

The High Price of Low Ethics;  
How Corruption Imperils American Entrepreneurship and Democracy

Carl J. Schramm, Ph.D., J.D.  
President & CEO  
The Ewing Marion Kauffman Foundation

University of Rochester  
Meliora Weekend  
October 12, 2002

The High Price of Low Ethics;  
How Corruption Imperils American Entrepreneurship and Democracy  
By Carl J. Schramm \*

Interest in corporate corruption is a phenomenon that repeats with remarkable predictability. The age of Enron, Tyco and Worldcom, along with the whispers of accounting irregularities in a host of companies long respected for their honesty, has loosed the hounds of business criticism. Past scandals have left us with volumes of reflective commentary that suggests little more than bad people do bad things in bad periods. The lesson from the past is that corruption in business comes in waves.

We are in the midst of just such a moment. Critics are coming together. They have essayed. They have indicted. And, predictably, they have determined that new rules will set things straight. The Sarbanes-Oxley Act has passed. Business leaders are chastened; the recalcitrant are being prosecuted. Going forward, firms and their leaders will operate at an improved level of ethical consciousness, one imposed from outside, by government. Government triumphs as the source of the superordinate ethical standard. The little guy has been protected into the foreseeable future.

There is much in this drama that is wrong and needs careful review. Many performances of this play point to bad endings every time. The predictable roles of the actors get us safely through to the end, but no uncomfortable lesson has been placed before us as good plays are supposed to do. Like a well-remembered drawing room diversion, it is as simple as the bad guys are being upbraided by the good. The policy steps now being taken are supposed to deny

---

\* President & CEO, Ewing Marion Kauffman Foundation

us another revival – corporate corruption will finally leave the repertoire of social drama. But, as we all know, the next round of scandals is, if we are lucky, perhaps only five years away. This, of course, presumes we are close to the end of the Enron saga.

This paper considers the phenomenon of corporate corruption from several different perspectives. Using seven postulates it concludes that this is a crisis that reaches beyond the big business venue in which at first glance it appears to play. Because it effects our nation's entrepreneurial activity, it connects to the rootstock of post-industrial capitalism, which is the basis of modern democracy.

#### I.

*Criticism of corporate behavior that does not seek to be practical is itself a cynical business. The traditional "ethical perspective," always dusted off at moments like this, is often nothing more than a respectable cover for corporate bashing.*

We know several things about ethical scrutiny of the corporation. First, the interest that ethicists show in business looks like a sine curve. Peaks in ethical interest lag episodes of corporate corruption. Today's talk itself is a "lagging indicator" of public interest in the honesty of business people. Second, many respected thinkers believe that an ongoing and wide discourse on business ethics is by its nature irrelevant, a waste of time: markets are driven by self-gain; it is healthy for participants to push markets to their limits. Occasional moments of overheated avarice where the rules get broken will happen and these "bad" moments are more than offset by the expansion of wealth and human well being that results in periods of growth and seeming ethical equilibrium. Third, it is hard and costly to attempt to prevent market abuses that appear to be lapses in personal ethics. More laws and regulations make each successive wave seem more scandalous because the last episode of widespread ethical breach is still

fresh in memory. Finally, it must be remembered that the recurring ethical scrutiny of business is not always “pure.” Michael Novak points out that there remains across western market societies, including in the U.S., a powerful critical posture. It characterizes the mindset of much of the American academy. While socialism is dead, anticapitalism is very much alive as an intellectual premise.<sup>1</sup>

## II.

*The story of business scandals is the story of a degrading collective standard overwhelming individual personal standards. In fact, corrupting moments in business are not “episodic”, but continuous. The temptation to set aside ethical standards is always present, because the gains are so large for the individual who decides to work outside the rules. Scandals emerge when large numbers of persons set aside personal ethical standards to adopt relative, collective standards that are often seen as the newly emerged standard.*

Corporate corruption often is thought of as an episodic phenomenon. It reflects how we focus on issues from time to time when an egregious event calls out for attention. What is lost in this conception is that the heaving to and falling off of ethical standards characterizes business on a daily basis. While business faces ethical decisions continuously, periodic episodes appear to happen for three reasons. First, collective unethical action in an industry can become-self-normalizing. A change in government policy such as deregulation of energy prices might set in motion a new “looser” approach to business practices within an industry. The spread of new emergent standards of conduct, with less ethical content than previous practices, is hard to stop. Second, a scandal may or may not emerge depending on what other issues require public attention at a given moment. Anthony Downs suggests that there is an “issues-attention cycle” that

