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FADING OF ETHICS WITH SPECIAL REFERENCE TO FINANCIAL SECTOR: REVISITING GANDHIAN THOUGHTS

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ABSTRACT

The financial sector plays a crucial role in an economy. The rising importance of financial sector has been documented well in the literature. This sector is grappling with a number of challenges. Scandals and instances of corruption that are periodically reported around the world signal a continuous shifting of corporate principles and ethics. In the financial industry, there have been several developments. Consolidations in the form of mergers and acquisitions enable inorganic growth of these entities at a much faster pace. These entities are already more connected than ever thanks to technology. Greater economies of scale and increased economic profits should be the outcome of the strength and power these companies have assumed, but at the expense of smaller businesses who might not survive in the presence of these larger entities. All these raise concern for financial and economic stability. Concerns have also been raised about the global economy's declining ethical standards, especially in this industry. Although laws and standards are necessary for governing the sector, they are undoubtedly insufficient. As the dominant ideologies have fallen short on ethics and morality standards, these believers have resorted to other ideologies for answers to the dilemma. It is time an alternative needs to be explored. Gandhian ideology offers a remedy to these issues through its deeply ingrained ethics and morality.

Keywords: *Financial Sector, Morality, Ethics, Gandhian Economics.*

Introduction

All economic operations, including production, distribution, and investment, depend on a smooth flow of funds. Numerous studies that have underlined the connections between finance and economic growth (King and Levine, 1993; Phillipon, 2008) have extolled this crucial quality. But more significantly, and more recently, the financial sector has drawn the attention of economists, political scientists, and decision-makers primarily because of the problems and issues the industry is experiencing. Of course, the 2008 financial crisis has been considered as the most noteworthy example of such difficulties. The industry may have attracted more attention, particularly given the expansion of the influence and power of financial sector companies, whose influence often exceeds that of their own governments. Some of these growth oriented firms have chosen the inorganic path via mergers and acquisitions (M&A) in order to expand quickly.

Additionally, these businesses have excellent global connections and employ cutting-edge technology to produce the newest and most sophisticated financial products. They sometimes experiment with prudential norms and guidelines with the aim of maximising profits. Grimmer still is the knowledge that these "too big to fail" businesses have little to lose because they will most likely be bailed out with money from hapless tax payers. All of them highlight capitalism's fragility and instability. In the above context, the present study examines Gandhian ideology which promotes ethical and moral ideals as the solution and way forward. The study is structured as follows. Section 2 highlights the significance of the study. Section 3 depicts the challenges faced by this sector particularly the issue of declining ethics. Section 4 outlines solution and strategy. Section 5 concludes suggesting policy recommendations.

Significance of the Study

There are at least three reasons why it is now more crucial than ever to carry out such a study. First, the financial sector is essential because it supports the economy, society, and the government. It is enormous and unwieldy consisting of commercial banks, cooperative banks, regional rural banks (RRBs),

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other financial institutions such as insurance companies (life and general), investment banks, asset management companies, non-bank financial companies (NBFCs), etc. In general, the banking and non-banking systems make up the financial sector. Commercial banks continue to be the key player in the organised component of the Indian financial system. As a result, the financial industry has generally been seen as being based on banks (Mohan, 2009; Sengupta et al 2021). Given how essential the financial sector is to a country's ability to meet its demands, it is critical to research it.

Second, the financial industry has increasingly adopted a number of wrong and immoral practises. Numerous new financial products have emerged across a larger geographic range as a result of deregulation and technological development, including online services that may be used whenever it's convenient from the comfort of home. This has resulted in greater competition between banks and non-bank financial organisations that are vying for savings in the economy. As margins are put under more pressure to improve, sometimes rules and regulations (such as the capital adequacy standards, liquidity norms or bad and doubtful debt provisions) may be sacrificed.

