

# [Ethics and libor essay sample](https://assignbuster.com/ethics-and-libor-essay-sample/)

Utilitarian theorists are concerned with the maximizing the overall happiness for majority. According to this school of thought, morality of action is determined by the consequences of ones actions instead of agent’s intentions. Therefore, judging from the Utilitarian perspective, one can argue that Libor rate manipulation did not benefit the society as whole, instead it benefited couple investment banks, and therefore it was not an ethical action. However, how about if those banks actually did not manipulate the Libor rate and went bankrupt during the 2008 crisis, will that benefit the society as a whole? Probably not. We have seen the Lehman Brothers going bankrupt in the US and burden was once again on taxpayers’ shoulders. Therefore, one can question whether or not it would benefit the society as a whole, if Barclays’s or other banks did not manipulate the Libor rate for borrowing?

Furthermore, Kantian approaches this ethical dilemma in a different perspective. Immanuel Kant discusses the categorical imperative in The Groundwork of the Metaphysics of Morals in detail; he says people should not use other as “ means” for their own “ end.” Furthermore, he adds people should act in a way that can be accepted as a universal law. According Kant, Barclays acted in an unethical way, since there are universally accepted duties that agents should act accordingly. Therefore according to Kantian view, there shouldn’t be any sympathy towards Bob Diamond nor other higher-level executives of Barclays. In the Libor case, judging from the Kantian perspective, one can conclude that others in this case were used as means for investment banks own ends. Adam Smith questions Kantian approach and basis the moral judgment on the sympathy and ignores the reason.

According the Smith, we are more likely to find an action ethical, if we can sympathize with the situation. Therefore, one can argue that it is common for majority to find the Libor case unethical, since as a general public we cannot relate to the situation the investment banks were in, we are more likely to sympathize with taxpayers, thus with ourself. However, what if we were also piece of the puzzle, one of the bankers in the system, would we sympathize with this situation and find the action ethical? Do we lose the sight of reality when we sympathize with the action and be unfair to the counterparty who has different learnings that lead to formation of a different imaginative impartial spectator?

Meanwhile, Aristotle’s virtue ethics focus on virtue of agent, which concerns the fundamental character and motivations of the individual agent. Under the agent-based approach, moral behavior is not limited loyalty to a rule or guideline but rather involves the individual rationally pursuing moral excellence as a goal in and of itself. So for LIBOR case we can ask to Bob Diamond and Marcus Agius, what is the good they seek when they resigned after Barclays was fined?

As is stated in the case, LIBOR is used globally as reference rate for many types of financial instruments, ranging from syndicated loans to futures and options, totaling to a value of at least $350trillion. Needless to say that possible detrimental effects have an effect on third parties. We can distinguish third parties in three categories: i) individuals, ii) governments, and iii) businesses. Individuals tend to spend more than they earn, resulting in debt such as mortgages and bank loans. They need to pay interest on their debt, which is determined on the market and is partially influenced by the LIBOR rate. A slightly lower/higher rate for one day would not influence such rates, however in this case the LIBOR is possibly manipulated for many years. Therefore, individuals might have been paying too much. It could also be that the individuals ended up paying less, because of the LIBOR manipulation banks seemed more healthier and therefore charged a lower interest rate. Governments (local and national) use interest swaps to lower their interest payments on bonds etc. The agreements the governments entered into with the banks can backfire if rates move in unexpected directions.

Businesses are affected by the same reasons, they are highly active in the financial market in which rates depend on LIBOR. Furthermore, another important factor here that should be discussed here is the damage to confidence and trust in the market. To attempt to accurately quantify the effects flowing from the manipulation would be an exercise in futility. There is no way to precisely measure the damage done to confidence in the markets. Secondly the losses caused by this manipulation cannot be accurately quantified because the exact number of affected transactions is anyone’s guess. There is no consensus as to when exactly the manipulation of the LIBOR began, although one could contend this to have been from the very inception of the LIBOR. It is hard to assess the effects with sufficient precision since we do not know exactly when the manipulation started and who is all affected positively and negatively. For an ethical point of view this is not relevant, we should not look at the outcome but at the actions. The fact is that individuals and banks manipulated the LIBOR for their own interest without looking at the consequences. That itself could be seen as unethical.