THE BUSINESS OF ETHICS

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I was honored to be asked to deliver the commencement address this year at S.M.U., whose kindness and warmth I learned to know during an earlier visit. I asked myself how I might repay that kindness and what I could say that might be helpful to the Class of '87 as you move on to your careers or to professional and graduate studies. I thought I might talk about the Crash of '87 but decided that would be too depressing. Besides, it's not going to happen -- not if we use the hard-won economic knowledge we have accumulated and not if the major industrial nations of the world are willing to work together in their common interest. But that process of thought about the need to reason together in our common interest led me to the subject that I do want to discuss today -- a subject that is very much on our minds now and will stay on our minds, in one form or another, for years to come -- indeed, for the rest of our lives. That is the subject of ethical values and
behavior, or, to put it less formally, the question how should we live if we want our society to be decent and to survive; how should we live, if we want to be genuinely happy and win not only the respect of others but, equally important, win and deserve our self-respect.

But perhaps not everybody sees the main business of life that way any more. In recent days we have been thunderstruck by instances of unethical behavior -- in business and finance, in politics and government, even in religion -- by individuals who had won the trust and admiration of a great many people. These people hurt themselves and hurt the whole society.

Take the case of those Wall Street operators and investment bankers who, dealing in inside information, shook the public's confidence in the integrity of free markets. Some economists argue that the way to deal with the problem of insider dealing is to remove legal restraints against it, allowing a free market in all sorts of information, open or secret, to hold sway. The analogy they draw is with the Volstead Act of the 1920's and early 1930's, which, in making the sale of alcoholic beverages illegal, created a hugely profitable market served by bootleggers and gangsters.
Legalizing the sale of inside information, they contend, would in like fashion make the markets in stocks and bonds more efficient, lower the cost of information for everybody and get rid of the crooks, the way the repeal of the Volstead Act got rid of the bootleggers.

But is the analogy between the markets for financial information and for liquor valid? Should insider information go to those who can best afford to pay for it?

Where would this leave individual investors who could not devote their lives to getting hot information? Would it not tend to drive them out of the stock market or at least out of trading in individual securities? Admittedly, the individual investor might be willing to cast his lot with large mutual funds, hoping that they could compete for advance, hitherto inside, information on corporate mergers and acquisitions or other deals. But a piece of monumentally valuable information is not like a bottle of whisky; timing, the ability to get the information ahead of others, is what is crucial to the value of advance information. Should inside information go to the highest bidder as it now goes to the sharpest conniver? Should newspapermen sell their secrets ahead of publication? Is it theirs to sell? Is a
corporate board member, elected to serve the stockholders, the rightful owner of corporate information?

In weakening individual investors' confidence that they can get a fair shake in the market, insider trading poses a threat to the vitality of industry, particularly to new, venturesome and innovative industries searching for capital. An open and healthy capital market needs, above all, the trust of individual savers and shareholders. The financial reforms that followed the stock market crash, including the creation of the Securities and Exchange Commission itself, were based on the need to re-establish public trust in the markets. Faith in the markets has again been shaken by evidences of greed, dishonesty, irresponsible borrowing, unreliable accounting and ineffectual public regulation.

Tough enforcement of the laws is necessary to keep the markets open and honest for the sake of the whole society. Honesty is a public good; it strengthens the freedom and efficiency of the economy, from which we all benefit.

We can say the same thing about the vital importance to a free society of honesty and integrity in politics and government --
particularly in such sensitive areas as the National Security Council and the Marine Corps; there is no contradiction between the need for high ethical standards and, on certain national-security matters, for secrecy. The will of the people, exercised through their elected representatives, must be trusted, or corruption of a free society follows. Although democracy may seem in the short run to be a bother or a cost to powerful decision makers, our freely given trust in our government and our power to guide it is the source of our strength as a nation.

That is the practical, utilitarian value of ethics to a free and effective society. Are high ethical principles also a good-in-themselves? And, at the personal level, can one combine ethical behavior with a successful career? That is the cutting edge of the question that will confront you in the years ahead.

The answer is yes, even though you may sometimes have to pay a price for doing what you know is right. What would brave and honest behavior be worth if it never involved a cost?

But ultimately such behavior brings its reward in self-fulfilment. And I can assure you that there are a great many people, in all sorts
of fields, who have had successful careers without compromising their ethical principles. I venture to say that the greatest have done so.

But that is not to say that inner conflicts do not sometimes arise, and not just between good and evil; indeed, it is the essence of the ethical problem that it usually involves a choice between two goods—loyalty to a friend and loyalty to principle; loyalty to the firm and responsibility to the customer; obligation to one’s family and obligation to one’s nation. Good against good: To cite the title of a book I once wrote: "Ethics and Profits"—ethics is not good and profits evil; rather, ethics and profits are both good, and one must try to find a way to reconcile these two goods or, if they are in conflict, to choose one over the other. Ethics is an existential problem: one must choose, try to choose rightly, and sometimes choose the course that is costly to oneself.

Why should one make a choice that violates one’s immediate self-interest? I am afraid there is no simple answer to that question, but I shall try to give my own: Because it does good to another person or persons and because it does good to oneself, in some ultimate sense. Because it creates happiness, inner happiness, for others and for
oneself. Because it is great to know that you have had the courage to do what you should have done. Because, finally, there is nothing else you could do, once the issue became clear.

So ethical behavior is a good-in-itself, as valuable a good as we may possess. But what about all those who never discovered that good or who denied it? I can't say what happened to all of them but we certainly know what happened to some: They learned the hard way that moral principles, born in a good society, are somehow brought to bear against those who transgress against them. As the country song goes, "You can't do wrong and get by/No matter how hard you may try."

But what if you have done wrong? Well, join the club: face up to what you've done -- suffer -- and go on. For, as Aldous Huxley said in the foreword to his Brave New World: "Chronic remorse, as all the moralists have agreed, is a most undesirable sentiment. If you have behaved badly, repent, make what amends you can and address yourself to the task of behaving better next time. On no account brood over your wrongdoing. Rolling in the muck is not the best way of getting clean."

I wish you a clean and brave new world, of your own making.