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## **Free Enterprise: Business ethics in a crisis**

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While the economy is shrinking, some businesses are prospering.

One example of a growth industry, besides foreclosure services and candy makers, is the teaching of business ethics. Even a cursory review of recent news stories provides evidence for such an uptrend.

Last week, the British Broadcasting Corp. published a narrative that - rather cheekily - announced that "Ethics arrive in business school" and described recent curriculum changes emphasizing the value of moral principles. At the same time, the Boston Herald reported on the travails of the highly praised Harvard Business School. It has created a task force that is studying its connections to publicly shamed executives, a number of whom were graduates of the school.

Numerous similar studies are likely to be published in the near future. They will attempt to analyze what kind of institutional and organizational shortcomings led to or even encouraged rampant risk-taking with no apparent regard for the consequences.

Many may point accusingly in the direction of "homo economicus" - a simple model used by economists to explain the decisions of rational participants in various market settings. After all, what kind of (anti-)social behavior can one expect from solely profit- or benefit-maximizing subjects. Never mind that such simplistic judgments would represent a caricature of actual cutting-edge economic research, in which - more often than not - complex behavioral explanations and even actual brain scans compete on equal footing with explanations based on rationality assumptions.

Still, the predictive power of models that posit for most individuals to act in their best self-interest most of the time has yet to be surpassed. Consequently, any ethical prescriptions of how to prevent the next crisis will have to confront the human trait of one wanting to improve one's station in life.

The problems often, and sometimes disastrously so for society as a whole, begin when the means to this goal include deceit or outright falsehoods in order to gain financially.

Aristotle, in his "Nicomachean Ethics," had reserved a special place of shame for those who lie "for money, or the things that lead to money." The ancient Greek philosopher labeled them as "uglier characters" than those who are contemptible simply because they like to lie or those who boast to gain honor.

What could spell danger to the Free Enterprise system, which has provided unsurpassed increases in living standards, would be a trend to conflate the "ugly characters" with those who are simply getting paid a lot for demonstrably honest work.

Clearly, what is needed is not just a renewed interest in business ethics, but also in the related study of how society can channel the all too human impetus for self-improvement into actions that are in the long-term interest of society. Perhaps what is out of bounds has to be enforced by more than voluntary commitments and trust in ethical behavior. The current discussions about compensation rules that truly favor long-term sustainability over short-term gains - while still permitting innovative entrepreneurship - are a first and important step.

Of course, there is also a conveniently ignored trend related to the recent uptick in interest regarding the teaching and practice of business ethics. Like many other business phenomena, it seems to follow a business cycle. Unfortunately, that interest in business ethics appears to be fairly countercyclical - and, as such, prone to be shrinking as soon as the economy is prospering again.

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