The Economist

Rajat Gupta

Another trial

American regulators charge another bigwig with insider trading

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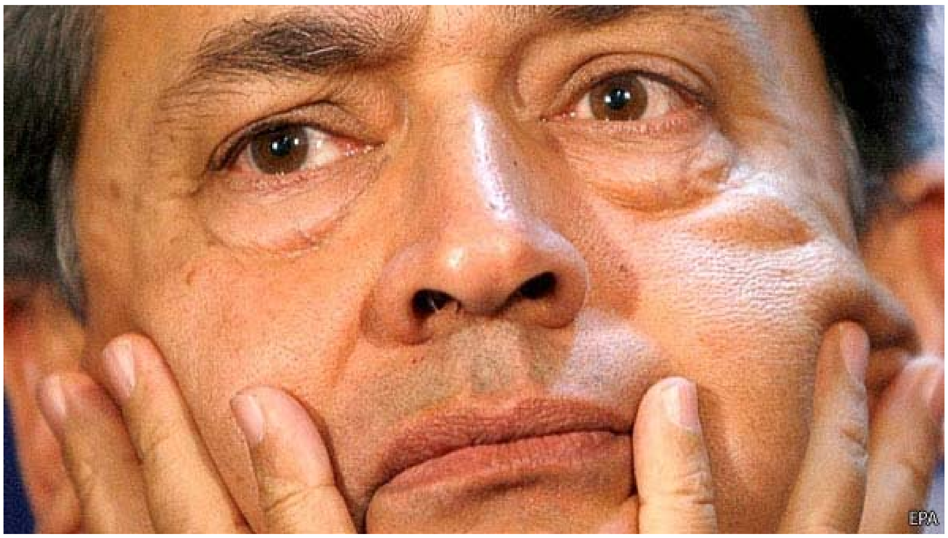

No Davos invite this year

RAJAT GUPTA is one of the American elite. He has sat on the boards of Goldman Sachs and Procter & Gamble. For years he led McKinsey, a global consultancy. In 2005, when Kofi Annan was secretary-general of the United Nations, he made Mr Gupta his "special adviser for management reform".

His connections have now landed him in trouble. Raj Rajaratnam, a hedge-fund manager and friend to whom Mr Gupta allegedly passed confidential information, was sentenced on October 13th to 11 years in jail, the longest insider-trading sentence ever doled out in America. Now Mr Gupta faces the possibility of time in jail. On October 26th he was charged with five counts of securities fraud and one count of conspiracy. Mr Gupta denies any wrongdoing.

According to the indictment, Mr Gupta called Mr Rajaratnam several times after he learned non-public information involving Goldman Sachs and Procter & Gamble. After a phone call when Goldman's board members were informed that Berkshire Hathaway, Warren Buffett's investment outfit, was going to invest $5 billion in the bank, he allegedly called Mr Rajaratnam immediately and told him the news, helping Mr Rajaratnam make around $840,000.

In a recent interview with *Newsweek*, Mr Rajaratnam said that FBI agents offered him a plea bargain—just five years' jail-time in exchange for wearing a wire and taping his conversations with Mr Gupta. He refused but the offer, if made, suggests that prosecutors weren't just on the hunt for Wall Street traders but big-time business leaders as well.

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One mystery in cases such as these is motive. Prosecutors say Mr Gupta had a financial interest in the success of Galleon, Mr Rajaratnam's hedge fund, because he was an investor. But Mr Gupta was a wealthy man already. The assumption that people commit insider trading to make money may itself be wrong. A 2009 study by Utpal Bhattacharya of Kelley School of Business at Indiana University and Cassandra Marshall of Robins School of Business at the University of Richmond tested whether insider trading is "economically rational". They found that a majority of executives convicted of insider trading were the best-paid employees at their firms. Friendship and ego may matter more than money.

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