---

<sup>1</sup> Michael Novak, *The Fire Of Invention: Civil Society and the Future of the Corporation* (Lanham, Md: Rowman & Littlefield Publishers, Inc. 1997), 33.

regulates when any issue might emerge.<sup>2</sup> Some business scandals never emerge as major events worthy of, say, Congressional action, because some other issue has taken the spotlight or because of the short period of time elapsed since the last business scandal. Third, the whole society can become so entwined in a fevered expectation of unusual returns from investing that it implicitly sanctions business executives to set rules aside, at least temporarily, so that an expected return on investment, commonly expressed in share prices, can be realized. In the name of increasing investment return, any behavior becomes permissible; we suspend our societal expectation of absolute ethical behavior from individuals.

### III.

*Over the years corporate ethical standards in commerce have deteriorated significantly. This erosion is related in part to the nearly non-stop process of codification of wrongs over the past thirty years. This transformation of business morality into a set of formal public rules has been done at the expense of the personal self-imposed absolute standards that formerly prevailed and were reflected in the common law, which was the way in which the public's interest had been guarded before legislated standards were developed. Worse, the statutory standards of conduct reflect the ability of business to reshape business standards, lowering them through time.*

Consider a case of business corruption in the past and what it brought forth. In 1938, Richard Whitney was serving as president of the New York Stock Exchange when he was accused of swindling millions from his clients through his own brokerage. Whitney was tried, convicted, and, within five weeks of the discovery of his fraud, incarcerated at Sing Sing prison for five to ten years. A bankruptcy referee sold his Manhattan townhouse, his New Jersey estate, his

---

<sup>2</sup> Anthony Downs, "Up and Down With Ecology "The Issue Attention Cycle"," *The Public Interest* vol. 28 (Summer 1972): 38-50.

stables and horses. In addition to yachts, cars, and artwork, the family's china, books and clothing were seized. His partners, who knew nothing of his behavior, suffered bankruptcy and disgrace. Their families also lost all. Whitney was never again permitted to enter his clubs, or even to visit Wall Street. He was punished, humiliated and shunned. He and his unwitting partners were ruined. Upon release from New York's maximum-security prison (not a federal detention facility), his friends arranged a job at a Maryland dairy farm. The sins of the father and his partners were visited upon their wives, sons and daughters.

In the last three decades, cases that involved massive defrauding of shareholders that were equally or more grievous, have produced progressively less in the way of consequences. For example, in the 1970s, changes in the banking law set in place the opportunity for managers of savings and loans to defraud their depositors. (It could be argued in this case that the offending behavior was actually encouraged by changes in the banking act, advancing what might be colored as a public policy goal of creating jobs through new construction.) Many of the perpetrators were indicted, and several went to jail (e.g., Charles Keating). While significant fines characterized the episode, most who had engaged in criminal fraud escaped with sizeable fortunes intact.

In the early 1980s, Michael Milken was found guilty of manipulating the stock market. He was convicted in federal court and jailed at a federal correctional facility. His fines were known to represent but a small part of his amassed wealth. He left jail and used his fortune to rehabilitate himself in the eyes of many through charitable works. His conviction and his sentence did not include an absolute prohibition against working subsequently in positions of trust in business. He currently works as an advisor to businesses and to investors.

As we confront the unparalleled theft by fraud that the Enron wave of corruption represents, it is clear that very few persons will be punished severely, if at all. For the loss of billions of dollars of investors' money and employee pension

funds, many of the key figures will not be indicted nor will their fortunes be threatened even by shareholder lawsuits in civil proceedings. Ken Lay, the chief executive who oversaw the entire plan, likely will go free with most of his accrued gains undisturbed, even a portion of those resulting from insider trading.

Whitney was prosecuted under state fraud standards. They were based on simple common law duties. He stole money, breached client trust, and was jailed immediately. The operation of partnership and bankruptcy law was such that they yielded a second punishment on the malefactor, his family, his partners and their families. The weight of being shunned by society and having one's children bear the awful burdens that were likely to descend would cause anyone to think twice about defrauding investors. Today, accountants who are on record as expressly advancing schemes intended to defraud shareholders (and who then attempted to destroy the evidence of their wrongdoing), to executives who expressly invited such advice are both likely to go unpunished.

