well as the costs incurred along the way.

Improved measurement would, under any circumstances, have created pressures for a tighter linkage between pay and outcomes, not least because individuals are better informed about their performance and better able to document it. If they believe they are not being appropriately rewarded, seeking opportunities elsewhere is straightforward, all the more so as the internet has eliminated many of the difficulties involved in finding and applying for vacancies.

And with technology also making it easier for financial advisers to set up on their own, any financial institution that ignored individual performance in determining compensation would risk losing its best staff.

But technology is not the only factor at work. Rather, the pressures it creates to more closely align pay and performance have been compounded by changes in social attitudes.

Few scholars better foresaw those changes than Georg Simmel, who stands alongside Max Weber and Emile Durkheim as one of the giants of modern sociology.

Writing more than a century ago, Simmel suggested that once historical distinctions based on birth and rank faded, mass societies would emerge in which the emphasis would be on the similarities between people. Dominating those societies would be large bureaucracies that would subject everyone they dealt with to standardised rules and procedures.

The discipline of the workplace would come to resemble the army's: the cleverest private would have no more leeway than the dumbest, and any individual reward would take the form of rising, in line with the rules, through stable, well-defined hierarchies.

But that phase could not last forever. Individuality would reassert itself as education levels and incomes rose, and distinctiveness — along with the demand to be recognised as unique — would displace uniformity as the organising principle in social life.

That change, the French social theorist Pierre Rosanvallon later emphasised, would bring as its corollary an intense sense of injustice at having one's contribution ignored — a keener sense of individual merit and an acute dissatisfaction when it was not adequately acknowledged.

Once distinctiveness triumphed as the key element in social arrangements, social conditions — including the conditions of employment — would necessarily become increasingly personalised, with greater differentiation in pay and status even within groups of otherwise similar people.

That those tendencies are affected, like all social phenomena, by strong countercurrents hardly needs to be said. But it is undeniable that our societies have moved in their direction, and that attempting to reverse course would chafe both at powerful economic forces and at the spirit of the age.

That doesn't mean, however, that they come without costs. The winners from greater differentiation may rejoice; but the losers suffer insult on top of injury when they are told that the fault lies not in their stars but in themselves. The competition to succeed in such a society leaves a clutch of well-rewarded, impossibly self-satisfied, victors surrounded by the seething mass of those who have missed out, inviting the politics of envy.

And there are economic costs too. It may be easier to identify stellar performance, but determining whether it is due to superior acumen or to the dubious claim, the hard sell and the well-varnished lie remains a challenge — as does distinguishing the element of plain good luck. With a bigger carrot for those who come out ahead, the incentives to cheat mount sky-high, especially when there is a gaping information asymmetry between sellers and buyers.

The result is not only hardship for the victims of that cheating but a fear of being dudded that reduces the willingness to engage in mutually advantageous trade, making everyone worse off.

Little wonder then that the clamour for tougher regulation is louder than ever. And it is impossible to argue with the shocking evidence of misconduct presented in the interim report.

But one does not need to follow Marx in viewing the bourgeoisie's drive for wealth as the epic hero of humanity's forward march to know that a world without acquisitiveness would be a desultory place. Nor is there much doubt that the economic and social changes underlying our present predicament have also brought real gains in productivity and efficiency.

The possible side effects of attempting to stifle harm therefore need to be carefully assessed before lurching further along the regulatory path. The temptation will be to make it easier for regulators to fight and win cases, adding to the erosion of due process and the rule of law.

In Genesis, "Y tz'r", the Hebrew root from which the term "evil impulse" is derived, is also used to derive "He created". After millennia of commentary, that duality remains one to which there are no easy resolutions and from which there can be no escape.