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Book Review

Public Finance, the Financial Industry, Ethics and Efficiency

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Dimitris N. Chorafas "Business Efficiency and Ethics–Values and Strategic Decision Making", 2015. London, Palgrave-Macmillan Press, hbk. xv+294 pages, ISBN: 9781137484246, £75.00, $ 115.00.

Chorafas' 270 pages on "Business Efficiency and Ethics" is a most delightful read composed of twelve chapters highlighting the link between efficiency and ethics using many recent—and some not so recent—cases on banking, accounting and public finance. Chorafas starts with an introductory chapter on efficiency and effectiveness moving on to the accountability of senior managers. This is connected to social ethics and the rise of corporations followed up by "Absurdistan"—the unthinkable. Chapter six to ten examine the finance industry through banking, the Libor scandal, gambling, Barings, and Parmalat—not the milk—but the Hedge fund. The two final chapters examine manufacturing (Kodak) and information technology (IBM, Google). Unfortunately, the book has no final conclusion.

Perhaps to many experts in moral philosophy the book starts with a rather problematic statement, "ethics defines how one should act within a given societal setting with its laws, rules, and conventions" (p. 1). The problem is Chorafas' "within a given societal setting". For many in moral philosophy this carries connotations to ethical relativism which is a form of moral philosophy that nowadays only features in the sidelines of moral philosophy. The field of moral philosophy has, as it appears, come to the collective conclusion that ethics does not depend on a "societal setting". Instead, ethics is a universal and cosmopolitan issue. For example, "you shall not kill" is wrong in all societies and does not depend on a "societal setting". As a consequence, we—all of us—have the United Nations Declaration of Human Rights belonging to all people independent of a "societal setting". Meanwhile, Chorafas' idea that "greed and trustworthiness are antipodes" (p. 6) is perhaps a rather universal feeling that does not depend on a "societal setting". Equally, "scientific tax evasion [and] Barcleys' tax avoidance product line" (p. 13) are hardly favorably received—quite independent of a "social setting". Virtually, the same goes for "CEOs and other professionals showing themselves with lots of money" (p. 15) and for "the financial crisis reveals that top bankers were fabulously remunerated for doing what turned out to be a lousy job" (p. 17).

When "the average FTSE 350 directors saw his earnings jump by 106 percent between 2000 and 2010"

(p. 19) most would regard this as bordering on the pathological while it is—given stagnating incomes for lower and middle level workers—a clear violation of Utilitarianism's "greater happiness principle". With this the book enters the second chapter on "senior managers are in the frontline of efficiency and ethics" presenting the underlying assumption that business efficiency will somewhat automatically lead to ethical behavior. But the relationship between "efficiency" and "ethics" is not linear nor positive, nor is there causality between both. German Nazi concentration camps, for example, were certainly efficient but presented the height of inhumanity. British-Polish moral philosopher Zygmunt Bauman has proven this in his seminal masterpiece "Modernity and the Holocaust" (Blackwell, 1989). While modern senior managers are not Nazis and corporations do not run concentration camps, there still seems to be a "willful blindness" (p. 25) when it comes to managing corporations—or at least some sort of MADD (moral attention deficit disorder).

While Chorafas's book does not go into any depth on moral philosophy in relation to business, corporations, and financial institutions, it presents a sheer endless catalogue of immoralities committed by managers and corporations. This is when senior managers engage in bribery, for example, paying off the Japanese mafia (Olympus), politicians in Costa Rica, Statoil's fine for illegally dealing with Iran, Walmart's bribes in Mexico, etc. (p. 35f.). These cases hardly depend on individual senior managers but can be seen as a systemic problem when, for example, the spirit of cost cutting led to BP's Deepwater Horizon disaster "whipping out all of the cost saving" (p. 40) the company had achieved.

