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THE NEED FOR ETHICAL REFORM IN THE US FINANCIAL INDUSTRY

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Abstract: This study reviews and highlights existing ethical financial issues and the current legal and regulatory landscape within the U.S. financial industry. We also discuss triggers that may prompt unethical behaviors in financial practices, such as those observed in the 2008 financial crisis. In addition, we provide suggestions and food for thought for change in ethical behaviors. Although it is important for financial firms to make profit, it is equally important for them to follow ethical standards in practice. Without proper ethical behaviors, a sound financial system is not sustainable. In the end, only a financial industry that does no harm to society can successfully fulfill the profit-maximizing motive.

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1. Introduction

What ethical standards are appropriate in financial institutions, markets, and practices? What is right? What is wrong? Who makes that decision? Is an ethical decision merely compliance with laws and regulations? Or must generally held values of trust, fairness, respect, integrity, and honesty be adhered to? In the world of finance, does profit maximization also mean serving the common good?

Ethical norms are important to maintain social stability and harmony with people interacting with each other (Mousa 2012). Obviously, market participants interact among themselves through financial transactions, and thousands of these sound transactions occur every day. But, what are “ethical norms” in finance? Who teaches financial professionals what “ethical norms” are? A natural follow-up issue to these questions is: What are the consequences if “ethical norms” are not followed?