Additionally, the non-banking sector, also known as 'shadow banks', frequently escapes the regulatory net, leaving it open to financial instability. Due to the complex intricate relationships between bigger global markets, even a small amount of instability in one segment of the financial sector can swiftly spread to damage the entire sector, causing what are known as 'contagion effects' (Stiglitz *et al.*, 1993; Kolb, 2011). This brings up crucial issue of effectively regulating financial system. As a result, the issue of financial structure regulation and oversight has drawn considerable political and academic attention, particularly in the wake of the recent global financial crisis (Rangarajan, 2009; Mohan, 2009; Shah *et al.*, 2009). In conclusion, as shadow banks are exempt from regulations and more prone to operate less ethically, it is critical to regulate ethical standards and other practises while emphasising the value of social responsibility and ethics in the financial industry. Finally, it is important to respect India's historic beliefs and traditions, especially the Gandhian ideas that have long been disregarded.

Financial Sector: Challenges and Unfair Practices

As discussed above, India's financial sector is enormous composed of large number of different kinds of entities. Among the difficulties it faces are the rise in non-performing assets, especially in the wake of COVID-19, the expansion of financial inclusion, the penetration of digital financial services, the detection of frauds, swindles, and manipulation, the regulation and control of big financial conglomerates, and the management of moral decay. Some of these are only mentioned in passing, while others that are more pertinent to the subject are covered in more detail below.

The financial industry deals with particular issues including asymmetric information, which causes moral hazard and adverse selection issues. Moral Hazard occurs when the cost of an event falls not on the person himself but others. The most common example in financial sector is the insurance industry. For example, when a person becomes careless or takes higher risks after getting insurance, is a classic case of moral hazard. Moral hazard needs to be managed and controlled, "*Moral hazard can be reduced in insurance by requiring deductibles and copayments, which provide an insured person with an incentive to lower costs."* (Jamnik, 2011:157).

At a larger level, the banks and financial institutions take high risks, particularly the big financial giants, knowing well that the central bank cannot let them fail as they will imbalance the financial and economic stability. All this is summed in the phrase "too big to fail". The real burden of the bail out in such cases fall on the hard working tax payers of the economy. Another problem is that of adverse selection. "*Adverse selection is the tendency, in insurance, of less suitable prospects to seek more insurance, which increases the risk for insurers who cannot easily identify good and bad insurance prospects*." (Jamnik, 2011:157). Moral Hazard, adverse selection and asymmetric information all result in market failure.

Additionally, these financial sector frauds, swindles, and manipulations hurt the poor and middle class by robbing them of their hard-earned, lifetime savings. Ponzi schemes are intended to achieve sinister goals and are effective at luring simple minded and uneducated, low-income individuals. Even while the central bank raises awareness, some of these may fall outside the purview of its regulatory authority. There are several reports of these frauds.

For instance, D. Subbarao, the governor of RBI from 2008-13, in his book, *Who Moved my Interest Rate?* recalls that "*In late 2010, Andhra Pradesh became the scene of a severe backlash against the micro finance sector, with a flood of allegations about the usurious interest rates charge by the MFIs, their coercive recovery practices and their unscrupulous business practice of luring borrowers with* *multiple loans, in the process pushing low-income households into the deep end of indebtedness.*". (Subbarao, 2016). Other such instance is that of Sarada Scam in West Bengal in 2013. Promoting financial awareness and education is one way to address some of the issues such as moral hazard, frauds and other manipulations mentioned above (Hossain and Chowdhury, 2015; Subbarao, 2016).

The ability to carry on production for self employment, in rural areas, is solely conditional on availability of capital. In addition to this, the debt trap and exploitation of the poor have led to suicides among impoverished farmers in a number of states. Financial inclusion is therefore urgent. The goal of financial inclusion can be achieved through bridging the gap and providing banking services to the underprivileged. D. Subbarao, points to the actual challenges faced at the ground level in achieving objective of financial inclusion, "… *all of us operating at the top management of our institutions did not have a full grasp of the problems at the front end*" (Subbarao, 2016:243).

