



## Virtue, Vice, and the Globalization of Market Economies

Stephen P. Preacher, DBA<sup>1</sup>

1. Liberty University, 1971 University Boulevard, Lynchburg, VA, 24502, USA, Email: spreacher@liberty.edu

### Abstract

*This study postulates that the recent world financial crisis, symptomatically manifested in the financial markets, is more fundamentally the result of a systemic disregard for moral constraints. This has occurred at macroeconomic levels within the industrialized nations and has pervaded the global economy. Moral relativism has become the dominant ethical system in society and government, and has undermined the virtuous ideals and self-restraint that foster the benefits of capitalism. Coupled with advances in technology and globalization, the effect of vices such as avarice, irresponsibility, excessive risk tolerance and criminal activities have been exacerbated. Government manipulation and intervention has further served to distort the market mechanism and increase the moral hazard. The crisis has created a vital juncture for the future of capitalism. If the lessons of discipline, restraint and moral responsibility can be partially re-learned, the long-term future looks bright. But if the crisis results in more government regulation and intervention, over time, the markets will be distorted further. Distortion may cause additional shocks to the world economy and pressure for more centralized control of international market integration.*

*Key words: ethics; virtue; moral relativism; corruption; capitalism; financial crisis; market economies; globalization.*

### Introduction

The greater part of a full lifetime has elapsed since America has experienced a dislocation comparable to the current financial crisis. And while disruptions of such magnitude have occurred in national economies periodically throughout modern history, this is the first time we have experienced a truly global financial crisis.

It is generally accepted that the debacle began late in the summer of 2007, taking most experts by surprise. The first serious signs began to appear in the American housing market – specifically with subprime mortgages. As real estate prices soared in the wake of an unprecedented economic boom, the alarms of a bubble, sounded by the occasional skeptic, were drowned out in the euphoric din of those shouting that property values could only go up. New mortgage applications were frequently being made and approved over the telephone in less than 72 hours. Innumerable home equity loans and credit lines were generated at a blinding pace, seen as a source of ready cash for every imaginable purpose. Americans and Europeans alike were basking in the joyous prospect of rapidly in-

creasing wealth, and turned a deaf ear to the naysayers. And then the seismic financial jolt occurred.

Like a line of standing dominoes, overextended financial institutions began to fall, setting up a chain reaction which wracked the global economy. The collapse of more than 25 subprime lending firms in early 2007 caused the Dow Jones Industrial Index to plummet over 400 points. During the course of 2008, the momentum continued with the implosion of Bear Stearns, Lehman Brothers, and Merrill Lynch (1). These were followed by some of the World's largest lending firms, including Washington Mutual, Citigroup, Bank of America and Countrywide. By then, the subprime crisis had spread to Europe. In spite of major cash injections by central banks, the markets continued to tumble. "The bankrupt institutions were not only in the U.S., but also in the U.K., Germany, and even Switzerland — Royal Bank of Scotland; IKB and Hypo Real Estate in Germany; and UBS in Switzerland. They included not only banks and brokerage firms, but also the largest single insurance company in America, AIG" (2).

Dozens of reasons have been advanced in the effort to explain what went wrong. Clearly, an unsustainable bubble had formed in the U.S. housing market, and there are legitimate explanations for irregularities occurring as the bubble burst. The proper function of the market mechanism was drastically off balance, but why? The elements of greed, irresponsibility and poor judgment are factors which contributed to the demise of individual companies, but not the entire industry.

At the root of the market distortion was a series of monetary policies and interventions by the Federal Reserve which served to create excessively easy credit terms. According to Lawrence White (3), F.A. Hayek Professor of Economic History at the University of Missouri, combined with this, was the government policy of providing subsidies and then requiring Fannie Mae, Freddie Mac, and most other lending institutions to make risky or “sub-prime” loans so the less fortunate could afford their own housing. The price of real estate shot up while anticipated demand generated an overbuilt market.

### **World Financial Crisis**

Panics, bubbles and financial crises have occurred periodically in the United States as well as in Europe over several centuries. Among the more notable are the Dutch tulip mania of 1637, and the bursting of Britain’s South Sea Bubble in 1720. In the United States, there was the Panic of 1792, which arose in part over speculation on the Revolutionary War debt assumed by the federal government.

The first real financial crisis in the U.S. came in 1819 with widespread bank failures and foreclosures. A serious depression began in 1873 and lasted for three years. A stock market crash precipitated a run on the banks in the Panic of 1907. The next major shock was the crash of 1929 and the subsequent Great Depression of the 1930s. Since then, some of the more significant financial catastrophes either in the U.S. or elsewhere have included the Latin American debt crisis of the 1980s, and the Wall Street crash of 1987. For the first time, however, a sea change in technology came into play.

