

GREED CAN BE GOOD

Why Investment Banking May Be Broken,
But Doesn't Need Fixing

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*as told to David Charters

**WHAT'S IT ALL ABOUT:
IS THERE ANY VALUE
IN WHAT WE DO?**

I have often said that investment banking is the triumph of form over substance. Very little we do ever adds value to anyone other than ourselves. We take other people's money, typically in very large quantities, and we move it around, doing clever things with it that they don't fully understand and which, over time, generally make it grow less than it would if we had left it alone, and sometimes reducing or even destroying it altogether – although never before we have taken our cut.

We do the same thing with entire businesses. We call it Mergers and Acquisitions – M&A – and the people who do it are among the most cerebral, distinguished, plausible people in the investment banking industry. They devote their lives to disrupting existing corporate structures; taking successful businesses and carving them up, pushing them together, loading them with debt, distracting successful management teams from what they are successfully doing already, and generally causing mayhem. Imagine if a happily married couple were told they had to move in with another couple, get

rid of the husband or the wife and make a ménage à trois, because the three remaining partners would have complementary skills and eventually form a stronger unit – oh, and a large fee would be charged by the family counsellor recommending it. That's M&A. Over the course of the average economic cycle M&A professionals are one of the biggest drags on prosperity. Don't think value destruction. Think value Holocaust. And they've been doing it for decades.

Is this valuable? Well, it is to us. Just look at the fees. To understand the investment banking industry, you have to remember that whatever you are told, it is all about money. People with a strong moral compass become teachers or social workers. People with a strong sense of greed become investment bankers.

They work hard because they are motivated. They can make more in a single year than a social worker or a nurse makes in a career. Their work is very competitive, the hours are long and their elbows are sharp. Sudden death lurks at every corner – and believe me, they cut a few of them. Make one slip and you're fired. Make two and you're out of the industry. Make three and you can get re-employed as a regulator – just kidding. On the other hand, get lucky, claim enough credit for successful business done by other people, and you can pick up a life-changing bonus in a single year.

Judging investment bankers by the standards of ordinary people is unfair. The pressures are different. The rewards are so much higher. And of course the kind of people who opt to spend their lives in an environment like that are going to be difficult to relate to if you work in a factory or a school or a hospital.

Sympathy, rather than criticism, might be a better starting point for critics of the City. Most of them have no idea what they are talking about and probably would not know what to do with a multimillion pound bonus even if they were given one. Let alone ten million. Big money is not for little people. Look what happens to lottery winners. No one ever heard of an investment banker going off the rails because he was paid too much.

So in answer to my own question I have to say 'no', I don't think anything I ever did was of any benefit to anyone except myself and my colleagues. But more importantly, with the coming of wisdom that you only achieve after a crisis such as we – or at least you – have all endured, I now understand that this is not the right question. You don't ask a casino owner what social benefit he has brought about. We're investment bankers. We just are. It is that simple.