Mergers & Acquisitions (M&A) increase size of the financial entities besides providing a number of other advantages such as higher efficiency, market power, growth and diversification. Empirical evidence suggests that bigger entities dominate the M&A scene. For instance, Bhalla (2015) on the basis of multinomial logic regression on panel data of 813 firms (out of which 271 are participants in M&A and 542 non-participants) during 1995-96 to 2011-12 found that the acquirers are likely to be bigger in size compared to the targets. Further, the study suggests that repeated mergers are common among such firms. All these result in enormous increase in size. A number of questions are raised in such a scenario. Do such large M&As cause stability concerns? Yes, it is these large firms that raise concern for financial stability. Streeck in his work refer to these entities as not just 'too big to fail' but 'too big to jail'. Are they exploitative on consumers? Will these entities engage in higher CSR or lower? These are a number of interesting and relevant issues that need to be explored but are clearly beyond the scope of present study and are suggested as possible avenues for later research.

A number of other problems faced by the sector include rising NPAs that have impacted adversely the business and corporates resulting in rising NPAs post-Covid 19. Once again, the issue of regulation becomes important. Regulation exists, but is often disregarded. As a result, there is a need to reconsider and discover a different path to improve responsibility, ethics, and morality. It is this missing morality that makes Gandhian economics highly relevant in present times.

Solution and Way Forward

The erosion of ethics is the first problem that is addressed. What is ethics or morality? In the simplest terms, it means acting ethically upright. Every aspect of life and the economy ought to incorporate ethics. But the issues involved are very intricate. For instance, how to decide which problem is more unethical? Which is more morally revolting, excessive pollution, or child labour? Who and how to decide? Adhering to an ethical code of conduct ensures that laws are followed and makes it possible to conduct commercial activities in a way that is ethical and sustainable. But, what about the financial industry, which deals with the money of both wealthy and poor people? The financial sector: Is it unique? Is morality more crucial here? Are ethics in the financial sector different from ethics adopted in other sectors. In accordance with one definition, "*Financial Ethics is, therefore, a subset of general ethics.*" (Sifah, 2009). Ethics are extremely important in this sector because of its distinctiveness, significance, and subsequent effects on other industries and the whole economy.

It is important that the answers to the issues facing the modern world must be permanent rather than palliative. Morality and ethics need to be developed. The Gandhian approach suggests possible fixes. Gandhi was not the only person to advocate this solution (moral and ethical values), though; others (before and after him) did as well. These have been the words of many great intellectuals, including Leo Tolstoy and John Ruskin, both of whom had a profound influence on Gandhi. Therefore, initiatives must be taken to integrate the principles of morality, sincerity, and ethics into the economy, especially in the banking and financial services. Gandhi led a life of asceticism marked by austerity, simplicity, honesty, prayer, manual labour, discipline, and abstinence from all vices - some of which are incompatible with how society is currently organised. But sadly, the principles of accumulation, self-interest and materialism triumph over austerity, social welfare and morality in the contemporary societies today.

To sum up, the pith and core of Gandhian ideas can be seen in simple and localised production, village and khadi based industries, trusteeship, truth, morality, self-restraint and austerity. At the other end of the range are the contemporary models based on large scale modernised production, self-interest and growth mindedness. It is in this context, that the present study emphasises Gandhian methods that will promote greater equity, egalitarianism, ethics and sustainability.

Conclusion

The present day capitalism is blamed to promote excessive consumerism, maximisation of greed, endless desire for profits, rising and glaring inequalities and episodes of corruption and financial shenanigans at the cost of degrading moral and ethical standards. In a society that is increasingly globalised, connections and international cooperation revolve around ethical commercial and financial practises. The study explored the importance of and difficulties faced by financial institutions.

The disruptions brought on by COVID-19 have also had an impact on the these entities in addition to the existing challenges. Concerns have been raised about the global economy's declining ethical standards, especially in this industry. Although laws and standards are necessary for governing the sector, they are undoubtedly insufficient. As the dominant ideologies have fallen short on ethics and morality standards, these believers have resorted to other ideologies for answers to the dilemma. It is time an alternative needs to be explored. Gandhian ideology offers a remedy to these issues through its deeply ingrained ethics and morality.

While these large monolithic enterprises, have several merits to their status and stand desired if viewed from Pandit Nehru's socialist vision, but all powerful entities have their associated dangers resulting in moral hazard, inequality, unethical practises and causing a general imbalance in urban rural development. The Gandhian methods are simply missing in this present model of development. And the reason why Gandhian school of thought is often ignored is because it is considered too simple to solve the complex socio-economic problems.

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