*On October 19, 1987, the stock market fell a staggering twenty percent in a single day. There was really no specific news event or other factor that might have explained the sudden drop. Many of the people involved in quantitative technologies on Wall Street at*

*the time believe that the crash may have been precipitated by computer programs that traded autonomously in the hope of providing ‘portfolio insurance’ for big investors” (4).*

Since then, the speed and complexity of computing has accelerated exponentially. Instead of the program trading of the eighties, a far more sophisticated method is now being employed:

*...the use of extremely fast Wall Street computers that allow transactions to be executed in fractions of a second. This practice, known as “flash trading,” has quickly attracted the notice of the Securities and Exchange Commission and may result in new regulation. As these examples show, we can expect that the rate of change and the volatility of nearly everything around us will be somehow amplified by the incredible increase in our ability to compute (4).*

The 1987 market debacle was followed by the U.S. savings and loan crisis of the late 1980s and early 90s, the default on Mexican debt in 1994, the Asian financial crisis of 1997, and the dot.com bubble of 2001. Most recently, and this time on a global scale, was the Great Recession of 2007-10. Poor judgment, over-speculation, corruption, “irrational exuberance” (avarice) and ill-advised government policies have played a role in each of these events. Added to these factors is the speed by which panic and its reflexive actions occurred because of twenty-four hour, instantaneous media coverage.

While crises have occurred at past intervals, the present situation is vitally important not only because of its worldwide extent, but also because of its complexity and magnitude. By the end of 2008, the value of wealth in global capital declined from \$80 trillion to \$60 trillion. Second only to the Great Depression, this is the worst financial catastrophe of the last two centuries (5).

Much of the severity of the current crisis is certainly attributable to the lack of warning. Yet, even if a suitable alarm had been sounded, it is probable it may have been ignored. The American and European economies were expanding rapidly, and great riches were being made in nearly every type of market. The pundits and financial experts alike competed with one another by espousing their opinions on the investment vehicles with the highest returns. The rapid appreciation of real property motivated countless people to begin speculating in the real

estate market, driving prices even higher. For those who became actively involved, it almost seemed too good to be true. And it was. Were the lending institutions oblivious to the euphoria? Edwin M. Truman (6), a Senior Fellow of the Peterson Institute for International Economics, asserts that “policymakers in national governments, officials in international institutions, and leaders of private financial institutions knew they were headed for a bust. They knew the sweet music would stop, but in the words of Citigroup’s Chuck Prince ‘as long as the music is playing, you’ve got to get up and dance.’

The failure of leadership is listed as one among the many other causes for the collapse, including the lack of transparency within the financial system and the government, as well as outmoded regulations and inadequate enforcement (7). Adding to this apparent lapse in systemic integrity, the Congressional Research Service has identified an extensive (though by no means exhaustive) list of 24 suggested causes for the crisis, many of which share characteristics of imprudent risk taking, irresponsibility, and incompetence – the complications of not fully understanding the complexity of various exotic financial instruments including derivatives and credit default swaps. Among these is the distortion of the market system caused by government intervention (8).

In the midst of all the finger-pointing remains an abundance of buck-passing. The banks and other lending firms, for example, claim they were forced by the government to make risky loans, while the government claims they simply became greedy. The latter assertion certainly does not seem unfounded, in light of the flood of credit card solicitations consumers received in their mailboxes each week for several years during the boom. Add to that the numerous appeals that were made for home refinancing, including some which were predatory in nature, involving bait-and-switch interest teasers.

### **Systemic Disregard for Moral Constraint**

While most, if not all, of the suggested causes for the world financial crisis have a degree of validity among various sectors, it seems some of these variables are at least symptomatic of a more fundamental problem, which is a crisis in ethics – a systemic disregard for moral constraint. Research conducted by the non-governmental global organization, Transparency International, has concluded that “many of the conditions enabling the crisis are closely linked to corruption risks for business. These

conditions include serious short comings in corporate integrity systems, such as conflicts of interest entangling key gatekeepers; insufficient transparency and accountability on the part of important markets; market players and oversight mechanisms; and serious lapses in corporate due diligence, governance and integrity” (9).

Alan Blinder (10), a former vice chairman of the Federal Reserve Board, and current professor of economics and public affairs at Princeton University, alludes to the manifestation of the baser qualities of human nature that occurred in the marketplace. In regard to the behavior of those involved, he wrote:

*Plainly, they all failed in the financial crisis. Compensation and other types of incentives for risk taking were badly skewed. Corporate boards were asleep at the switch. Opacity reduced effective competition. Financial regulation was shamefully lax. Predators roamed the financial landscape, looting both legally and illegally. And when the Treasury and Federal Reserve rushed in to contain the damage, taxpayers were forced to pay dearly for the mistakes and avarice of others.*

Freedom, without moral constraint, is a recipe for disaster. Adam Smith, in his Theory of Moral Sentiments, (11) wrote that the virtue of “justice” is necessary to keep the market in balance, and will at times require legal enforcement. “The danger, however, is that the lawgiver might ‘push’ this legislation ‘too far’ and ‘destroy liberty, security, and justice’” (12).

