

Article

The Cost of (Un)Ethical Behavior

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Fessler shares one of his class lessons as an example of how ethics can be taught in many business classes, whether in a public or private university. This particular lesson focuses on “ethical behavior and its role in a market economy.”

Abstract

This manuscript gives instructors at both public and private colleges an example of how ethics can be taught in many business classes. The author describes a class lesson devoted to discussion about ethical behavior and its role in a market economy. Ever-evolving variations of this presentation have been effective at two state-funded universities and one privately-funded Christian university. The author hopes that readers will find the discussion to be a good starting point for developing ethics presentations of their own.

Introduction

As a Christian faculty member teaching at a public university, have you ever wondered how to best teach

ethical behavior in your classes? While teaching at a Christian university, have you ever wanted to give your Christian students better tools for discussing with non-Christians reasons why behaving ethically makes rational (and economic) sense?

This article describes a class discussion I have developed and have now successfully taught at two public universities and one private Christian university. When teaching at a public university, I try to expose my students to thought-provoking material on ethical behavior and to demonstrate the value of Christlike moral behavior in business without appealing to Christianity, per se. When teaching at a Christian university, I try to help my students be able to discuss the value of moral behavior with

non-Christians, because they soon will be working in a secular workplace.

I have taught this material to students ranging from undergraduate sophomores to executive MBAs. The material requires about 30-45 minutes of class time, and I typically lead this discussion after teaching evaluations have been completed on the last day of class. Additionally, I do not test this day's material when teaching at public universities, so students are free to listen and to think and to agree or disagree as they are so inclined.

The class presentation is comprised of three sections. The first section centers on a discussion of the question: "If everyone in the U.S. acted *perfectly ethically*, what jobs would disappear?" Individuals and businesses pay a very real price for the unethical behavior of others, both financially (e.g., in the form of higher taxes) and legally (e.g., in the form of more legislation). This discussion proceeds quite easily without appealing to any definition of "ethical" behavior.

The second section of the presentation suggests that The Golden Rule is a good place to start when defining "ethical"

behavior. All major religions of the world contain a statement similar to The Golden Rule, with satanism being the glaring exception. Thus, by extension, all cultures value the sentiment of The Golden Rule, and this shared sentiment serves as a solid foundation for discussions about ethics.

In the third and final section of the presentation, I show my students that one of the reasons Adam Smith worked so diligently to popularize the notion of a free market economy is because he thought that such an economic system caused citizens to behave *more ethically*. Thus, there is ample opportunity and reason to talk about the importance of ethical behavior in market-based economies.

During class I try not to lecture or to preach, but rather to provoke thought and to provide adequate rationale for my provocations. I try to defuse argumentative students, because it is possible to discuss ethics in a manner that most people can agree with, at least in principle. I am trying to cause students to *think*—specifically, to think about ethical behavior in ways that are new to both Christians and non-Christians. I believe that such efforts to improve ethical

behavior are constructive because everyone benefits if we all behave ethically.

The following sections of this manuscript outline the three sections of my class presentation in greater detail; the slides I use for this presentation can be found in the Appendix. Although I do not reference specific slides in the following discussion, the interested reader should be able to "follow along" with the slides.

A Thought-Provoking Question

I always begin my presentation with the question: "If everyone in the U.S. acted *perfectly ethically*, what jobs would disappear?"

Lawyers are often one of the first professions suggested by students. A Christian lawyer friend heartily agreed, telling me that if individuals and businesses would abide by their promises and commitments (oral or written), if relatives would abide by the expressed wishes of a deceased individual, etc., there would be little or no need for lawyers.

In fact, much of the U.S. legal and prison system would no longer be needed, including the police force. Because the legal system is largely funded by taxpayer dollars, students (along

with all other tax-paying citizens in society) in a very real sense pay for the unethical behavior of others. In a like manner students pay for the campus police force and bear the cost of vandalism and abuse of university resources through higher tuition and fees. These are very real costs, measured in dollars and cents, paid by innocent citizens because others behave unethically. The price paid by society for unethical behavior is sobering to consider.