What happened? We appear to be acutely more concerned about business ethics than we used to be, yet fraud on shareholders seems to be rewarded, given that malefactors get to keep their winnings. The answer appears to be that when government began to replace personal, self-imposed absolute standards of conduct, adequately reflected in common law precepts, with statutory and regulatory standards, the investment banks, accounting firms and corporations that would be subject to sanctions exerted an influence, and in some cases had a determinative hand, in shaping the rules. The result is we have abandoned absolute ethical standards for a vast morass of regulations that operate to intentionally negate corporate culpability.

Congress has been more than responsive in the aftermath of each episode of corporate corruption to accommodate the worries of executives, bankers, lawyers, and accountants. A case in point is Congress' rejection of a proposal by the Securities and Exchange Commission (S.E.C.) in 1998 that would have

restricted accounting firms from providing both auditing services and consulting advice on corporate strategy to the same firm, a conflict that is at the root of the Enron episode. In this instance Congress responded very clearly to the pressure of accounting firms anxious to preserve their lucrative “dual” practices.

Many statutory and regulatory reactions represent business’ ability to shape its own governmental constraints. Typically, the business to be affected resists governmental intrusion forcefully until the legislature or agency about to act accommodates some of the interests of the regulated party. The case is made that the proposed intrusion by government is overreaching. Many times the compromise is focused on the process by which the legislative intent is made to work, not the statutory intent itself. The legislation seems to address the public’s need for reform while the processes adopted by administering agencies can be easily captured by industrial interests. In the name of investor protection, one Financial Accounting Standards Board rule was 900 pages in length, defining in the greatest detail how certain matters should be treated in accounting. Such a rule begs a smart lawyer or accountant to play the grown-up legal version of “Where’s Waldo,” causing the very purpose of rules to become debased to a sport-like pursuit. The operational effect is to make any showing of wrongdoing, in interpreting and applying the rule, nearly impossible. The risk of course is that the S.E.C., because its apparent responsibilities and ways of proceeding become so arcane, begins to appear to the individual investor more and more like a captive agency.

Nowhere is this more clear than in the application of due process. One reason Enron, Tyco and Worldcom executives and their associated consultants and auditors, all of whom operated with obvious fraudulent intent, appear to be exempt from the consequences of their actions is that procedural due process standards blunt the logical connection between culpable acts and legal culpability. The criminal standard of proof in securities fraud is so focused on the minutiae of specific transactions that it is nearly impossible to prove fraud.

Standards of proof require that prosecutors prove that each tree was cut down even though it is obvious that the forest has been leveled. The result is that corporate actors who are clearly culpable are nearly immune from punishment.

In addition to protecting corporations from the operation of the higher standards of the common law, other statutes operate to protect individuals in the event that they are prosecuted and penalized. One need only look at the revolution in bankruptcy law to appreciate the insulation a corporate malfeator might enjoy. Bankruptcy law is bottomed on the notion that those who took the risk of starting a business or who fell victim of unexpected and uncontrollable events in markets might be able to start over again with a clean slate. These laws are an integral part of our entrepreneurial economy. They were never designed to protect assets accumulated as a result of gross and purposeful malfeasance. Today, however, it is common for many business executives to seek prophylactically the protection of favorable state laws to shelter all or a significant portion of their assets in the event of being caught. Florida's coasts have been built up with giant homes to no small extent by business executives who have anticipated the need for protection of their property in bankruptcy. Legislators in Florida have given protection to enormous amounts of personal assets if they are related to the individual's principle residence. Such statutory provisions provide a mechanism to shelter wrongfully acquired private assets in the event that a prosecution leads to bankruptcy.

Similarly, many states have established statutory means to protect professional partnerships from the operation of traditional standards that served to ensure legal ethical behavior. In Whitney's day, all partners were charged with the legal duty to vigilantly watch each other's behavior and to know the business of the firm. Under new limited liability partnership laws that supersede the common law, the assets of the partners are protected without regard to conduct by agents or other partners of the firm. Recall the case made by Arthur Andersen's partners that they did not know of the decisions and actions of the Texas

partners and, thus, were not liable for the losses of the investing public on whose behalf, as certified public accounts, ultimately they were supposed to work. Of course it was not possible for Andersen partners in Paris or New York – or probably even in Austin – to really know their partners in Houston or to know what they were up to. But who chose to grow Andersen to the behemoth size that precluded this collegiality? Those Andersen partners did. When it comes time to bear the burden of Andersen's role in the devastation of Enron shareholders, who was in a better position to know what was going on? Those partners – who could have known if they'd chosen to do so – or the holders of Enron stock, who had no possible means to know of Andersen's chicanery?

