

DOWJONES | Private Equity & Venture Capital

Know the Deal. [Learn More](#)



FINANCIAL NEWS

Thursday, 28 June 2012

Moderate new Woosters' power of concentrated capital

Kevin Pakenham

09 Jan 2012

Let bishops speak of morality. Professional people are content to maintain ethical standards. Have ethical standards fallen over the past 40 years I've been in the City? Changed, for sure – massively. Today, the first question of behaviour is: "Is it legal?"



Kevin Pakenham, co-founder, Pakenham Partners

Competition was always cut-throat, but it was moderated by shared ethics, a code of the Woosters as PG Wodehouse had it. A code of honour flourished in the cosy world of single capacity, where brokers, jobbers, merchant and clearing bankers were distinct, where class and background trumped merit and hard work, where the management style was public school bully-boy, and the 11th commandment ruled: "Thou shalt not be found out."

Today the City of London pulsates as a global beacon of world finance, a capital market hub of economic efficiency (narrowly defined), a symbol of shining reward for merit, skill and endeavour – or, of egregious greed and untrammelled self-interest. A new Jerusalem for some, the last Babylon for others.

In a global capital market the regulators can no longer regulate with a nod and a wink. They are as much subject to the law as those they regulate. When legality is the only test of ethical standards, management will push the envelope, supported by lawyers and accountants who are paid to be inventive.

Gung-ho shareholders become impatient with cautious directors, who fear being sued. As the boom turns to bust they over-correct. The cross-border takeovers, the leveraged buyouts, the bought deals deliver irresistible short-term profits.

Across the world, the past 40 years has seen an extraordinary dismantling of controls on capital, both

domestically and internationally, from London to New York to Tokyo, but also from São Paulo to Moscow to Beijing. The main beneficiaries of this bonfire of controls have been the global banks. They have never been so free to operate globally, and in every corner of the capital markets. The global universal bank, the bulge bracket, has taken the field and pushed aside all opposition.

Corporate treasurers who want certainty of financing, acquisitive chief executives, ambitious boards with extensive growth plans, all have come to the bulge-bracket banks to draw on a deep well of rapidly deployed capital, accessed from across all markets.

And the power of the bulge bracket has expanded and consolidated. Through intense hard work, skill and inspiration, applied in all their operations including the influence of public policy by tireless lobbying, they have carried all before them.

Their reward has been (and still is) massive bonuses and share option schemes beyond the sweetest dreams of earlier generations. The concentration of capital they can achieve, and the effective monopoly power that follows, enables them to exploit their position mercilessly. The systemic risk is only too clear, but the myopic interests of the group ensures that, among themselves at least, the code of the new Woosters rules.

Note the concerted outcry among the bulge brackets against any limitation of the scope of their permitted activities. More prudent levels of capital are railed against as though their monopoly power is a pillar of prosperity for the rest of the economy.

Should we be surprised? Is this a moral failure? Of course not. Hounds chase foxes. Bankers chase profits. The struggle for the regulators is to realign incentives and to reintroduce checks and balances in the capital markets. No easy task when the markets are global and capital and people move freely. No easy task when legislators are domestic and regulators are influenced strongly and daily by their local clientele.

There is no silver bullet to bring back the golden age (such as it was). Do we have the stomach to reverse globalisation? Otherwise, there is only the long, continuing struggle to co-ordinate regulation, to encourage professional ethics, to control national monetary excess and to strengthen the hands and backbones of the non-executive directors and independent advisers, who together must try to moderate the power of concentrated capital.

--Kevin Pakenham, co-founder, Pakenham Partners

[Lehman alumni take top investment banking jobs](#)

[Great promotion ... there's just one catch](#)

[Abu Dhabi wealth fund to continue hiring](#)

[Senior Icap executives to head Plus Stock Exchange](#)

[2]