If society does not recognize the critical importance of ethics and morality as integral components of its well-being, however, it stands to lose its will (and capacity) to regulate the market properly and freely. It will be more inclined to gradually relinquish increasing control to its government in an attempt to maintain market balance. But a government cannot impose the lost virtues of ethics and morality upon society. In fact, the erosion of these qualities provides government with greater justification to restrict freedom and exercise even more control. Under such circumstances, the sentiments of good will and beneficence are more likely to be extinguished. But Smith held that the market functions best when there is the freedom to express beneficence as well as self-interest. Smith believed a free and moral society was necessary for the success of a market economy.

*[While] justice..., can be extorted by force (threat of punishment), moral virtues like beneficence or fellow-feeling would completely disappear under something like socialism or communism: 'Beneficence is always free, it cannot be extorted by force, the mere want of it exposes to no punishment; because the mere want of beneficence tends to do no real positive evil.' Our common sentiment, in short, 'approves' of fellow-feeling only if it has not been extorted by force. No one, says Smith, can force you to be a good neighbor – this has to be done freely (12).*

### **Ethics and Morality**

In recent years, especially since the accounting fraud of Enron and other corporate scandals, major legislation has been enacted in the United States to increase transparency (i.e., the Sarbanes-Oxley Act of 2002) and a renewed emphasis has been placed on corporate ethics in industry as well as in graduate business schools. But a significant plight of today's global, postmodern culture is that it is difficult, if not impossible to agree on a definition of morality. Furthermore, the literature is replete with the terms "morality" and "ethics" being used interchangeably.

For the purposes of this paper, the term "ethics" is defined as the behavior of individuals toward one another in a culture or society based on what is generally acceptable within that culture or society. Obviously, this implies considerable variation among cultures, and will serve to illustrate that the globalization of business is going to result in an inevitable conflict of what is understood to be "ethical" behavior.

"Morality," on the other hand, can be described as the discernment of "good" and "evil," "right" and "wrong." This does not eliminate the difficulty, however, as the understanding of those terms is largely bound by cultural context as well. Perhaps it will suffice to suggest that, in a general sense, anything is "moral" if it can be said to have a beneficial, or at least a neutral effect on another human's well-being. That which is not "moral" could then be said to have a harmful or negative effect on someone. From this perspective, many might choose to equate that which is moral or ethical with that which is legal, and it seems this indeed may be the dominant viewpoint in much of society today. This argument is certainly convenient, as it allows for morality and ethics to fit the generally ac-

cepted paradigm held by secular society that "everything is relative."

If everything is relative, however, then there can be no objective truth and no absolutes. The only reliable constraint which would seem to remain stable is the law, which serves as "the line drawn in the sand" - the lowest common denominator of morality. But law, of course, is not constant, and can (and will) be changed to fit the needs and prevailing attitudes of the times. Beyond the law, moral and ethical "ideals" may be pleasant and desirable for many, but in the final analysis, from a relativist point of view, they become a matter of personal choice, and must not be imposed on society at large.

### **Moral Relativism**

In the context of moral relativism, as it is commonly understood, ethics and morality are personally subjective. It is not unusual to hear someone say, "What may be right or true for you is not necessarily right or true for me." Even the law can be viewed this way, and the legal restraint or consequent penalty it may impose can be considered by an individual as the function of risk rather than the conviction of morality.

Other than pragmatic requirements of the law, what compulsion is there to exercise moral constraint? There may be utilitarian justification to develop and follow a code of ethics, but in the minds of persons of power and influence, this can be rationally and even callously subordinated to the drive for personal achievement and monetary gain when the circumstances seem propitious. The sentiment (perhaps the mantra) of such persons could be expressed by the words of Gordon Gekko in the 1987 film Wall Street when he said, "Greed, for lack of a better word, is good."

Moral relativism in a global society, where the concept of ethics is considered to be culture-specific, is not logical. If conflicting standards are equally valid, why should anyone need to be shackled by standards other than his own, or for that matter, any standards at all? Why shouldn't greed be good? Why must exchange be mutually beneficial? In such an atmosphere, corruption will thrive.

