

GREED AND GUILT: THE PSYCHOLOGY OF WHITE-COLLAR CRIME

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ABSTRACT

White-collar crimes refer to non-violent offences wherein the perpetrator seeks financial gain by breaching the trust of the victim while supposedly working for a legitimate organization. The psychology behind white-collar crimes reveals traits such as a desire for authority, cultural hedonism, narcissism, and low self-control, leading to offences like fraud, money laundering, and insider trading. Unlike traditional crimes, white-collar offences involve manipulation rather than direct harm, often targeting individuals, corporations, and governments. Offenders often belong to higher social strata, are well-educated, and use their status to avoid accountability. The ramifications of these crimes extend beyond financial losses to erode societal trust and economic stability. This study explores the psychological underpinnings of white-collar offenders, their traits, motivations, and methods of adjusting to incarceration, with a case study on Bernie Madoff's infamous Ponzi scheme.

Keywords: Non-Violent Offenses, Financial Gain, Psychology, Manipulation, Trust, Incarceration.

INTRODUCTION

White-collar crimes refer to non-violent offences wherein the perpetrator seeks financial gain by breaching the trust of the victim while supposedly working for a legitimate organization. The term white-collar crime can be further elucidated with the help of multiple components that contribute to its essence. These components are, Trust: It is a psychological state of mind when a person puts their confidence in an individual or an organization based on positive expectations or outcomes. There exists a fiduciary relationship between professionals such as lawyers, investment bankers, accountants, and financial advisors and their clients. The professional is entrusted with significant financial responsibilities and information sensitive to the client with the expectation of their unbiased expert insight and integrity. In white-collar crimes, the trust of the client is breached or violated by manipulation or other methods for

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personal exploitative purposes.

Financial Motivation: The desire to step up their wealth, for financial security or to sustain a pre-existing standard of living an individual has, contributes as the primary goal behind white-collar offences such as fraud, insider trading, money laundering, embezzlement, and many more. **Non-violent Offense:** Unlike other offences, white-collar crimes involve a complex interplay between trust and an individual's psychological state of mind. The offenders engage in manipulating behaviour in order to deceive individuals without resorting to physical violence.

WHAT DISTINGUISHES WHITE-COLLAR OFFENDERS FROM OTHER TYPES OF OFFENDERS?

In white-collar crimes, the nature of the offence and victimization involves non-violent acts and abuse of the trust of the victim with the intention of accomplishing fiscal advantages for the perpetrator. On the other hand, other criminal offences often involve directly harming an individual's personal belongings or property.

The sociodemographic characteristics¹ suggest that the majority of white-collar offenders tend to be male. White-collar offenders usually are 40-45 years of age, which is comparatively much older than other offenders. Educational qualifications of white-collar offenders are relatively higher than those of common offenders; they tend to hold high positions of power along with specialized knowledge and training in their careers. The marital status of white-collar offenders is married, and they have a higher divorce rate in comparison to other offenders.

PROFILING WHITE-COLLAR OFFENDERS AND THEIR DOMINANT TRAITS

Delving into the psyche of white-collar offenders unveils an assortment of characteristics – ambitious, cunning, disregard for ethical boundaries – that construct a picture of an individual who benefits by exploiting systems or laws for their own personal gain. It is impossible to put in a nutshell every characteristic trait that would help in profiling a white-collar offender. Although, according to multiple studies conducted over the years based on personality traits of past offenders, there are numerous traits that correlate with white-collar offenders. These four traits have been the most prominent among the others, namely, authority, cultural hedonism,

¹ Ribeiro R, Guedes IS and Cruz JN, 'White-Collar Offenders vs. Common Offenders: A Comparative Study on Personality Traits and Self-Control' (2019) 72 Crime, Law and Social Change 607

narcissistic personality tendencies, and low self-control.

Authority

The need for authority forms a major part of the personality traits of a white-collar offender. White-collar offenders seek to dominate situations or manipulate outcomes for their own personal gain. Such offenders focus on building personal connections and leverage this trust in due course to manipulate colleagues and clients. “Most frauds are actually committed by employees, but in terms of length and magnitude, those in positions of power have an adverse effect that is nearly 8 times greater than that of a normal employee.”² To sustain their position of power, offenders feel justified to defy or violate the law and engage in risky or illegal activities, believing their authority gives them the right to operate outside of standard ethical boundaries.

German philosopher Max Weber claimed that the three types of authority are legal, traditional, and charismatic.” Legal Authority: It refers to formal power tied to individuals by governmental organizations. These positions are typically acquired through elections or voting, charters, and the constitution of the government. Traditional Authority: It refers to power, which is derived from long-standing hierarchies. Individuals who have been loyal to the organization may leverage the longevity to assert their dominance in the organization. Charismatic Authority: Such kind of authority stems from the charm and exceptional qualities that tend to inspire a person’s ability to earn trust and loyalty from others. Offenders often connect with individuals on an emotional level, making it easy to influence actions towards their own personal gain.