#### IV.

*Ethical standards in business are relatively simple when compared to other areas of human endeavor such as war or medicine, where life and death are the touchstones of debate. Constant legislative activity by Congress has displaced the simple precepts that should govern corporate transactions and guide executives in their relationships with investors.*

It is important to reflect on exactly what the content of our ethical standards in business should be. They are of necessity simple, easy to understand, and subject to measurement in the observance and breach. They descend from one of the first areas in which persons had to trust strangers. Persons engaged in commerce with other merchants unknown to them, often from foreign lands, had to have a trust relationship built on commonly held principles of fairness that were predictable in their enforcement. A system of unspoken business ethics emerged. In time, well-understood rules emerged from common law disputes. Private contracts could be enforced by the state referring to the common law rules. In addition to running the courts that decided private disputes, governments regulated their currencies to ensure predictable value, to oversee the stability of banking capacity, and to protect their citizens engaged in

international commerce by enforcing private contracts through appeal to other nations or sanctions on the offending party or his or her nation.

Such principles are fundamentally personal in nature. They spring from internal values of the person engaged in business. They are deemed self-evident and should be respected as such, without qualification. They are reinforced in the day-to-day course of business when each transaction honors and reestablishes the operation of the principles and their importance. This is the “moral compass” that characterizes the business person when he or she reduces the rules of their commercial life to their essence. The duty to know and honor common standards of conduct is internal and self-imposed. The continuous honorable conduct of a person in business becomes the business of living morally in that part of the individual's life that is given over to commerce.

The ethical principles in business remain simple and clear. Their essence can be stated clearly in a few rules. Honor contracts. Be truthful about the condition of a good or commodity. Do not engage in sharp practices in the negotiation and performance of a contract. Treat customers fairly and in every way as you would want to be treated. Be fair – and transparent – with investors: consolidate accounting, report all revenue and expenses in the appropriate period using truth-based accounting that accurately represents the state of your enterprise.

The concept that justifies these rules – what might be thought of as ethical standards – rests on very pragmatic reasoning. If business transactions proceed honorably, there is confidence in commerce and critical efficiencies emerge in a marketplace. Predictability of collections results. The efficient use of capital and lending flourishes. Investors, who can enforce a property right in a business they do not manage, come forward. The need to insure transactions against moral risk disappears. Moral hazard becomes easy to define and restrict. Commerce grows and wealth is produced. Human welfare expands. When rules break down, when a business person voids his bond with his customers or investors,

the opportunity cost of money rises. The costs of the transgressions of a few are imposed as a burden on the whole of society.

An ethical standard shared by people engaged in commerce derives from a system where self-interest compels behaviors that confirm these simple rules. In every sense a social compact emerges which, unlike many ethical rules that are tied to ethnic or national identities and custom, is very much multi-national. In commercial transactions, business people expect these rules to obtain. Indeed, we view some societies as corrupt because these rules are not honored in business. Inevitably, these cultures suffer from lack of trade and growth. Social welfare is highly dependent on the operation of the implicit bond among persons engaged in commerce without regard to place or time. In every way, the efficient operation of the world economy rests on an individual obligation undertaken by persons in commerce to honor common principles as absolute standards based in history and tied ultimately to the individual's and his or her society's welfare.

## V.

*The emergence of statutory standards of ethical commercial behavior reflects a belief that fundamental human behavior in the marketplace can be better ordered by government than by honoring and enforcing absolute ethical, shared standards as reflected in the common law. In fact, the substitution of statute and regulations for self-imposed absolute standards may invite further corrupt behavior as statute and regulations tend to parse broad ethical concepts into the minutiae of elements of violations and to articulate the lowest standard of acceptable conduct, if not explicitly, then by means of obfuscatory language.*

