# Jerome Kerviel and Societe General [1]

Written by **Tim Worstall** [2] | Sunday 27 January 2008

By now everyone and their dog has heard about Jerome and the €4.9 billion he lost his employers by playing around with equity derivatives. A decent explanation of the machinations is here [3]. The Daily Mash [4] is (as ever) slightly over the top in ascribing it all to his working (*quelle horreur*) more than 30 hours a week but even The Guardian notes [5] that he didn't take a single day's holiday in eight months!

But there's one very important point that I haven't seen mentioned anywhere else, a by product of the fact that he lost the money in equity derivatives. That point is that over the system as a whole, there has been no net loss at all. To understand this Willem Buiter's concept of "inside instruments [6] " is very useful.

Another way of putting this is that derivatives trading is a zero sum game. Risk gets shuffled around (a good thing) but at the system level, rather than that of the individual company or trader, no money is made or lost.

For with each and every one of the contracts that Kerviel made there was a counter-party. If we ignore the trivial sums paid to the marketplaces and clearing houses, each and every euro that he lost on said contracts was made by said counter-party.

This obviously isn't going to be of much comfort to Societe Generale and its shareholders, just as much as it will be a comfort to those who now have that €4.9 billion. But no wealth or money was "lost" in this case: rather, it was transferred.





**Links:**
[1] http://www.adamsmith.org/blog/miscellaneous/jerome-kerviel-and-societe-general
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.guardian.co.uk/business/2008/jan/26/equityderivatives.socgen
[4] http://www.thedailymash.co.uk/news/business/french-trader-was-forced-to-work-30-hours-a-week-20080125680/
[5] http://www.guardian.co.uk/business/2008/jan/26/roguetrade.kerviel
[6] http://blogs.ft.com/maverecon/2007/11/how-bad-can-a-u.html
[7] http://disqus.com/?ref_noscript
[8] http://disqus.com