Incidentally, for those of you teaching accounting (as I do), external auditors would no longer be needed if individuals and firms behaved perfectly ethically and reported income honestly (in accordance with GAAP). External readers of financial statements would no longer require firms to obtain independent assurance by CPAs that information published in financial statements is trustworthy and reliable. Ironically, one of the most respected professions in America exists because unethical behavior occurs.

Students may or may not agree with all of my assertions about jobs that would disappear if everyone behaved ethically (for instance, many have a

difficult time imagining a world where police would not be necessary), which is fine.

All students will agree that *some* reduction is possible in many professions (e.g., maybe there is a need for police officers, but not as many would be needed).

Once this agreement is reached, then we can conclude that *some* reduction of taxpayer costs would occur, causing *everyone* to be in a financially superior position.

Individuals and firms within society bear not only a financial burden but also a legal burden as a result of unethical behavior. Laws are frequently based on exception: Dr. Jack Kevorkian helps someone commit suicide, and lawmakers create new laws to prohibit this activity.

Individuals are killed in automobiles while speeding, or on motorcycles while not wearing helmets, and laws are born. And freedoms are legislatively removed, replaced by laws that forbid the performance of activities that once were legal.¹

Firms, too, face much legislation. One business abuses a natural resource (for instance, by polluting the Mississippi River), and laws preventing such abuses follow. Anyone starting a

new business in the U.S. faces a dizzying array of legal requirements, making it more and more difficult to successfully accomplish a business start-up.

Not that the laws are bad, per se, but sometimes they can seem excessive. For instance, the Lord's Prayer is 66 words, the Gettysburg Address is 286 words, there are 1,322 words in the Declaration of Independence, and urban legend suggests that government regulations on the sale of cabbage total 26,911 words. Firms bear very real costs attempting to remain in compliance with these requirements and must necessarily pass these costs on to consumers in order to be

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profitable. Each year the private sector spends more than \$600 billion to comply with federal regulations, which is more than \$6,000 per U.S. household.² Everyone who purchases cabbage pays higher prices because previous unethical behavior by firms caused laws to be enacted.

Students will sometimes note during our discussion that we have not yet defined what is meant by "ethical." If students do ask, I defer my answer because this conversation can occur and progress without a formal definition; each student can form his or her opinion as to what constitutes "perfectly ethical" behavior. I save my definition for the second section of the presentation.

What Is "Ethical" Behavior?

With the exception of satanism, all major religions of the world contain some statement similar to The Golden Rule:³ "Do unto others as you would have them do unto you." Because this principle is shared by all religions (see Figure 1 on page 133), it can be found in all cultures of the world (which are shaped by the religions of those cultures). And because it is found in all cultures, The Golden Rule is a great place to begin discussions within and between cultures about what it means to behave "ethically."

Unfortunately, The Golden Rule is not an infallible guide to "right" and "wrong." Different well-intentioned individuals will have different notions of how they would like others to treat

them (see the Bernard Shaw quote in Figure 1, page 133) and thus would treat others incorrectly.

Even though The Golden Rule is not a perfect yardstick for ethical behavior, living by this principle will cause most individuals to behave better and more ethically than they do when not living by this principle. The Golden Rule tests moral coherence: living by The Golden Rule requires that individuals be consistent in their behavior, particularly when similar circumstances are encountered. Implementing The Golden Rule requires that we understand how our actions impact others and requires the imagination to see our actions from another person's perspective. Adhering to The Golden Rule is challenging.

The Golden Rule provides a good philosophical starting point for any discussion of ethical behavior, and this philosophical argument is all I talk about in a public university classroom setting. However, as Christians, we additionally have a biblical standard for ethical behavior. Those of us teaching at Christian universities can more overtly discuss biblical standards of ethical business behavior.⁴ I avoid such discussions while at state

universities because I can generate much thoughtful discussion without appealing to my Christian faith. Still, I derive satisfaction by teaching more about ethics (as I view ethical behavior) at a state-funded university than most other faculty members there.

Even at a Christian university, I try to discuss with students the philosophical basis for behaving ethically in terms of The Golden Rule. This gives students a tool for speaking about ethical behavior with colleagues in the workplace once they leave the Christian university environment. However, I want to arm them with more than one tool. In the final section of the presentation, I reveal to students some surprising facts about Adam Smith, the one-time professor of moral philosophy at the University of Glasgow (Scotland).