Unfortunately, from a relativistic viewpoint, the "self-interest" espoused by Adam Smith as being mutually beneficial in an exchange relationship is indeed very often misinterpreted to mean greed. Nonetheless, this is not to

say the marketplace is now mobilized by greed, and therefore the financial crisis is the result of avarice and fraud. But the general acceptance of moral relativism establishes a fertile medium for the cultivation of these vices. It also provides for an environment in which irresponsibility is common, accountability is inconsistent, and the laxity of enforcement becomes more prevalent. Fareed Zakaria (13), the current editor of Newsweek International, has offered a rather genial observation:

*Most of what happened over the past decade across the world was legal. Bankers did what they were allowed to do under the law. Politicians did what they thought the system asked of them. Bureaucrats were not exchanging cash for favors. But very few people acted responsibly, honorably or nobly (the very word sounds odd today). This might sound like a small point, but it is not. No system—capitalism, socialism, whatever—can work without a sense of ethics and values at its core.*

The violation of moral standards has occurred in all cultures frequently throughout history. But now, “for the first time, at least on a mass scale, the very possibility of such standards has been thrown into question, and with all its essential distinctions between right and wrong. Today’s culture,” wrote social philosopher Will Herberg (14) “comes very close to becoming a non-moral, normless culture.” It seems this prescient observation has come to fruition in the marketplace.

The affairs of governments and financial markets are unavoidably affected by social variables, and the prevalent postmodern attitude of relativism appears to have produced a paradigm shift in which the very concepts of ethics and morality, as traditionally applied in Europe and America, have now been disengaged. And there are no apparent differences in the levels of discretion among the attitudes of the general population, commercial entities, and the government bureaucracy. Since at least the middle of this decade, dozens of cases of Internet pornography involving federal employees using government computers have been disclosed. In April, 2010, the General Services Administration acknowledged recent abuses. “According to a summary requested by Sen. Charles E. Grassley (R-Iowa), SEC Inspector General H. David Kotz investigated 33 employees and contractors for illegal computer usage”(15). This was done by circumventing software filters designed to block prohibited web sites.

*In one SEC case, a regional office staff accountant admitted to viewing pornography on his office computer and on his SEC-issued laptop while on official government travel. Another staff accountant received nearly 1,800 access denials for pornographic sites in a two-week period and had more than 600 images saved on her laptop’s hard drive.*

*The computer of a senior attorney at SEC headquarters in Washington ran out of space for downloaded images, so he started burning them onto CDs and DVDs that he stored in his office. The attorney said he sometimes spent as much as eight hours a day viewing pornography on his office computer, the report said (15).*

Evidence of the pervasive influence of relativism is apparent on multiple fronts, and significant among these is academia. In the contemporary atmosphere of diversity and political correctness, a Zogby International poll of college seniors revealed that 73 percent of those queried received pluralistic instruction in ethics. Furthermore, students are taught that competing worldviews are equally valid, and should not be challenged outside the context of their own culture (16). This can easily lead one to conclude that, in a global society, moral values may be considered free for the choosing, employed when useful, or simply disregarded as so much claptrap.

The seed of this attitude, however, is already firmly planted in the minds of American young people by the time they reach their teen years. In a survey of 30,000 high school teenagers conducted by the Josephson Institute (17), 30% admitted to shoplifting within the previous year; 42% confessed to stealing in order to save money; and 64% revealed they had cheated at least once in the preceding 12 months (38% twice or more). This study also found the vast majority of these students (93%) were “satisfied with their personal ethics and character.”

Donald McCabe, a professor of management and global business at Rutgers School of Business, participated in a 2006 study which revealed that 74% of MBA students surveyed admitted to cheating to gain a competitive edge over their peers. Apparently they believed such behavior to be necessary in order to get ahead in the corporate world. He also noted this percentage was higher than that of American and Canadian graduate students in other fields (18).

A more recently completed study involving nearly 14,000 college students over the last 30 years has revealed a substantial decline in the degree of empathy felt toward the welfare of others, with the most significant drop occurring since the year 2000. The study, headed by Sara Konrath, also suggests that the prevalence of media technology is a contributing factor. In an interview, Konrath said the following:

*“College kids today are about 40 percent lower in empathy than their counterparts of 20 or 30 years ago, as measured by standard tests of this personality trait.”*

*“The increase in exposure to media during this time period could be one factor,” Konrath said. “Compared to 30 years ago, the average American now is exposed to three times as much nonwork-related information. In terms of media content, this generation of college students grew up with video games, and a growing body of research, including work done by my colleagues at Michigan, is establishing that exposure to violent media numbs people to the pain of others” (19).*

A fellow researcher, Edward O’Brien, also addressed the impact of social networking. “The ease of having ‘friends’ online might make people more likely to just tune out when they don’t feel like responding to others’ problems, a behavior that could carry over offline” (19).

The fruits of callous and self-centered behaviors are not confined to young people in the classroom. They are ripening in American financial institutions and in the federal government as well. Politicians rarely admit to wrongdoing if caught in illegal or unethical activities. When accumulated evidence makes denial impossible, they will confess to having made “mistakes” or errors in judgment. If there is any indication of remorse, it may very well be an orchestrated performance directed by a professional reputation management consultant.