Inevitably, in our modern democracy, legislatures act quickly to right wrongs that cry out for justice. Knowing full well that history shows that many legislative "fixes" make the underlying problem worse, legislators nonetheless appear unable to resist the temptation to attempt to change behavior by articulating

desired conduct and establishing punitive measures to induce compliance. Statutory guidance regarding business values is born of reaction to a series of separate scandalous events. As a result, our legislative schemes have achieved two ends never intended. As in war, corrective legislation is always developed to prevent the last scandal or – unacceptable action. Corrective law cannot anticipate the human creativity that is invited by specifying prohibited acts. Crooks learn and corrective law invites specific learning. Second, each successive round of corrective legislation enforces a view that the ultimate guidepost is the list of actions deemed offensive by the legislature. A new presumption emerges. Actions that have not been included among those outlawed must be permissible. Surely, the consultants who read regulations sharply on behalf of, say, Enron, concluded that if an action was not included as an offense it must be a permitted course of conduct. Lawyers are trained to construe written precepts on the principle that if some action is not included as *mala prohibita* it must be permitted. Once a statute defines specific *mala prohibita*, operationally there is no longer *mala per se*.

The implicit commercial social contract has been rewritten by the legislature. There is now a codified replacement, a modern restating of the corpus of historic standards. Sadly, it is read as the complete spectrum of acceptable or allowed behavior, that any expectation or standard that has been left out is not required or expected. This view is strengthened by the continuous addition, with each crisis, of more defined behaviors that deny, by implication, previous common law standards! Thus, Sarbanes-Oxley, passed in reaction to the Enron scandal, requires chief executives to certify to the Securities and Exchange Commission that their audited numbers are accurate. The new “certification” requirement tells CEOs that they are on notice to be honest. By implication, it suggests that no such duty existed before. Worse, the executives might not have to be as honest in acting where certifying behavior is not required.

Writ large, each specific act that is either compelled or outlawed serves to make the law the only source of guidance, to exempt individuals from personal self-imposed absolute standards. Contemporary deference to statutory standards has replaced even common sense standards of right and wrong. “Zero-tolerance” codes of conduct and speech imposed commonly by private legislatures on campuses illustrates the point rather precisely. Designated “hate” words are unacceptable so all others, many of which are equally hateful, are permitted until the first occurrence when the standard is amended again. Recall a former vice-president of the United States, when attempting to exonerate himself from an indisputably tainted source of campaign funds, declaring that it was not unethical, really not illegal, because there was “no controlling legal authority.” Because the law did not contemplate just this particular type of money being passed in just such a way at just this kind of Buddhist temple, the contribution therefore must be legitimate. Ethical behavior becomes the default presumption if there is no specific legal prohibition. And, persons operating in such a milieu are invited to abandon absolute standards instead chasing an evanescent version of right and wrong.

## VI.

*Corrupt behavior imposes costs upon the whole economy. The burden of these costs does not fall evenly, but descends more heavily on entrepreneurs and small investors. This result is unavoidable because information is not equally available. The cost of this result is higher than the nominal economic costs that arise from a specific offense. Government’s attempts to establish standards of conduct usually focus on increasing information as a self-operating corrective measure. But the regulatory process often operates to slow the flow of information regarding corrupt corporate behavior, adversely affecting entrepreneurs and small investors.*

It is established that the costs of corruption are unacceptable. That these costs fall across the entire economy is clear, especially when government steps in to “bail out” those who have experienced losses, as it did in the savings and loan crisis. Private costs do not fall evenly or even “equitably” as they might in governmental bailouts funded by what is supposed to operate as a progressive tax system. Rather, they fall more heavily on those who are operating with less information relative to others in the market. Enron presents a vivid case: its officers were taking money off the table as they assured other investors of the upward potential of the company’s shares. Likewise, the interest in Martha Stewart’s behavior is grounded in the disparity of information enjoyed by well-connected investors.

Small investors bear higher private costs because they do not have equal access to information that would permit them to reduce their risk by adjusting their investment decisions. Entrepreneurs bear yet other private costs, resulting from corruption, that often are overlooked. Each incident of business corruption that becomes scandalous imposes reputation costs on entrepreneurs that result in fewer emerging to take risks connected to business. Any cost that results in fewer new businesses coming into being or growing more slowly is a macroeconomic burden on the society.

