

## FINANCIAL TIMES

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# Political class has cashed in on popular outrage against bankers

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*From Dr Sumon Bhaumik.*

Sir, Stephen Hester's action is the culmination of a long public trial of bankers ("Hester agrees to give up £1m bonus", January 30). It is well understood that a lot of bankers took unwarranted risk, which played a role in the financial crisis. But while anger against bankers is understandable, the question is whether blatant political intervention in commercial organisations is warranted.

In the recent past, the case against bankers was made using the language of corporate governance, with a call for shareholder activism to curb bonuses and other perks. This narrative fits in with the textbook example of "agency conflict" between managers and shareholders.

But equally important is the agency conflict between majority and minority shareholders. When majority shareholders are well entrenched and cannot credibly be punished by minority shareholders, the former tend to act in their own interest, generally to the detriment of the latter. In the case involving Mr Hester, the political class has acted in its own interest to cash in on popular outrage. Scant attention has been paid to how this action would impact on the future of Royal Bank of Scotland, and what it would mean for the 18 per cent of non-governmental shareholders.

The political class, and specifically the government, has always had the option of running RBS as an outpost of HM Treasury, using it, for example, to finance small and medium-sized enterprises and large capital projects. In the present climate, retention of that option would have been understandable. Instead, the political class decided to grant commercial autonomy to the bank, and accept this status willy-nilly, as long as it did not upset the political apple cart.

Political intervention in economic affairs is justified only when there are externalities and market failures. The political class is not the guardian of morality. Along with the judiciary, it is instead the guardian of a country's formal institutions, on which economic agents rely during their daily interactions. And in the world of formal institutions, contracts are sacrosanct.

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