

Near Collision: The Dalai Lama and the Financial Crisis

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The Dalai Lama's cancelled his visit to Albany in April 2009, but by some strange destiny the visit is back on for May 6th. This event got me thinking about morality and the financial crisis. First disclaimer: I am not implying that his Holiness is in any way linked to the financial crisis. On the other hand, the Tibetan leader's message strikes a chord and I believe it can help the Finance industry to refocus on its true mission. Disclaimer number two: while I am a humble student of several world religions and have tremendous appreciation for their teachings, I am not a spokesperson for Tibetan Buddhism, nor am I an expert in it. I apologize in advance for my possible misunderstandings.

A Core Spiritual Principle for Finance: Fairness

There are many religious sacred texts such as the Torah, the Talmud, and the New Testament of the Bible, the Qur'an and the Works of Confucian Philosopher Mencius that point to a list of moral imperatives specifically for the world of business. Fair pricing and trade is one such injunction found in many of these texts and speeches. Fair pricing is essentially about cost plus margin pricing. In the ancient world, in periods of abundant crops it was clear that someone selling bread could not sell it at an outrageous price given that consumers figured the labor and wheat costs and types of capital investments that went into producing these goods. Manufacturing goods and services was based on relatively simple and transparent processes. Craftsmen were highly skilled but the value of their craft was also clear. Thus, prices reflected cost plus a *reasonable* margin. Goods were also locally produced and the risk of buying a lemon or even a toxic product was small or at least would be remedied quickly by chasing the deceitful salesman out of town.

Banking originated in ancient Mesopotamia some 5,000 years ago. During biblical times lending at any positive interest was branded as usury and outlawed, which is still the case in the Muslim world today. The notion of "fair interest rate" essentially appeared in the Western world during the period of the Roman Empire, as the Romans limited how much lenders could charge via usury laws.

At the core of fairness in pricing is the idea that both sides are free to trade, that they figure out all information relevant to the trade beforehand; and that they mutually benefit from the transaction. The sense of fairness is a gut intuition. It is a mental alarm system that is active before, during or after a transaction. The marketplace helps to bring our individual sense of fairness in alignment with reality. As a borrower, I will be more inclined to pay the going rate of interest (the price of my loan) when there is a broad consensus by market participants that this rate is "fair", i.e. there is a high volume of transactions happening. On the other hand, we all have had that sinking feeling in our stomach when we find out that someone has taken advantage of us in a business transaction.

Of course, the assessment of fairness changes depending on market conditions. With increased uncertainty or risk, the fair return should be expected to go up, and lending may dry-up because of lenders' fear. The lack of transparency about risk in the market for mortgage backed securities is often cited as one of the fundamental causes of the current financial crisis. Investors were deceived or deceived themselves in accepting securities that promised payoffs that were too good to be true. With the true risk revealed and the ensuing fear of a global meltdown, quality spreads have widened, actual lending has indeed been drying-up and the government had to step in to help restart the system.

Refocusing on the Noble Function of Finance

Tibetan Buddhism extols the virtues of the eightfold path to enlightenment which is 1) right views, 2) right intentions, 3) right speech, 4) right conduct, 5) right livelihood, 6) right effort, 7) right mindfulness and 8) right concentration. To the western mind, many of these precepts may seem disarmingly obvious and at the same time uncomfortably elusive and some downright obscure. Fortunately, his Holiness the Dalai Lama has propagated the simpler message of compassion towards others, which is also at the core of most religions. In some circles these ideas are regarded as naïve and impractical. However, the Dalai Lama appears to be a very pragmatic man. His view is that compassion or taking the other's welfare and needs into consideration leads to a more productive society in the long-run.

How does that translate for the Finance industry? It is a natural human inclination to want to brandish a vengeful torch, claim the high moral ground and indict the Finance industry for its greed. I submit that the Finance sector must refocus and (re)claim its noble function. Its *raison d'être* is to facilitate the allocation of capital towards the productive ventures in the economy. In fact, I suggest that although examples of it are rarely mentioned, *wise* lending and investing practices support the greatest achievements of human potential and creativity and have facilitated the uplifting of individuals and communities.

While it is hard to swallow in light of current events, there is a compassionate dimension to the business of Finance. For example, micro-lending is proving to be an extremely viable business model because it taps into the human need and potential to lift oneself and the surrounding community out of poverty. When finance professionals use their expertise and ability to value assets objectively without prejudice or deception, they render an extremely valuable service to society. They are trained to recognize and give opportunities to individuals and corporations and help to weed out bad products and business ideas. Witness how the application of this principle has made the career and success of the world's greatest investor: Warren Buffett.

My version of the mission is to help adjudicate financial resources by applying a healthy dose of what Buddhist Master Chogyam Trungpa Rinpoche calls "ruthless compassion". Not to be confused with ruthless behavior, and neither with your grandmother's sweet love. This type of compassion is uncompromisingly rigorous, not exploitative nor self-indulgent. Thus, it upholds the highest ideal of human dignity for all parties. This kind of compassion that is based on understanding my needs and the needs of others and treating everyone fairly is fully compatible with a thriving capitalistic society and profit making in a new age of "enlightened" Finance.