Talent at the crossroads

In *Inside Job*, the documentary which has stirred so many consciences and won so many awards, a regulator of the Chinese financial sector, an extremely bright young man who speaks perfect English, asks himself why a “financial engineer” earns between four and one hundred times more than a “real engineer who builds bridges”. This is exactly the question which appears to have led to the work which a few days ago won the Jaime Fernández Araoz award, which is given every two years for the best academic research into corporate finance. This is not just another competition. In fact, there is no other award in Spain in this field. Now in its fourth edition, its prestige is established in the best business schools around the world and experienced academics from the five continents who teach this dismal science known as economics compete to win it. On this occasion, the award went to *Cream Skimming in the Financial Markets*, a very technical piece of research into the remuneration obtained by young people who work in the most opaque and risky segment of the financial sector. Skimming the cream off the milk is usually associated with the cat who walks along the kitchen table and helps himself to the best part of the milk which is waiting to be used by those who are about to have their breakfast cereal. The cat who got the cream which others were going to share out has the same satisfied smile as the pure-bred financial engineer who has just obtained a six-figure bonus.

*Inside Job* – for those who haven’t seen it, something I doubt will be the case for most readers of these pages – deals with the demise of Lehman Brothers, the bailout of AIG, the subprime mortgages, the fast-moving financial crisis created by the derivatives markets, and to quote its director, Charles H. Ferguson, “the systematic corruption of the United States by the financial services industry and the consequences of this systematic corruption.” It is an incendiary pamphlet full of indignation, which underlines the propaganda value of hard-hitting well-made cinema.

It is a story of good guys and bad guys. The cast of the latter is very long and includes investment bankers, regulators, senior figures in the US Treasury, and high-profile academics from the top US universities. The argument is that Wall Street, full of perverse, miserly and greedy individuals, has pulled all the strings for its own benefit from the days of Reagan right down to Obama, via Bush senior, Clinton and Bush junior. And Wall Street is the destination for the best of young American talent.

How and why this phenomenon came about is the subject of *Cream Skimming in the Financial Markets*, by the Franco-American Patrick Bolton and the Spaniard Taño Santos, lecturers at Columbia University, and the Brazilian José A. Sheinkman from Princeton University.

The authors conclude, unsurprisingly, that what attracts this talent is the extremely high level of remuneration in the most complex segments of the financial sector, where the needs for intricate technical analysis are greater, the information available is less, it is more difficult to identify opportunities and great risks must be taken and packaged appropriately. And they ask questions which must have occurred to all of us. They ask whether it is normal that talent goes in such a disproportionate manner to the highly-remunerated sectors and the possibility of guiding this talent towards the entrepreneurial environment of the real economy. In other words, as the intelligent Chinese individual in Ferguson’s documentary put it, whether they can become real engineers and builders of bridges rather than financial engineers and creators of bubbles.

On presenting the Jaime Fernández de Araoz award in a ceremony presided over by the Prince of Asturias, the member of the jury and Director General of La Caixa, Juan María Nin, reflected on the values which the award-winning work studies. “Is it normal, is it ethical that the contribution of economic sectors, of businesses, of individuals is measured solely by the economic value which they generate in the short term without taking into account the sustainability of their decisions in the long term?” This is the very question raised by *Inside Job*.

The lawyer Alejandro Fernández Araoz, brother of the young financier Jaime, in whose name the award is given after his tragic early death, put it very clearly in the award ceremony last week: “we are at a crossroads.”