Bad Business

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Crisis

Much of the world is going through the biggest financial and economic crisis since the Great Depression of the 1920s and 1930s. While the crisis is not as severe as that of the Great Depression, its effects are more widespread, owing to globalisation and the interconnectedness of national economies. It is causing much suffering, as investments that were people's savings for the future are wiped out, jobs in both the private and public sectors are lost, and public finances come under severe strain.

In this, a follow-up on an earlier *Working Notes* article which was written before the current financial and economic crisis,[1] I explore some of the ethical issues that arise.

While ethics has hardly been mentioned in discussions of what went wrong, the moral note has been struck loudly. (In this article, I use 'morality' and 'moral' to refer to people's behaviour and attitudes, and 'ethics' and 'ethical' to refer to theory or talk about morality.)

Public disapproval of bankers, investors and credit agencies is high, reflected in the strong feeling that top figures in banks ought not be paid lavish bonuses. Were they just unlucky, prisoners of a financial and business system that swings from euphoria to gloom, from boom to bust? No doubt many of them would like to think so, and that the general public should think so as well. And it is true that, in a certain sense, many of them were unlucky.

But that would suggest that they did not really know what they were doing. And in the boom time, they told us that they were the experts, the whiz kids who knew exactly what they were doing – and so were entitled to huge bonuses. It will not wash: they cannot be experts in the good times, and just unlucky when the crash comes. The truth is somewhere in between: they were responsible for, and lucky in, the boom times, and they were both unlucky in, and responsible for, the collapse.

Sometimes what was done was just plain wrong, and known to be so. Bankers used their banks' money to award themselves loans, without having to go through the usual credit worthiness tests. Irish builders and developers began charging people for houses far in excess of what it cost to build the house, in the full knowledge that their profiteering imposed a heavy burden of debt on individuals and couples struggling to pay the mortgage.

Why did they do it?

The only possible answer is that they did it because they were greedy, and they thought they could get away with it, either because it was not illegal or because nobody would query it. The ethics of it did not bother them, a fact reflected in the absence of public expression of regret by such people for their behaviour. They justified it to themselves by saying: 'that is the way the market works', implying that nobody could change it, and nobody ought to change it. In their view, moral considerations could not possibly weigh against the principle of making the most of the opportunities that the market puts in one's way.

Let it be remembered too that this all went on in a context of normal market risk (there are usually losers as well as winners), and the development of derivatives meant that the risks for wider society were extensive. Again, ethical concerns about such risks were rarely voiced.[2]

Judging by media reports, not merely was moral integrity in short supply in the banking, building and business world in general, but ethically educated intelligence seemed absent. Hardly any prominent figure from the worlds of banking or business was reported after the collapse as having raised questions about moral failures or ethical ignorance in their conduct of business.

My remarks in the previous paragraphs may seem harsh. It may be replied that such people generally did not intend to rob or harm others, and that there was no intentional malice in their behaviour. The problem with that answer is that it presents businesspeople, bankers, developers and financiers as ethically illiterate. Secondly, it assumes good intentions are all that matter: since those people just did not realise that they were doing wrong, they are not to blame.

The implication is that while such people may be well educated about banking or building, buying or selling, they have the level of moral development and ethical education of a primary school child. If it were really the case that they did not realise they were doing wrong, that is almost worse than deliberately doing wrong. In a world that cannot do without business and banking, it is alarming to be told that businesspeople and bankers are ethical incompetents, who cannot tell right from wrong.

The Business Ethics Deficit

G.K. Chesterton once quipped that it was not true that Christianity had been found wanting, since it had never really been tried. Perhaps the same remark could be made about business ethics in recent events: it wasn't used. The only time business figures felt the need to say 'Sorry' was when they were on the way to indictment or prison. Alternatively, one could say that there *was* a morality at play, however unconsciously: it was the morality of the jungle, where one grabs what one can, regardless of others' needs or the common good.

Some companies are shining examples of self-consciously ethical policies and behaviour. But their example, unfortunately, does not seem to be catching. While, prior to the crisis, there was a fair amount of talk about business ethics, it tended to be just that: talk. Business ethics is always in danger of being mere window-dressing.

It is also disturbing to note that this attitude is not unique to the businesses themselves. It is also found in the business colleges, and among business students. My evidence for this claim is anecdotal and impressionistic, but I present it for what it is worth. A couple of years ago, I found, in one of the major bookshops in Dublin, some 500–700 books on business, finance, and management, but only three or four books on business ethics. Since bookshops too are market-driven, I take it that this state of affairs reflects a lack of demand for such books.