In 2009, during the Senate confirmation hearings of Timothy Geithner, investigation revealed he had failed to pay approximately \$34,000 in taxes and penalties. This was passed off as an innocent oversight and “a mere hiccup” by Senate Majority Leader Harry Reid. As Secretary of the U.S. Treasury, Geithner now oversees the operations of the Internal Revenue Service.

The financial and governmental institutions of today are led by people who have grown up in an age of abundance. They have not learned the hard lessons of adversity experienced by earlier generations. Those who knew the travails of depression and global war are no longer there to offer guidance and advise restraint. Our leaders have become narcissistic and indifferent, preferring to rely on money as the solution to all problems. Problems with the economy, problems with education, and problems with health care are thought to be resolved with spending and inexpensive credit. These patterns have also been reflected in the general population by wild and profligate spending. Early in the financial crisis when the economy began to show early signs of contraction, the American people were urged by their government to go out and spend more.

This mindset was subsequently exercised by the federal government with the \$862 billion stimulus plan and the \$1 trillion in new health care subsidies, both funded with borrowed money. At this writing, these expenditures have not succeeded in jumpstarting the economy. In fact, they have in many ways served to increase fear and uncertainty about the long-range prospects for the future.

The extent and the severity of these circumstances have been exacerbated by excessive materialism and the erosion of moral virtues –virtues which include fairness, honesty, integrity, moderation, prudence, responsibility and self-control, to name just a few.

The critics of free enterprise would argue that the system corrupts values, and the “self-interest” of Adam Smith is really a euphemism for greed, and that greed leads to all manner of criminal and predatory behaviors. Recently, Bernie Madoff has been suggested as the new poster boy for capitalism. Professor Jagdish Bhagwati, Senior Fellow in International Economics at Columbia University, however, takes issue with this attitude. “Yes, markets will influence values. But, far more important, the values which we develop will affect in several ways how we behave in the marketplace. Consider just the fact that different cultures exhibit different forms of Capitalism” (20). He goes on to pose the following questions:

*So, where do we get our values? They come from our families, from our communities, from our schools, from our churches, and indeed from literature... The payoffs from corner-cutting, indeed outright theft, have been so huge in the financial sector that those who are crooked are naturally drawn to such scheming. The financial*

*markets did not produce Madoff's crookedness; Madoff was almost certainly depraved to begin with. The financial sector corrupts morality in the same sense that the existence of an escort service corrupted Eliot Spitzer. Should we blame the governor's transgressions on the call girls rather than on his own flaws? (20).*

### **Capitalism in Crisis**

Are the dire conditions of the present crisis a foreshadowing of the decline of capitalism? Has the system finally imploded, paving the way for a new social order? Jason Zweig, of the Wall Street Journal, has observed that faith in the market has been shattered. Investors followed the advice of the "experts" and then watched their wealth vaporize while Wall Street executives received billions of dollars in bonuses. In order for confidence in the market to be restored, "Wall Street firms need to be forthright in admitting their shortcomings. The more they protest their innocence, the more they make the typical investor feel that the financial world is unjust" (21).

The "New Economy," touted in the 1980s and 1990s as an age in which the boom and bust cycle was thought to no longer be operational, has clearly proven to be an illusion. The Great Recession of the Twenty-First Century has dispelled that myth. We have come to the end of a very long cycle of growth and prosperity. Though extremely painful, it will nonetheless be a time of renewal. But rather than the end of capitalism, this will prove to be a time of purging and realignment and an opportunity for a re-examination of values.

Capitalism means growth, but also instability. The system is dynamic and inherently prone to crashes that cause great damage along the way. For about 90 years, we have been trying to regulate the system to stabilize it while still preserving its energy. We are at the start of another set of these efforts. In undertaking them, it is important to keep in mind what exactly went wrong. What we are experiencing is not a crisis of capitalism. It is a crisis of finance, of democracy, of globalization and ultimately of ethics (13).

Over the next several years, it is imperative that regulations and supervisory functions will have to be revised and improved, and substantial housecleaning will need to be done not only at government levels, but also within the financial system itself.

There are already many indications consumers are becoming much more conservative with their discretionary income. The sentiment of frugality is also showing up at the political polls where voters are turning toward fiscally conservative politicians. This trend seems to be picking up steam across the United States, and if it continues, could help strengthen the foundation for a longer lasting recovery. Caution should be exercised in anticipating a rapid recovery, however, as currency devaluations and sovereign debt defaults are lingering risks within the global economy, and are still capable of causing major dislocations, as the financial systems are extremely complex.

There are signs within the grassroots population that attitudes towards government involvement in the market are also beginning to change. While there is a need for proper regulation to help curtail abuse, it must be recognized that attempts by a government to bolster an economy by maintaining very low interest rates, easy credit, and massive cash infusions, artificially postpone the maturation of the business cycle and dramatically increase the severity of financial crashes.

