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

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Corporate corruption threatens democracy and endangers the advancement of entrepreneurship as one of the fundamental traits of economic life in the United States. In this article, Carl J. Schramm proposes zero tolerance for unethical business behavior. Compared with war or medicine, business ethics seem relatively simple. Honor contracts. Treat customers fairly. Be truthful about the condition of a commodity. Be transparent to investors. This is just to say, there is a high price to pay for low ethics.

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 suggest little more than that 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. 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 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 being upbraided by the good. The policy steps now being taken are supposed to deny us another revival—corporate corruption will finally leave the repertoire of social drama. If history teaches us anything, however, and if we are lucky, the next round of scandals is no more than five years away. This, of course, presumes that we are close to the end of the Enron saga.

This article 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 affects our nation's entrepreneurial activity, it connects to the rootstock of postindustrial capitalism, which is the basis of modern democracy.

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 and 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 in which 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 United States, 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.[1]

The High Price of Low Ethics

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 emerge as the new 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 concept is that the hewing 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 regulates when any issue might emerge.[2] 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 aside rules, 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.

Over the years, corporate ethical standards in commerce have deteriorated significantly. This erosion is related in part to the nearly nonstop 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, 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 president of the New York Stock Exchange when he was accused of swindling millions from his clients through his own brokerage firm. 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, and his 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 wives, sons, and daughters.

In the last three decades, cases that involved massive defrauding of shareholders 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 actually was encouraged by these statutory changes, which advanced what might be colored as a public policy goal of jobs creation 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. The fines he paid represented 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 and is a confidante of senators and policymakers.

As we confront the unparalleled theft by fraud that the Enron scandal 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. It is hard to muster much sympathy for CFO Andy Fastow's forced sale of his Florida vacation home, on the market for more than the $20 million, to pay legal expenses.

Although Enron shareholders have sued Ken Lay, the CEO who oversaw the entire fiasco, and his wife for more than $70 million, it is likely that the Lays' punishment will be a decline in lifestyle from conspicuous opulence to mere affluence.

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 a second punishment was visited upon 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 mislead shareholders (and then attempting to destroy the evidence of their wrongdoing), as well as the executives who expressly invited such advice, are likely to go unpunished.

What happened? We appear to be more acutely concerned about business ethics than ever before, yet fraud seems to be rewarded, given that malefactors get to keep their winnings and bear little, if any, social shame. When statutory and regulatory standards came to supercede personal, self-imposed standards of conduct and the precepts of common law, did the investment bankers, accountants, and corporate titans, all represented by smart lawyers, play a determinative hand in shaping the rules? Did the process of codification remove the moral element of commerce and make business into a complicated game of "catch me if you can?" For whatever reason, the result is the substitution of absolute ethical standards for a morass of regulations that, intentionally or not, tend to negate corporate and individual 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 1998 proposal by SEC Chairman Arthur Levitt that would have prohibited accounting firms from providing both auditing services and corporate strategy consulting advice to a client, a conflict that is at the root of the Enron episode. Congress responded very clearly to the pressure from accounting firms eager to preserve their lucrative consulting 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 nine hundred 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 sportlike 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 SEC, as its apparent responsibilities and operations become increasingly 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 standards of proof blunt the logical connection between culpable acts and legal culpability. The criminal standard in securities fraud has become so focused on minutiae that it is nearly impossible to prove fraud. Prosecutors must 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 can dodge and wiggle out of punishment.

In addition to protecting corporations from the higher standards of the common law, statutes can operate to protect individuals from the consequences of their acts. One need only look at the revolution in bankruptcy law to appreciate the insulation a corporate malfeasor might enjoy. Bankruptcy law is premised on the notion that those who risked starting a business, or who fell victim to unexpected and uncontrollable events in markets, might be able to start 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 or purposeful malfeasance. Today, however, it is common for many business executives to seek prophylactically the protection of favorable state laws to shelter assets. Florida's coasts have been built up with giant homes to no small extent by 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 "principal residence." Such statutory provisions provide a mechanism to shelter wrongfully acquired private assets in the event that liability 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, partnership law imputed knowledge of all aspects of the firm's operations to each partner. As a result, partnerships were small and collegial, and partners watched each other's behavior and made it their business to know the business of the firm. Under new limited-liability partnership laws, 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 actions of the Texas partners and, thus, should not be liable for the losses that resulted. 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. Be that as it may, 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 had chosen to do so—or the holders of Enron stock, who had no possible means to know of Andersen's chicanery?

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 the content of our ethical standards in business. Of necessity, standards should be easy to understand and subject to measurement in the observance and the breach. The need to trust strangers in commerce practically arose from the primordial ooze: If you give me *X*, I will give you *Y*. Persons engaged in commerce with merchants unknown to them, often from foreign lands, had to have a relationship of trust built on commonly held principles of fairness that were predictable and enforceable. A system of business ethics emerged. In time, well-understood rules emerged from judges' rulings in commercial disputes. Private contracts could be enforced by 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 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 and 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 correctly 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 in which self-interest compels behaviors that confirm these simple rules. In every sense, a social compact emerges that, unlike many ethical rules that are tied to ethnic or national identities and custom, is very much multinational. 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 the individual obligations 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.