The Surprising Adam Smith

Adam Smith is an important person in the history of economics who is largely responsible for popularizing the idea of a market economy.⁵ However, many do not realize that Adam Smith also wrote much about the role of ethical behavior in a market society. Or more precisely, he wrote about the role

a market economy plays in affecting ethical behavior in market participants.

I begin this portion of the class presentation by asking students, “Who was Adam Smith?” If necessary I will clarify the question by asking: “What is he famous for?”

Students will generally know quite a bit about the economics portion of his writing: the free market economy, the invisible hand of the market, *The Wealth of Nations*, and how individuals can behave selfishly yet all in the economy benefit.

Unfortunately, students are typically ignorant of the second book he wrote, *The Theory of Moral Sentiments*, which some consider to be his most significant literary and philosophical contribution. What economics professors (even Christian economics professors at Christian universities) frequently neglect to teach students is that Adam Smith very carefully considered the ethical consequences of a market economy on individual behavior before he so eloquently and strongly argued for the creation of such an economy in his own country.

In short, Adam Smith believed that a market economy caused its participants to behave

Figure 1

The Universal Golden Rule

Brahmanism [Mahabharata 5:1517]

This is the sum of duty:

Do naught unto others which would cause you pain if done to you.

Buddhism [Udana-Varga 5:18]

Hurt not others in ways that you yourself would find hurtful.

Christianity [Matthew 7:12]

Therefore all things whatsoever ye would that men should do to you, do ye even so to them: for this is the law and the prophets.

Confucianism [Analects 15:23]

One word which sums up the basis of all good conduct ... loving-kindness. Do not do to others what you do not want them to do to you.

Islam [Sunnah]

No one of you is a believer until he desires for his brother that which he desires for himself.

Judaism [Hillel, Talmud, Shabbat 31a]

What is hateful to you, do not do to your fellow man. This is the entire Law; all the rest is commentary.

Taoism [T'ai Shang Kan Ying P'ien]

Regard your neighbor's gain as your own gain, and your neighbor's loss as your own loss.

Wicca [Rede]

An' it harm no one, do what thou wilt.

Wicca [The Law of Three]

Any energy you send out will come back threefold.

Zoroastrianism [Dadistan-i-dinik 94:5]

That nature alone is good which refrains from doing unto another whatsoever is not good for itself.

And ... **George Bernard Shaw** [1903]

Do not do unto others as you would that they should do unto you. Their tastes may not be the same.

more ethically. A market economic system encourages individuals to honor their word, to abstain from theft, to abstain from negligence, etc.; immoral and unethical behavior can cause individual market participants to lose their jobs (for instance) and thereby reduce current and future income earning opportunities. The financial cost of unethical and irresponsible behaviors encourages individuals to avoid such behaviors.

History suggests that Adam Smith's reasoning was sound. The world's most ethical business practices are generally found in industrialized countries with developed market economies, where bribery and corruption are less common than in less-developed countries. For instance, Ms. Flores, an accountant working for a Mexican shipping company, says that she gives her truck drivers \$800 to bribe Mexican border officials before every run into the United States. "If I didn't pay guards ... we'd never get back into Mexico. We budget for bribes. They are a fixed cost of Mexican business."⁶ Mexican officials recognize that corruption complicates business transactions with the United States and are working to improve this situation.

This third section of the presentation is more lecture-like than the first two, as I strive to expand students' understanding of what Adam Smith really thought about individuals and their activities in a market context. He thought people are generally good and not greedy self-servers. He believed that human desires for wealth are based on a faulty estimate of their value. But he recognized that people can be self-serving and wealth-pursuing, and he also favored market economies because they are capable of harnessing these less-than-honorable passions for the greater good of society. For example, a market economy causes participants to become less self-serving and more reliable so that they can earn greater income. Thus, a selfish desire for wealth causes individuals to behave more honorably so the wealth can be earned.