The London-based Adam Smith Institute noted that 24-hour global media coverage has reinforced the urgency politicians feel to become involved when things begin to go awry, and has increased their tendency to tamper with the market. This results in their extracting money by taxing or borrowing from the economy and reallocating it, thinking they can do it better than the market can. The Institute maintains this type of meddling has generated new interest in free-market ideas (22).

In order to help correct the distortions that have occurred among market economies, not only do governments and financial institutions need to take effective action to promote and strengthen a higher level of integrity, but also educational institutions will need to resume instilling the importance of moral virtue and personal character. If moral relativism maintains its grip on the minds of our youth, then at some future date we are destined for a calamity far greater in magnitude than that we have already experienced in the present financial crisis. As noted earlier, relativism fosters apathy, a lack of personal responsibility and self-restraint, and by default encourages reliance on the collective elite of government policy makers to resolve the problems of society.

## Government Intervention

In 2009, Matt Miller published a book entitled, *The Tyranny of Dead Ideas: Letting Go of the Old Ways of Thinking to Unleash a New Prosperity*. Miller is a Senior Fellow with the Center for American Progress, the think tank working closely with the White House. According to the Center, Miller stresses the need for America to “reinvent capitalism,” and in the process, dispel the common myths that “1) our kids will earn more than we do; 2) free trade is always good, no matter who gets hurt; 3) employers should be responsible for health coverage; 4) taxes hurt the economy; 5) schools are a local matter; and 6) money follows merit” (23). Miller also advocates that the government should triple education funding over the next decade. “This would allow the federal government to directly influence not only content and curriculum standards, but incentive programs to raise the bottom level of teaching standards throughout the nation” (23).

A revisionist approach to capitalism from a Big Government orientation does not bode well for the future of free enterprise (which includes the central concepts of private property and individual liberties), especially when the educational system is viewed as a primary medium for engineering social change under government direction. It is already quite evident American schools have done a poor job in providing instruction about the nature and objectives of capitalism, equating the word itself with greed and predatory practices.

The startling results of a national telephone survey conducted in 2009 by Rasmussen Reports (24) revealed that: “Only 53% of American adults believe that capitalism is better than socialism.” The survey also found “that 20% disagree and say socialism is better. Twenty-seven percent (27%) are not sure which is better. Adults under 30 are essentially evenly divided: 37% prefer capitalism, 33% socialism, and 30% are undecided.”

The survey did not include an explanation or definition of the difference between the two economic systems, in which case the results may have been different. Nonetheless, taken at face value, many Americans do not have a clear understanding of the two systems, and appear to be ignorant of their respective implications. Although neither system is free of shortcomings, we would do well to remember the insight of Winston Churchill, who said, “The inherent vice of capitalism is the unequal sharing

of blessings; the inherent virtue of socialism is the equal sharing of miseries.”

Since the abuses leading up to the financial crisis there has been a greater outcry for regulation of the free market system and a stronger drift toward state capitalism, both domestically and abroad. In April, 2010, Bloomberg News interviewed Marc De Vos, an international law professor at Ghent University in Belgium. De Vos said:

*“Governments are important for the foundations of markets - - property rights, the rule of law, education. They’re important for incentivizing markets. At some stage, though, they become market players -- no longer pushing the market but driving the market and, in the darkest forms, taking over the market. Since the advent of the subprime crisis, the shade has been getting darker and darker, stage after stage” (25).*

Government involvement in the affairs of business does not reduce the flaws in a capitalist system, but only intensifies them. Europe’s experiment with socialist policies has resulted in elevated levels of corruption, a major variable in slowing economic progress and undermining the public thrust in an atmosphere favorable to prosperity. “More than three quarters of Europeans agree that corruption is a major problem for their country, mostly due to the links between business and politics, a survey by Eurobarometer, the bloc’s pollster shows” (26). This concern is reinforced by the results of the Global Corruption Report 2009 in which the research provides:

*evidence of persistently close linkages between business and governments in developing and industrialised countries alike, multiple conflicts of interest and the growing risks of disproportionate influence on the part of corporate lobbying. Case studies from Bangladesh, Germany, Malaysia and Trinidad and Tobago all document a precariously close nexus between private business and public institutions. In the United Kingdom, politically connected firms are estimated to account for almost 40 per cent of market capitalisation – a level that rises to a staggering 80 per cent in Russia (9).*

## Corruption

There has been no dearth of unethical behavior in the global market leading up to the crisis. In an attempt to demonstrate their vigilance, government officials have readily singled out notorious private sector offenders to

be sacrificed on the altar of public denigration. Those officials and their cronies, however, are quite defensive about exposing corruption within their own ranks, yet government corruption is one of the greatest hindrances to progress in world development. "In developing and transition countries alone, corrupt politicians and government officials receive bribes believed to total between US\$20 and 40 billion annually – the equivalent of some 20 to 40 per cent of official development assistance (9).