This connection is more deeply understood if one looks to the sum of costs imposed on new businesses by corrupt behavior and the governmental response it begets. Overly burdensome regulation may retard the rate at which new businesses are formed. In the area of technology, monopolizing behavior is commonly encountered, largely because government is responsive to established companies. In this way government’s non-action serves to dampen the formation of new businesses that might compete directly with the monopolizing supplier. The economic and social cost is the failure of better products to come to market (dampened innovation) or the death of superior products. Microsoft’s decision to eliminate “Word Perfect” and several

spreadsheet programs, and to effectively coerce the use of its own inferior products, is one such example.

Yet another macroeconomic cost is the higher cost of capital that results from each round of corruption. Examining history one can argue that, scandals seem to exacerbate bear market conditions, imposing significant costs on nascent business both by reducing the availability of venture capital and imposing higher capital costs in other ways.

The implications of scandal, by its nature occurring with greater consequence in large-scale businesses for the future of the entrepreneurial economy is of great importance. As will be discussed below, entrepreneurial activity is increasingly important to the future strength of free-market economies. In modern economies, rates of innovation are seen as directly related to the expansion of national G.D.P. As the proportion of any economy given over to entrepreneurial activity grows and welfare expands, the cultural base that emerges to support entrepreneurial success will become increasingly important.

## VII

*There are few issues of greater concern to the future of society than the ethical standards by which its commercial processes are conducted. A society's economy presages its politics. The last century's fateful history tells us that democracy appears indisputably linked to capitalism and that capitalism develops and flourishes where capital and labor markets are fair, free and transparent. The United States enjoys the highest long run rate of GDP growth. For the most part our markets are without corruption. They reflect a personal self-imposed absolute standard of ethical conduct among business persons.*

Increasingly we have come to appreciate that the character of our post-industrial economy is entrepreneurial, that the U.S. economy's strength is its

encouragement of the assembly of ideas, capital, and talent. Indeed, we are coming to understand that democratic capitalism self-renews at the hands of its entrepreneurs. Entrepreneurs are central to our future, and public policy must recognize and encourage the formation of innovative and potentially high growth businesses. Many aspects of modern American life have emerged to support business formation. Venture capital continues to emerge as a new financial institution, a source of capital for entrepreneurs and an investment class for portfolio managers. Immigration policy permits bright, well-trained and energetic entrepreneurs to enter the U.S. and start new businesses. (Recall that foreign-born entrepreneurs established thirty percent of the businesses formed in the Silicon Valley in the last decade.) And, cultural premises have established “geek” and “nerds” as acceptable role models for children, as alternatives to “jock”, preppies and rock stars.

This discussion points to another aspect of entrepreneurial life that is central to our discussion about ethics. An entrepreneurial economy is dependent on individuals coming forward to assume the role of starting businesses. It is the hard and critical work of the entrepreneur to undertake the process of working on breakthrough solutions to the entire range of human needs (often not perceived as needs until an invention that serves them comes along), to stitch together ideas, processes, and solutions into a company that is viable and can grow. Our continued economic growth increasingly depends on this process and on the men and women who take on the task, ready to pit themselves, their ideas, their fortunes against enormous economic odds. They do so with the hope of significant economic returns.

Being an entrepreneur is the essence of a personal commitment to business. It is based on an expectation that the world will be fair in its judgment and that the rewards will be meaningful. Entrepreneurs must believe that there is an ethical system in business or else they would never begin their risky and terrifying journeys.

The contrast between the values of the CEOs, auditors, lawyers, investment bankers and analysts involved in the unyielding revelations of Enrons, Tycos, and Worldcoms and those of the typical entrepreneur could not be more vivid. Those who operate and advise such giant corporations, the entities that have been the talismans of ultimate business success, the custodians of the dream that drives many entrepreneurs, have put the belief system of American capitalism at risk. The deceit, self-dealing, and ability to abstractly distance their actions from the losses sustained by their shareholders and employees, are the earmarks of a pernicious business elite. Before the era of the business chief appearing to value his or her social celebrity as worth any price – including imperiling the fortunes of investors by understating expenses by, in one case, \$4 billion! – CEOs embraced the anonymity that was part of the daunting, colorless work of making wealth for shareholders by judicious, honorable decision making and an eye to extending the life of the corporation for investors and employees into the indefinite future. Those CEOs believed, as did the inventors and entrepreneurs who organized new companies, in the same rules – tell the truth, never book revenue that is not collectable let alone under contract, honor the customer, make a consolidated report that portrays honestly the relationships between the corporation and its subsidiaries, never understate expenses, and report everything in the appropriate period.