Irish business colleges' websites show an almost total absence of courses on business ethics. In my own experience of teaching business ethics to post-graduate business students over a number of years, the students – with a few exceptions – were quite uninterested in the topic, regarding it as an idle distraction from the serious business of the programme. A colleague who taught ethics in a business college reported that his efforts at transmitting business ethics were regularly undermined by other lecturers who told the students that their only responsibility was to make a profit for the company.

Rules and Character

This state of affairs has much to do with the fact that many people in business and banking do not understand ethics.[3] First, they think of it as just a set of rules, similar to laws on the statute book.

But it isn't just about rules, if for no other reason than that it isn't possible to have a rule book to cover every situation. Life is not like that. People must be able to make their own moral judgements, and to do that properly their moral character must be developed. It is disturbing that, to judge by the business students, so many of those going into business seem to be morally immature. They think that, because they 'mean well' in a vague general way, and are not deliberately out to 'do' anybody, they are not unethical. They seem not to realise that business and banking – as any walk of life – will test one morally. Business ethics says to the person going into that world:

The company you are applying to join doesn't have a bad name, so you have no specific reason for ethical concern. But expect that someday the company may be tempted or pressured (by investors, customers, or circumstances) to act unethically.

Have you decided what you will do when that happens? Will you be strong enough to resist? If you're a manager, will you be alert enough to see what's coming, and imaginative enough to seek honourable ways to forestall it? If all comes to all, are you prepared to say 'No', even if it costs your job?

If you are not ready for that challenge now, you have failed the ethics test. If you think you will develop ethical character on the job, you are fooling yourself: the job is not an ethics course but an ethics exam. If you're not ready, the company's ethical problems won't be just with the external *pressure or temptation, but also with employees like you. The company would be better off without you.*[4]

That message is usually unwelcome. It sounds far too tough. And there is always a handy excuse: blame 'the system'. It has become common (partly a residual effect of Marxism) to talk a great deal about the 'system' being to blame, as if people were somehow entitled to expect to live and work in a morally upright world where they would never be subject to temptation.

No doubt the various 'systems' involved in the economy could be reformed, but insofar as that kind of talk leads people to shift blame away from themselves it deludes them. As regards society's moral health, teaching people to blame the system does serious social harm. It cannot be said strongly enough: it is the mark of ethical ignorance (and probably of moral weakness) to be surprised and indignant at the 'system' not being 'perfect', thereby forcing one to make moral choices where doing the right thing may be costly or unpopular.

There is no such thing – not just in practice, but in principle too – as the perfect economic system

There is no such thing – not just in practice, but in principle too – as the perfect economic system. Common sense tells us that, but we tend to want to deny it. It was a communist (and extreme capitalist) myth that if one only got the basics of the economic system right, whether in communist or capitalist fashion, everything else would fall into place.[5] There would be no need for morals or ethics. There would be no individuals struggling with moral dilemmas or their conscience. That was a myth, of course, but it is dangerous and still surprisingly powerful. We have not yet exorcised it fully: it is too appealing to be able to blame something called 'the system', since doing so appears to let one off the hook.

A far better approach is to be found in the 2009 encyclical letter of Pope Benedict XVI, *Caritas in Veritate* (Charity in truth). In sections 43, 45 and 46, Pope Benedict discusses business ethics. But his main point is that business ethics, and our understanding of economic activity and life in general, has to be located within a larger humanist and religious vision of life.

Business ethics sometimes can seem too narrowly legalistic, as though contracts and rights were its only concern. Drawing attention to something as unusual as the role of the gift in human life, Benedict uses it as a symbol for those large and important zones of human life that lie outside a narrowly contractual logic.

As many others before him have noted, the market and its logic tend to pervade ever more aspects of human existence, bringing with them a kind of cultural deadness and moral alienation from others. However, the Pope and Catholic social thought hold (though many others don't) that we have a choice about that. The Pope holds that the market and the economy are not so all-embracing or so all-powerful (the current crisis shows they are not all-powerful) that human beings cannot maintain a vision of human dignity and of moral values that transcends the logic of the market.