The international market miscreants have also kept abreast of advanced technology, and have employed it to their advantage. For example, a recent report by the Hindustan Times (27) on corruption in Mumbai observed that the details needed to record bribe payments made to customs official are being stored on small computer pen drives because they are non-traceable, easily transported and easily destroyed. Officials are also using mobile phones to maintain contact with their "collection agents," who handle the transactions for a small percentage of the take.

After posing the question concerning the ability of government to manage more ethically than the market, Curtis Verschoor (28), Research Fellow in the Institute for Business and Professional Ethics at DePaul University in Chicago wrote, "The answer may be "NO" in light of the increasing scope of "too big to fail" banks, with the result that moral hazard and potentially unethical behavior is probably increasing."

### **Moral Hazard**

Verschoor's acknowledgement of this possibility seems to be a bit of an understatement, as it is difficult to see how government subsidized risk-taking to the tune of hundreds of billions of dollars in bailouts and trillions in government-backed mortgages, money-market assets and corporate debt guarantees can create anything less than a moral hazard. As Dowd (29) explains:

*If anything is obvious about the current crisis, it is that the system of managed state intervention into the financial system has failed dismally: it is not "free"—that is, unregulated—markets that have failed, but the statist system within which financial markets and institutions have been forced to operate... Measures that rein in moral hazard are to be welcomed and will help to reduce excessive risk-taking; measures that create or exacerbate moral hazard (such as massive bailouts?) will lead to even more excessive risk-taking and should*

*be avoided. In short, a key yardstick that should be applied to any proposed reform measure is simply this: Does it reduce moral hazard or does it increase it?*

A financial rescue policy at the magnitude the U.S. government has employed in this crisis is dangerous on several levels. First, it creates unconscionable debt with serious implications for fiscal and monetary policies. Second, it establishes a precedent, thereby increasing the moral hazard and setting the stage for further abuse and subsequent financial shocks. Third, it signals the marketplace is dysfunctional, requires government involvement (or control) and significantly undermines confidence in capitalism as an economic system.

Verschoor (28), in recounting some of the events which occurred in a recent Harvard Business School Centennial Business Summit, noted one of the conclusions of the Summit was that "the financial crisis may shift societal views on the legitimacy of business." Sentiments such as this also appear to be reflected in slogans such as "Change We Can Believe In," and books with titles such as *The Tyranny of Dead Ideas*.

When a crisis occurs, the inclination of a society is to give its government more power to try to solve the problem. And though government may have partially caused the crisis by intervening and distorting the market mechanism, it is also quick to assert its ability to resolve it – suggesting "a crisis should not be wasted." But power craves more power, and the people must exercise great care to maintain control over the government, lest it usurp control over them.

### **Global Market Integration**

Market integration has produced phenomenal benefits and has help to raise hundreds of millions of people out of poverty. In some instances, market integration has led to much more thorough economic integration, and, in the case of the European Union, political integration as well. Nations should exercise caution, however, and not march too readily toward political integration following the EU model. Thus far, the EU has produced political stability and prevented major conflict in a historically war-torn region. But the trade-off has been the partial loss of economic freedom, national sovereignty, and the addition of multiple layers of expensive bureaucracy. On balance, much benefit has been gained, but this model would not be compatible with all nations, nor should it need to be.

The current euro-crisis and sovereign debt contagion should also serve as a fair warning against carrying globalization too far.

National political independence and an absence of homogeneity help to stimulate competition and produce creativity and innovation in democratic market economies. These are qualities which allow capitalism to flourish. The task of government should be to reduce fraud, increase transparency, and regulate commerce fairly. Government should not dictate how businesses should be run, nor should it raise impediments to free trade. Daniel Ikenson (30), the associate director of the Center for Trade Policy Studies at the Cato Institute argues against government intervention:

*As policymakers respond to the global recession, they should remember that the unprecedented global economic growth experienced in recent decades owes much to the removal of political and economic barriers to trade and investment. During that time, a division of labor on a truly global scale has emerged, presenting opportunities for specialization, collaboration, and exchange that affirm—and might even astonish—the great Adam Smith. Falling trade and investment barriers, revolutions in communications and transportation, the opening of China to the West, the collapse of communism, and the disintegration of Cold War political barriers have spawned a highly integrated global economy with vast potential to produce greater wealth and higher living standards.*

The inertia of past progress created a boom fueled by policy makers that sought to sustain the momentum with cheap credit and easy money. When the bubble burst, optimism was replaced by fear, and capitalism became the scapegoat. Once again, nations turned to the “wisdom” of their policymakers to provide salvation.