Cultural Hedonism

For a white-collar offender, cultural hedonism refers to the lifestyle or standard of living a luxurious life. To sustain such personal gratification and societal standing, offenders prioritize financial gain and indulge in illegal activities that outweigh ethical boundaries. Individuals may be influenced by their colleagues or peers with whom they share a similar materialistic mindset or lifestyle and develop traits like risk-taking and lack of accountability for the repercussions faced by others due to their actions.

² Tim V Eaton and Sam Korach, “A Criminological Profile Of White-Collar Crime” (2015) 32 Journal of Applied Business Research (JABR) 129.

Narcissistic Personality Tendencies

Narcissistic Personality Disorder (NPD) or Narcissistic Personality Tendencies refers to a pervasive pattern of an individual's need for admiration and lack of empathy towards others. There exists a superiority complex among such individuals, as they believe themselves to be deserving of special advantages and feel justified in breaking laws in order to achieve their goals. Driven by a desire for success, individuals have a tendency to respond poorly to criticism and display hostile behaviour by blaming others rather than taking accountability for their actions.

Low Self-Control

Under pressure and with the mere possibility of an opportunity, an individual's diminished ability to regulate their emotions and impulses facilitates a white-collar crime. The lack of forethought or temptation to act impulsively without evaluating the short-term and long-term consequences of their actions leads to poor decision-making, providing the perpetrator with a sense of immediate gratification and excitement of achieving direct benefits.

IDENTIFYING VICTIMS OF A WHITE-COLLAR CRIME

White-collar crimes have victimized individuals, companies, organizations, and governments. These offences or illegal activities harm not only the victims themselves but additionally harm the general public, taxpayers, and the entire economy of the country. The psychology behind how white-collar offenders identify their potential victims and the repercussions of such offences is crucial to understanding victimization and avoiding the black box. "The black box warning, used by the Food and Drug Administration to denote potential serious hazards of a drug or device, is an apt metaphor for the neglect often associated with the identification, depth, consequences, and, at times, violent nature of white-collar crime victimization."³

A common myth about white-collar offences is they are attributed to high social standing and financial means, although, white-collar crimes have targeted individuals, companies or organizations, and government at all levels of socioeconomic stature. These offences have victimized almost all individuals, irrespective of their gender, caste, racial, or socioeconomic status. Rather, white-collar offences are based on building a trustful relationship with the

³ Mary Dodge, "A Black Box Warning: The Marginalization of White-Collar Crime Victimization" (2019) 1 Journal of White Collar and Corporate Crime 24.

victims and, in due course, taking advantage of such hopes and beliefs placed in the perpetrator's Ponzi schemes. Some scholars argue that women compared to men are more likely to suffer victimization from white-collar crimes, though research in this area is sparse.⁴

Repercussions of white-collar crimes

"From buying groceries to investing in the stock market, we engage in transactions. Our economy thrives off of transactions."⁵ White-collar crimes involve offences like fraud, bribery, Ponzi schemes, insider trading, embezzlement, money laundering, identity theft, and many more, wherein the perpetrator seeks financial gain by breaching the trust of the victim while supposedly working for a legitimate organization. Victims of being deceived by the perpetrators lose trust in the organizations, and this affects the investment cycle and reduces transactions in the savings and loan institutions.

WHITE-COLLAR OFFENDERS' BEHAVIOURAL AND PSYCHOLOGICAL ADJUSTMENT TO INCARCERATION

Comparing white-collar offenders to traditional offenders, the former tend to be older and have better educational qualifications. Based on multiple research and studies conducted, white-collar offenders have a better socioeconomic status and perceive themselves as "non-criminal." Under the framework of the "special sensitivity" hypothesis⁶, white-collar offenders are presumed to be uniquely sensitive to incarceration i.e. imprisonment. They are claimed to be more sensitive than traditional offenders since they are usually of higher social stature and it would be challenging for them to adjust to basic deprivations.

Incarceration might impact white-collar offenders with a higher degree of intensity in comparison to traditional offenders, they may feel the consequences of "deprivation of relationships, loss of career, social and financial status degradation, guilt, and humiliation"⁷ more as traditional offenders would eventually endure with such a lifestyle. Depression tends to arise in white-collar offenders and hamper their mental health conditions simply from the anticipation of being incarcerated or imprisoned. In order to cope with such a mental state of

⁴ *Id.*

⁵ Thomas E Dearden, "Trust: The Unwritten Cost of White-Collar Crime" (2015) 23 *Journal of Financial Crime* 87.

