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On the Ethics of Financial Markets

This paper claims that academic philosophy can provide moral discussion, business ethics included, with instruments of analysis and argumentation which promote people's ability to distinguish right and wrong, good and bad. A closer look at the motto of the London City, "My word is my bond", shows that, contrary to what is often thought, the functioning of the stock and bond markets rests upon morality, upon the relation of ethical commitment and on the moral principle of promise-keeping, recognized by both utilitarian and deontological ethics alike. In the relationship of trust between broker and client, the agent has a fiduciary duty, i.e. to take the interest of the client as the point of departure of his or her action. This involves also an obligation to be aware of the competence, life situation, and needs of the clients, which may imply refusing to render them (too risky) services they want. The paper also discusses a number of special issues related to markets. For instance, "shorting", forbidden in Finland and some other countries but permitted in the U.S., is an example of a practice that should be primarily judged in terms of expediency, not ethics, in other words, should be allowed if it does not interfere with the functioning of the market. Concerning public regulation and control, it is argued that good markets are always an alternative preferable to poor regulation. Regulation tends to crumble the efficiency of the markets and lead to paternalism. From the ethical point of view, the legislative framework for finance and investment in Finland is satisfactory whereas there is room for improvement in the self-regulation of the parties with regard to training and establishing ethical norms.