Erixon and Sally (31), Directors of the European Center for International Political Economy, do not believe that government policymakers will back off. Instead, they maintain there will be a return to the type of protectionism characteristic of the 1970s and 1980s. “Domestic ‘crisis interventions’, especially in capital and product markets, and the return of Big Government, will spill over to external policy, with more defensive trade policies as a consequence.”

Many formerly less productive nations have become emerging markets employing capitalistic principles which have allowed them to aggressively compete with the developed nations. Thus far, some of the positive effects of globalization have created an environment in which economic and political freedom can flourish, where human dignity is more widely recognized, and where competition and cooperation can continue to raise living standards. But these effects have not been evenly distributed. Conditions in many non-democratic countries have grown worse, giving rise to more socialism and authoritarian governments. Even in democratic countries, the negative effects of globalization have engendered state capitalism through cronyism, fostering closer cooperation between the elitists and big industry. The elitists have also utilized the momentum of globalization to promote an agenda of globalism, in which world issues are given greater urgency over national issues.

As emphasized by Transparency International (9), “There is a risk, however, that powerful private sector players capture policies and governments and profoundly thwart democratic decisions, posing a significant threat to accountable and inclusive governance everywhere.”

Market economies will never be free of human shortcomings, but onerous government regulations provide more potential for political and corporate corruption. Unscrupulous individuals take advantage of ill-advised legislation and loopholes which only serve to increase the severity of inevitable corrections. When adjustments and corrections are delayed by government intervention, bubbles develop and eventually burst. This generates fear and a call for counterproductive protectionist measures and more government control. Some elitists would even suggest the solution to such dislocations should be sought in worldwide geopolitical integration.

In late 2009, the European Commission concluded a study to produce simulation software designed to test the viability of new policies which might prevent future financial crises. “It predicts the interaction between large populations of different economic actors, like households and companies, banks and borrowers or employers and job-seekers, who trade, and compete like real people. By giving each simulated agent individual and realistic behaviour and interactions that show how markets will evolve, these massive scale simulations can better test new policies tackling future societal challenges”(32). It is not unreasonable, however, to suggest government bu-

reaucrats would eventually conclude the more accurate those behavioral inputs are, the more reliable the results would be. And that poses a significant danger to individual privacy.

Many commercial entities are already harvesting detailed data from social networking sites such as Facebook and Google Buzz to compile consumer profiles to sell to corporate marketing departments and financial firms. This is being done by user tracking and web analytics through the Internet. Moreover, Google's Street View equipment (while operating in Europe) was recently found by German investigators to have been quietly compiling highly personal information for at least three years by intercepting data from unencrypted Wi-Fi routers (33). Google, of course, claims it was "a mistake" and will no longer operate the scanners.

Data mining from unsecured sources may not be illegal (at least within the United States) but such an invasion of privacy is clearly unethical. And history shows that government agencies, through commercial avenues or otherwise, can and will obtain such information with or without public knowledge or permission. In state-centric economies, the application of such technology could readily be justified as necessary to help manage "future societal challenges."

### **Conclusion**

There are numerous irregularities and vices which have converged to produce the financial crisis, but it must be acknowledged that moral relativism has also contributed to the attitudes and behaviors across a wide spectrum of those involved in creating the crisis. Today's Western democratic societies, which widely accept and practice relativistic ethics, may contribute to the further weakening of traditional virtues in an attempt to validate conflicting values in the interest of tolerance, political correctness and globalism. National sovereignty and free markets are being increasingly viewed as divisive, while economic and political integration (leading to a supranational rule of law) are seen as constructive. Globalism subordinates democracy to statism. This continual drift has already been envisioned by the National Intelligence Council in its Global Trends 2025 report:

*Today wealth is moving not just from West to East but is concentrating more under state control. In the wake of the 2008 global financial crisis, the state's role in the economy may be gaining more appeal throughout the world... The state-centric model in which the state makes the key economic decisions and, in the case of China and increasingly Russia, democracy is restricted, raises questions about the inevitability of the traditional Western recipe—roughly liberal economics and democracy—for development. Over the next 15-20 years, more developing countries may gravitate toward Beijing's state-centric model rather than the traditional Western model of markets and democratic political systems to increase the chances of rapid development and perceived political stability (34).*

Such an outcome, however, is not inevitable. The benefits of international commerce, peace and prosperity brought about through globalization do not demand the comprehensive economic and political integration espoused by the globalists to operate effectively. What is necessary is a greater understanding that free market principles, (along with the development of international free trade) require not only impartial and consistent enforcement of appropriate regulations, but also the virtues of honesty, trust, and individual and corporate responsibility to function appropriately. These virtues should be practiced as deontological, and must be suffused with integrity throughout government and industry. Such practice applies equally to present and future technology. Without these virtues, economic freedom, democracy and personal liberty are at serious risk.

*"Only a virtuous people are capable of freedom. As nations become corrupt and vicious, they have more need of masters"*

*- Benjamin Franklin*

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