Adam Smith clearly did not think that individuals *should* be selfish and self-serving. Instead, he thought that individuals should strive to be morally upright and virtuous. He thought that honesty was the best policy, and he thought that if the employer set a good example, the employees would follow suit. However, he recognized that man is "weak

and imperfect" and often fails to be virtuous even when striving to achieve moral uprightness. And so he argued that a market economy provides incentives to behave more virtuously, even when individuals might be morally weak.

Conclusions

The class discussion and presentation has come full circle. Class began with a discussion of how all participants in a market economy benefit when all participants behave ethically; in fact, the entire system functions more smoothly. Then we learned that The Golden Rule is an excellent starting place for discussions about how to define "ethical" behavior in a very diverse society as found in the United States. Lastly, we learned that Adam Smith thought The Golden Rule to be a good mode of operation in a market economy, and he would agree that a market economy runs more smoothly when individuals behave ethically. In fact, a market economy *encourages* participants to behave ethically.

The three sections of the presentation span a great deal of information; I have chosen to emphasize breadth over depth. First, I ask students what jobs

would disappear if all market participants would behave perfectly ethically, and we thereby learn about the very real *costs* of unethical behavior: students pay higher tuition, consumers pay higher prices for products, taxpayers pay higher taxes, and citizens and firms endure a growing array of laws.

Second, I suggest to students that The Golden Rule provides a good starting point for discussions about ethical behavior because this teaching permeates the religions and the cultures of the world. Few individuals find The Golden Rule objectionable as an honorable way to live. However, The Golden Rule is better described as a test of moral consistency than as a test of "right" from "wrong."

Third, I explain to students that Adam Smith valued the improvements in ethical behavior that a market economy demands of its participants. He recognized that humans are imperfect, and he expected the market economy to improve the discipline of participating individuals. Thus, a market economy encourages citizens to behave more ethically than they would in its absence (although still not as ethically as they could conceivably behave). Regardless, market economies

perform most efficiently and effectively when all citizens behave perfectly ethically. I think Adam Smith would agree.

I hope you have been convinced that it is possible to discuss ethical behavior in a constructive and thought-provoking manner, even in the state-funded institutions of the United States or elsewhere, where faculty must be careful to keep church and state “separate.” I hope this manuscript has given you ideas about how you might discuss in your classes the effect of ethical behavior on your discipline. The material presented here can easily be taught in economics, accounting, or finance classes. However, I think that classes in all business disciplines can benefit from time spent discussing the very important issue of ethical behavior and how unethical behavior by one person can affect many, many others.

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ENDNOTES

¹A discussion of why lawmakers feel the need to legislate morality via an abundance of laws is a topic beyond the scope of this manuscript and is not one that I have addressed during my discussion of this material.

²“An Environmental Report Card on the 104th Congress,” National Center for Policy Analysis, *Policy Backgrounder No. 141*, January 14, 1997. These statistics do not include the cost of complying with state regulations, nor do they include the cost to federal and state governments to create the legislation.

³I would encourage the reader to do an Internet word search for “The Golden Rule” and to visit the Web sites so revealed. This author found the experience very enlightening; one favorite Web site was <http://www.jcu.edu/philosophy/gensler/goldrule.htm>.

⁴Although, I have read to my public university students the story on pages 141-143 of Larry Burkett’s *Business by the Book* (Nashville, TN: Thomas Nelson Publishers, 1990) with the “Christian” parts omitted. This book is an outstanding resource for developing material on biblical standards for ethical business behavior.

⁵I would encourage interested readers to obtain: Muller, J.Z. (1993). *Adam Smith: In his time and ours*. Princeton, NJ: Princeton University Press. This book served as my primary resource when developing the Adam Smith portion of the class material. There are also other excellent books on the writings of Adam Smith.

⁶From an article by Will Weissert of the Associated Press, titled “Bribes, long lines slow truck, bus companies crossing Mexico’s border,” published in the Wednesday, June 13, 2001 issue of the *Abilene Reporter-News*, Abilene, Texas.



APPENDIX

Slides Used During Presentation

Note: When using these overheads slides with a projector, I use a sheet of paper to cover the “answers” in the body of the slide. Using an electronic PowerPoint presentation format would be very effective, enabling the question to be posed without the answer being revealed.