What we cannot be teaching is there are two sets of rules in American business, one for small entrepreneurial firms and another set for huge publicly traded companies. What we ought to be learning is that the better rules, the ones that used to be the same, shared rules are those that govern and must drive entrepreneurs. If we have two sets of rules, we are finished. We will have what we never can allow if we are to sustain our role as the world's epicenter of entrepreneurship, the place smart people come to pursue their economic dreams, the nation that is on the receiving end of world capital flows because our rules of doing business protect entrepreneurs and investors alike whether they

live in the South Bronx or the hills above Palo Alto. We will have condoned what we cannot abide, a corrupt capitalist system.

No American business leaders can be effective, honest custodians of public trust without living the values of entrepreneurs. To entrepreneurs, elitist values are intuitively dangerous. Elites, by definition, cannot sense markets, cannot see the needs of real people for products and services that yield faster, cheaper, better solutions to real problems. Entrepreneurs are driven to build companies, to make jobs, to produce real wealth that will be measured and remeasured in capital markets that are genuinely skeptical, where a small company is assumed to be marginal, less competent, not capable of scale and unlikely to survive. Entrepreneurs do not have the liberty of growing revenue by using other people's money to acquire companies with no thought as to accretive earnings potential or the generation of increased value for shareholders. Entrepreneurs are always at the front, they are at once generals and soldiers. They are not protected from the bloody mess that is the daily business of building wealth by invention, trial and error, satisfying customers. Entrepreneurs live literally and figuratively much closer to the communities where they do their work, where the customers they serve have faces, voices and savings accounts. Celebrating self-enrichment at the expense of the little guy may be the stuff of the Hamptons, but it doesn't fly on Main Street.

To be a successful economy, we need the scale of our giant companies. Every giant company was started by one person. Every Intel was, way back when, one entrepreneur's dream, a set of notes on the back of an envelope, a series of sleepless nights, the making of believers in the nonexistent, bargaining with other dreamers. The process of wealth creation in a democratic society built on capitalism requires a seamless web of big companies and small, all working on the same assumptions and expectations. The entrepreneur is critical because he or she can be more innovative, can take different risks, can propel earthshaking change, in ways that the behemoths cannot. Entrepreneurs make the diet that

nourishes big companies. But, if the currency of the big companies is devalued, if the role models for entrepreneurs are crooks, if the fabled exit strategy where the little company becomes the big is lost, gone with it will be the motivation that brings forth the entrepreneur to do his or her duty for us all. The reason to forsake economic security, to jump into the entrepreneurial soup, to try and change the economic landscape will prove illusive. The ultimate spark of our economic way of life will be dimmed. There will be fewer start-ups and a leaner diet of invention and innovation. Big companies will atrophy. And the renewal of democratic capitalism will be threatened.

### Conclusion

George Washington told us that “The propitious smiles of Heaven can never be expected on a nation that disregards the eternal rules of order and right which Heaven itself has ordained.” In juxtaposition to the vision of this son of the enlightenment, St. Thomas Aquinas said that “Nothing is intrinsically good or evil, but its manner of usage may make it so.” Man’s burden to determine what is good and evil is heavier under Aquinas than under Washington. Government cannot and should not relieve this burden. It has been the premise of this paper that ethics in business are above all practical, they spring from a sense that one’s obligation is reciprocal, a duty to others involved in economic life, that one takes up as his or her obligation when one assumes a life in commerce. If business is to work efficiently, it must be fair and transactions transparent. These tenets are part of the implicit, transnational compact that undergirds civilization. Thus, the fundamental rules are self-imposed. They are personal to each individual. And, they are, in their essence, absolute, not relative to the circumstances.

Washington was right in his view that such rules that compose our social contract are critical to happiness within a nation. But Aquinas points us to the real and human task of self-governance. Edmund Burke, the greatest of social contract theorists, tells us to consider our obligation to live our roles as ethical citizens

including that part of our life that is spent in commerce – “The only thing necessary for evil to triumph is for good men to do nothing.” In business the evil that will triumph will leave us all poorer. Its highest cost is personal freedom itself. Contemplating the past century with its sorry history of wars born of contests over economic theory, and pointing to the real and sometimes terrifying link between economic theory and political order, compels us to see that sustaining an efficient modern market economy bottomed on ethical behavior is critical to preserving liberty.