The emergence of statutory standards of commercial conduct reflects a belief that 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 statutes and regulations for broader principles may invite further corrupt behavior and codified rules to parse broad ethical concepts into the minutiae of the elements of violations and articulate only the known or easily anticipated violations.

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 have exacerbated the problem or have had unintended negative consequences, 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 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 are not on the list must be permissible. Surely, the clever consultants who read regulations on behalf of, for instance, Enron, concluded that if an action was not prohibited, it was permitted. Lawyers are trained to construe written precepts on the principle that if some action is not included as *mala prohibita*, it must be permitted. Operationally, once a statute defines specific *mala prohibita*, there is no longer *mala in 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; any expectation or standard that has been omitted 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, executives might not have to be as honest on other fronts if certification is not required.

Writ large, each specific act that is either compelled or outlawed serves to make the law the only source of guidance and to exempt individuals from personal self-imposed 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 must be legitimate. Ethical behavior becomes the default presumption if there is no specific legal prohibition. Additionally, persons operating in such a milieu are invited to abandon absolute standards, instead chasing an evanescent version of right and wrong.

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. However, the regulatory process often operates to slow the flow of information regarding corrupt corporate behavior, adversely affecting entrepreneurs and small investors.

The costs of pervasive 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 that often are overlooked. Each incident of business corruption that becomes scandalous imposes reputation costs on entrepreneurs that result in fewer of them emerging to take risks connected to business. Any cost that results in fewer new businesses' coming into being or of their 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 nonaction 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. One such example is Microsoft's decision to make Word Perfect and several competitors' spreadsheet programs inoperable with its software, which effectively coerced the use of Microsoft's own inferior products.

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

By its nature, scandal occurs with greater consequence in large-scale companies; the implications, however, are of great importance to the future of the entrepreneurial economy. As discussed below, entrepreneurial activity is increasingly important to the future strength of free-market economies. In modern economies, rates of innovation are directly related to the expansion of national gross domestic product (GDP). 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.

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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 operate with low-grade or minimal corruption and reflect a high standard of ethical conduct among business persons.

Increasingly, we have come to appreciate that the character of our postindustrial economy is entrepreneurial, that the United States 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 generally has permitted bright, well-trained, and energetic entrepreneurs to enter the United States and start new businesses. (Recall that foreign-born entrepreneurs established 30 percent of the businesses formed in the Silicon Valley in the last decade.) In addition, cultural premises have established geeks and nerds as acceptable role models for children, as alternatives to professional athletes 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 start businesses. It is the hard and critical work of the entrepreneur to undertake work 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, and their fortunes against enormous economic odds. They do so not only for the thrill of innovation but also 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 they would never begin their risky and terrifying journeys.

The contrast could not be more vivid among the values of the CEOs, auditors, lawyers, investment bankers, and analysts involved in the unyielding revelations of corporate scandal and those of the typical entrepreneur. 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's 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 the indefinite future of the corporation for its investors and employees. Those CEOs believed, as did the inventors and entrepreneurs who organized new companies, in the same rules.

We cannot be teaching two sets of rules in American business, one for small, entrepreneurial firms and another set for huge publicly traded companies. If we have two sets of rules, we are finished. We will not be able to sustain our role as the world's epicenter of entrepreneurship, the place to which smart people come to pursue their economic dreams, the nation that is on the receiving end of world capital flows because our rules protect entrepreneurs and investors alike, whether they live in the South Bronx or the hills above Palo Alto. With two sets of rules, we will have condoned what we cannot abide, a corrupt capitalist system.

American business leaders can not 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; they cannot see the needs of real people for products and services that yield faster, cheaper, and 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 the generals and the soldiers. They are not protected from the bloody mess that is the daily business of building wealth by invention, trial and error, and 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 does not 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. However, if the currency of the big companies is devalued, if the role models for entrepreneurs are crooks, if the fabled exit strategy by which 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 to change the economic landscape, will prove to be elusive. 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: "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, Saint Thomas Aquinas said, "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 article 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 its 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. 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. Aquinas, however, 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, we see that the sustenance of an efficient modern-market economy, one premised on ethical behavior, is critical to the maintenance of liberty.

Notes

* This article was originally presented at a Meliora weekend at the University of Rochester, October 12, 2002.

1. Michael Novak, *The Fire of Invention: Civil Society and the Future of the Corporation* (Lanham, Md.: Rowman & Littlefield, 1997), 33.
2. Anthony Downs, “Up and Down with Ecology ‘The Issue Attention Cycle,’” *The Public Interest*, vol. 28 (Summer 1972): 38–50.