Good and Competent Business

A second misunderstanding about ethics common in the business world is that ethics is only about things that, while important, are really *external* to business, with nothing to do with the business being successful (for example, rules about fairness and environmental standards). But ethics is also about rules that are *internal* to business, that is, rules that have to do with making a business good or successful.

Think of the rules for how to play soccer or chess. Cheating is unethical, of course. But more than that: widespread, unchecked cheating or fouling also makes the game unplayable. Certain kinds of rules are not just about personal behaviour, but about how you must play the game, and ignoring them means failing to play at all. Soccer, like chess, is a rule-structured game: no rules, no game.

The same applies in a slightly different way to building, carpentry, plumbing or electrical work: there are good ways and bad ways to do it. What makes them good or bad is whether the outcome is successful – whether the carpenter has produced a beautifully crafted piece of furniture or a rough but serviceable table, or whether he has produced something that is shoddy and will fall apart very quickly. It violates the 'natural law' of soccer or carpentry to deliver something that is 'no good' – hopeless soccer play, a falling-apart table.

So too with finance and industry. Some of the practitioners in these arts did things on a widespread scale that were ultimately destructive of the very nature of the business. And they should have known that. Or perhaps they did, and did not care.

Bad business practices, even if not strictly illegal, undermine the businesses and the banks themselves, along with the financial system of which they are part. That kind of behaviour violated the 'natural law' of business. It is irrational and unethical to violate the natural law, subverting the good in the activity or practice in which you participate.

Ethics essential in the ups and downs of economic life
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It is disturbing that the policies and actions of financial experts should do such damage to the financial system, with serious consequences for so many ordinary people. Perhaps there is something in wider culture that encourages that, particularly the short-termism that fails to take long-term consequences seriously and focuses only on making a 'quick buck'. If so, we need to hear people in finance and business speak publicly about it.

Big Brother

Where was the state in all this? The answer is complex. First, we must distinguish between three crises: the global financial and banking crisis, the global economic downturn (related to the financial crisis, but still distinct from it), and crises in government finances in certain countries, including Ireland, Greece and Spain.
In relation to public finances, Irish and other governments allowed housing bubbles to balloon out of control, and created social entitlements paid for out of stamp duty and other taxes dependent on the balloon's existence. Nobody denies now that such governments acted wrongly and irresponsibly.

In the case of Ireland, the government attempted some years earlier to deflate the housing bubble, only to give way to shrill pressure from developers, builders, and bankers. The Irish government clearly failed to protect the common good against sectional interests, and failed to give moral leadership to Irish society. Members of the government let the logic of the market dominate them, even when they had good reasons for thinking that in that particular instance the logic was likely to lead to disaster.

As regards the global financial and banking crisis, the general consensus on left and right was that the major banks could not be allowed fail, lest it lead to economic collapse. There was disagreement on how precisely to intervene, but nobody argued that the state should not intervene at all.

It is important to note that the case for intervention had nothing to do with ethical failures on the part of financiers and bankers. Banks were propped up or nationalised, not because civil servants might be more ethical than bankers, or because capitalism was seen as having 'failed', but simply to keep the banks afloat. The ethical duty of the state to minimise the negative effect of the financial crisis on ordinary people did not arise from governments being ethically superior to bankers or investors. It arose from the state having particular responsibility for the common good.

Nor can the business or banking failures be leveraged into generating an ethical case for heavy regulation. The moral case for regulation of banks, markets and businesses is no stronger after the crash than it was before. The idea that the present crisis is all due to financial deregulation from the Thatcher and Reagan years, and that the solution is heavy regulation, is half-true, at most. It may even be simply false.

In 2002, the US Congress passed, and President Bush signed, the Sarbanes-Oxley Act, one of the most heavily regulatory pieces of legislation of finance and accounting firms in any jurisdiction. Nevertheless, that did not guarantee competence or integrity in those firms. Many of the regulatory agencies sometimes failed to stop or even to sound the alarm over dangerous financial policies: ethical failures occurred there too.

In some cases, well-intentioned public policy also unintentionally (though not unforeseeably) contributed to the debacle, as when the US government under the Clinton administration put pressure on financial agencies to be more flexible in lending money to poorer people to help them take out mortgages. That generated a number of bad loans which added to the subsequent financial crisis.

State regulation is needed: the idea of business and banking being able to function without regulation is impractical as well as unethical. But that does not imply that the state knows better or is more ethical, or that such regulation will eliminate unethical practices. Regulation won't make any company ethical.