⁶ Beverly R Crank and Brian K Payne, "White-Collar Offenders and the Jail Experience: A Comparative Analysis" (2015) 28 *Criminal Justice Studies* 378.

⁷ *Id.*

anxiety and depression, experienced prison consultants – many of whom were former white-collar inmates – have stepped up to offer support and assistance to help prepare impending white-collar offenders for their incarceration experience.

Along with depression, “Institutional Misconduct” is an indicator of difficulty in adjusting to incarceration. In such circumstances, there are multiple forms of institutional misconduct observed that a white-collar offender engages in⁸, such as (1) violating internal rules – activities that would be legal in a different circumstance but are prohibited in correctional institutions, (2) violating external rules – activities that are illegal irrespective of the circumstances, (3) deviant use of the justice process, (4) jail stripe crime – offences committed by an individual during their professional course of institutional responsibilities.

Research conducted using a sample of 366 males on the special sensitivity hypothesis by Benson, Cullen, and Stadler⁹ suggested that white-collar offenders do not have a special sensitivity to incarceration. The research observed that white-collar offenders make use of their educational qualifications and societal ties in coping with the incarceration experience. White-collar offenders were observed using three strategies in order to cope with incarceration: (1) denial of criminal behaviour, (2) conforming with the rules of correctional institutions – they are relatively tranquil within correctional institutions as conformity to rules helps them in validating their “pre-offence identities” and (3) assuming superiority over other inmates. Furthermore, the study found that white-collar offenders are more likely to build social connections or become friends with other inmates when compared to traditional offenders.

CASE STUDY ON BERNIE MADOFF PONZI SCHEME (2008)

In 2008, the collapse of Bernie Madoff’s investment firm was one of the biggest white-collar scandals known in history and defrauded investors of an estimated \$65 billion over the course of 17 years. “Bernard Madoff founded his firm, Bernard Madoff Investment Securities (BMIS), in 1960 with his savings from his lifeguarding career and borrowings from his father-in-law. During the next four decades, Madoff’s firm kept growing and gained a reputation on Wall Street as one of the largest buying and selling market makers on the NASDAQ.¹⁰”

⁸ *Id.*

⁹ *Id.*

¹⁰ Diana B Henriques, “A Case Study of a Con Man: Bernie Madoff and the Timeless Lessons of History’s Biggest Ponzi Scheme” (2018) 85 *Social Research: An International Quarterly* 745.

Madoff's Ponzi scheme scammed the investors by granting them dramatically high profits using their own funds or other investors without engaging in legitimate business to generate profit. In reality, the influx of fresh capital investment pays returns to existing investors. In late 2008, with the market conditions worsening, the scheme began to fall apart, and investors rushed to withdraw their funds. Amidst this, Madoff was unable to comply with demands of repaying the existing investors. On 10 December 2008, he was arrested and confessed the truth behind the Ponzi scheme.

In March 2009, "Madoff was found guilty of 11 federal felony charges, including charges of securities fraud, money laundering, and perjury¹¹" and was sentenced to 150 years of imprisonment. As a consequence, regulatory authorities in the United States of America embarked on a campaign to secure the financial markets more effectively. "The Dodd-Frank Wall Street Reform and Consumer Protection Act 2010" laid down provisions to enhance transparency, mitigate risks of such offences in the future, and include an improved registration process for investment advisors.

CONCLUSION

White-collar crimes remain a significant threat to societal and economic structures, with offenders capitalizing on their authoritative positions and breaches of trust. The offence violates fiduciary relationships, involves manipulation without the use of force, and is animated by the interplay of authority and avarice. White-collar criminals activate usurpations in the centre of their power since they are educated and privileged.

Profiling white-collar offenders reveals patterns of narcissism, low self-control, and a hedonistic lifestyle, which drive them to commit fraudulent activities. Despite the non-violent nature of these crimes, their effects are devastating, leading to financial ruin for individuals and shaking confidence in financial institutions. The notorious Ponzi scheme orchestrated by Bernie Madoff epitomizes not only the depth of this kind of crime but also the significance of regulatory authorities and judicial changes to prevent it from recurring.

White-collar offenders face unique challenges during incarceration, where their higher socioeconomic status and perceived self-image may lead to heightened psychological struggles and are likely to struggle with depression and an inability to adapt. However, research indicates

¹¹ *Id.*

that educational background and social skills are a leverage for such offenders, maintaining a sense of superiority over other inmates.

The study of white-collar crime demands a sophisticated perspective not only on the personalities of the offenders but also on the environment in which they operate. It also underscores the relevance of strong legal systems, ethical leadership, and preventative policies in reducing the threats and protecting society from subsequent white-collar offences.