Slide 1

A Thought Question ...

- **If everyone in the U.S. acted perfectly ethically, what jobs would disappear?**

- **There is a cost/price borne by innocents as a result of other people’s unethical behavior.**

Why Do We Have Laws?

- **In response to unethical behavior**
- **Laws are frequently premised on exception:**
 - When one individual or group misbehaves, all society suffers from additional legal constraint.
 - Including businesses ...

- **Ethical behavior enables the market economy to function more smoothly and at lower cost to the participants.**
- **So far, we have been able to talk about ethical behavior without defining what does and does not constitute “ethical” behavior.**

What is Ethical Behavior?

- Or, How Do We Define “Ethical?”
- **THE GOLDEN RULE:**
 - TREAT OTHERS AS YOU WANT TO BE TREATED.
 - >> The Golden Rule exists in all religions (and by extension to all cultures) except satanism.
 - >> James F. Lincoln (of Lincoln Electric) considers The Golden Rule to be a proper labor-management philosophy.

Implementing THE GOLDEN RULE

- The Golden Rule *is* a consistency principle; it tests our moral coherence.
- The Golden Rule *is not* an infallible guide to right and wrong.
- Implementing The Golden Rule requires both *knowledge* and *imagination*:
 - *Knowledge* of the effect our actions have on others
 - *Imagination* to vividly and accurately walk in another person’s moccasins, so to speak

Who Was ADAM SMITH?

- The author of *The Wealth of Nations*
- Popularized the notion of a free market economy
- The man behind “The Invisible Hand” of the market
 - Individual selfishness benefits society.
- Professor of moral philosophy at the University of Glasgow (Scotland), he also wrote *The Theory of Moral Sentiments* and lectured on jurisprudence.

Did You Know ... Adam Smith

- Regarded man (mankind) as naturally good
- Was skeptical of organized religion
- Thought the family to be society’s most important moralizing institution

Did You Know ... Adam Smith

- **Believed that the desire for wealth, status, and power is based on a faulty estimate of their value**
- **Contended that the greatest happiness comes from acting in a manner we know to be virtuous, while the greatest misery comes from knowing we have violated moral law**

Did You Know ... Adam Smith

- **Never used the term “laissez-faire”**
- **Did not view the pursuit of self-interest as intrinsically good and government as intrinsically evil**
- **Was a tax collector during the last decade of his life**
- **Expected a growing government to accompany a growing economy**
- **Assumed that some degree of government prohibition of immoral action is necessary**

Adam Smith says ...

- **“Vice is always capricious: virtue only is regular and orderly.”**
- **“Self-command is not only itself a great virtue, but from it all other virtues seem to derive their principal luster.”**
- **Man is a “weak and imperfect creature.”**

Adam Smith says ...

- **“It is the fear of losing employment which restrains frauds and corrects negligence.”**
- **Smith argued that in a commercial society where every man becomes in some measure a merchant, the qualities of self-control, planning, and commitment to one’s promises spread throughout society.**
- **In short, one of the functions of the market is to discipline society’s members.**

Adam Smith

- In general, Adam Smith's writings emphasized strategies for harnessing man's natural passions through institutional means to serve the common good:
 - In *The Wealth of Nations*, he argued for the preservation or creation of institutions (including the market) which would pit otherwise malicious motives against one another to the benefit of society as a whole.
 - In *The Theory of Moral Sentiments*, he argued that some modes of self-love, if channeled through social institutions (including the market), can be made to contribute to morally desirable conduct.

Adam Smith says ...

- “The good old proverb, therefore, that honesty is the best policy, holds ... almost always perfectly true.”

Adam Smith says ...

- “[I]f his employer is attentive and parsimonious, the workman is very likely to be so, too.”
 - In general, employees will follow the example of their employer.
 - Perhaps the “Smithian” equivalent to The Golden Rule

In Conclusion ...

- All of us pay (figuratively and literally) when people behave unethically.
 - The market economy functions more efficiently when everyone behaves perfectly ethically.
- There exists a starting point for ethical discussions in our diverse society: The Golden Rule.
- Adam Smith preferred a market economy in part because it caused participants to behave *more ethically*.
- Some things to think about ...