So there must be regulation, but it will not substitute for financial and industrial companies reviewing their own performance and internal culture, with a view to improving it. They will need to acknowledge the pressures that led to unsustainable financial practices, and seek to generate a better ethical culture. That may involve telling investors that there are certain things that must change, and may encounter resistance.

Conclusion

Where does all that leave the rest of us, particularly Christian or other public interest groups, concerned about recent developments and their impact on the poor, and seeking to contribute to a positive way forward?

First, it requires that we educate ourselves away from simplistic answers and slogans that are no help, and belong to another era. In a way, that is partly what Pope Benedict has in mind in his encyclical, *Caritas in Veritate*. With its theme of truth, it is a reflection on the fact that our moral thinking on the nature of human social and economic existence is disorganised, weak, unimaginative, and often rather slavishly tied to ideologies long past their sell-by date. The encyclical is a call to us to face up to the truths of our situation, and learn from the world's experience over the last century. One might talk about the crisis of capitalism, or wonder whether Marx was right after all, but to do so is a kind of self-indulgent escapism. Capitalism regularly goes into crisis, since it cannot guide or regulate itself, and is regularly rescued, since the alternative (see North Korea) is far worse. Even the nominally communist China, which has embraced capitalist economics while holding on to communist one-party politics, has not, as a result of the crisis, pulled back from capitalism. At the other end of the spectrum, the dramatic interventions by the US government to prop up US banks led Chinese wits to claim that the world was witnessing the phenomenon of 'socialism with American characteristics'. With Red China avidly practising capitalism, and a US Republican administration nationalising banks in all but name, capitalism vs. socialism debates are irrelevant and 'end of capitalism' theses are disconnected from reality.

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Second, the preceding paragraph should underline the point reiterated in this article: it is idle to denounce the (capitalist) system, since it is largely meaningless as a target of ethical criticism. It is also destructive to do so, since it removes the focus from where it should be, i.e., on economic agents: individuals, businesses, corporations, banks, and the state, in their specific roles. On the ethical level, blaming 'the system' is irresponsible, since it simply gives all of them an 'out'.

Third, there is no perfect socio-economic system to be had. (This was a point developed and argued at length by the late Leszek Kolakowski, Polish philosopher and former Marxist, particularly in his classic work, *Main Currents of Marxism*[6]). By all means, the state should regulate business and finance. But nobody should dream for an instant that such regulation will preserve business and finance from ethical failure. In addition, loud demands for regulation often reflect a failure to realise that it is often not easy to see what to regulate, how to regulate it, or how much regulation to apply. Excessive or inappropriate regulation can do its own damage to the common good.

Fourth, precisely because no perfect system is possible, we are left with no option but ethics. That is the underlying constant theme behind Catholic social thought, including Pope Benedict's *Caritas in Veritate*. There he speaks of truth, charity, justice, and integral human development. He emphasises the importance of 'responsible freedom' (n. 17), as something without which there can be no integral human development. A human life condemned to long hours and years of drudgery is not good; neither is one whose goal does not extend beyond an insatiable accumulation of wealth. The task for a pluralist society is thus to develop an appropriate vision, using the insights of the great religious and philosophical traditions of the world, that can support and correct economic development and the important world of business.

Notes

1. Séamus Murphy, 'Doing Business and Doing Good: The Role of Business Ethics', *Working Notes*, 51, April 2006, pp. 16–20 (www.jcfj.ie/our-journal-working-notes/wn-archive.html).
2. Warren Buffett was one of the few to do so, when he branded derivatives 'financial instruments of mass destruction'. Ethical concerns about derivatives were also raised in Catherine Cowley, 'Public Goods and Economic Risk', in Patrick Riordan (ed.), *Values in Public Life*, Berlin: Lit Verlag, 2007.
3. People in other walks of life often do not understand it either, but that does not excuse.
4. These paragraphs are adapted from James G. Murphy, 'People in Business: Context and Character', in Gabriel Flynn (ed.), *Leadership and Business Ethics*, New York/ Berlin: Springer, 2008, p. 125.
5. A major theme in Catholic social thought is critique of extreme capitalism and communism for talking as though there could be a perfect system, perfect economically and perfect morally.
6. Leszek Kolakowski, *Main Currents of Marxism: the Founders, the Golden Age, the Breakdown*, London: Oxford University Press, 1978.

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