In "social ethics and rising corruption" Chorafas notes that "the usual excuse of corrupt individuals is: I did what was best for my company (or for my country). This is of course untrue" (p. 54). While the book does not analyze these cases in the light of moral philosophy, it continues, for example, with "back in 2011 a report by the World Bank, *The Puppet Masters* investigated some 150 cases of what is called "grand corruption", involving a total of $50 billion in illicit assets. The US was the worst performer among the countries reviewed" (p. 56). From this Chorafas concludes that "mismanagement is, most likely, the most widespread scandal" (p. 63). This is, as many have suspected part of what became known as Managerialism.

The chapter on "ethics and efficiency in public administration" starts by saying that "society is divided into two large groups: those who work and those who don't" (p. 69)—a fact that seems to remain unchanged since Marx, Weber, and Durkheim. While the chapter on "be ready for the unthinkable" argues that the overall theme of corporate immorality appears to be manifested in an old saying that is associated with the Louis XV of France, namely *"Après moi, le deluge"* (p. 95)—"after me, the flood", all these immoralities are hardly themes of individual managers as De Cremer and Tenbrunsel's "Behavioral business ethics" (Routledge, 2012) argues. It remains structural rather than individual as democratic short-term thinking—the next shareholder meeting—almost enforces the *"après moi, le deluge"* form of corporate misbehavior (e.g. Mander's eleven rules of corporate behavior, 2001).

While stakeholder have often been claimed as being important, all too often these are reduced to mere externalities to be manipulated to support shareholder-value, profit-maximisation and neo-liberal deregulation. This can be seen, for example, with "politicians who buy the hype that the banking industry can be self-regulatory. Self-regulation of industry does not work even in the medium term without being watched over by a supervisor. Neither does the word of the regulator mean much if the law is not being enforced" (p. 95). But industry self-regulation remains part of the neo-liberal catechism of Hayek's "Harry Potter school of economics" (p. 103). How all this works—or perhaps does not really work—is explained in "ethics and efficiency in the financial industry" arguing that during the financial crisis "rules and regulations left lots of loose ends. The after-effect is that both: ethics and efficiency suffer" (p. 121). Unfortunately, this is not analysed as a contradiction between "individual enterprise" seeking deregulation to increase profits versus "the system" needing regulation to prevent capitalism from self-destructing while simultaneously showing that Smith's invisible hand remains a myth. And this can never be explained away through nonsensical statements like "human nature being what it is" (p. 132).

Perhaps all this is not to be answered by reference to a rather illusive human nature but the structural imperatives of financial capitalism; perhaps because "history teaches that when plenty of money is involved in a certain process or project, the ethical rules are bending" (p. 147). This is not to be seen as a "passive" idea (rules are bending) but in the active: these ethical rules "are bent" or altogether eliminated. Virtually the same thing was expressed by none other than Karl Marx when noting "with adequate profit, capital is very bold. A certain 10 per cent will ensure its employment anywhere; 20 per cent certain will produce eagerness; 50 per cent, positive audacity; 100 per cent will make it ready to trample on all human laws; 300 per cent and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged. If turbulence and strife will bring a profit, it will freely encourage both. Smuggling and the slave-trade have amply proved all that is here stated."

But not only immoralities and outright criminality increase e.g. "UBS was fined $1.55 billion" (p. 146); "Prudential Securities paid $1.4 billion in fines" (p. 176); and Metropolitan Life accepted a settlement up to $1.7 billion to settle suits" (p. 179); but increase in ROI also leads to "financial gambling" (p. 163) and risk taking with *"après moi, le deluge"* (p. 164) playing an increasing role. The case of "Barings" (p. 181ff.) and "Parmalat" (p. 204) might just be just two cases underscoring this.

That this is not restricted to hedge funds and banks is shown in "ethics and efficiency in manufacturing and service" relying on the example of Kodak. In addition, the "bankruptcy of Detroit" (p. 240) also shows that "as for Barack Obama he was criticized for his failure to rescue the city while he had bailed out its carmakers" (p. 243). Perhaps helping private-jet flying CEOs (on begging missions to Washington) while not supporting a city and the thousands of homeowners forced to leave their houses, shows that the state has truly become an appendage of capitalism. It converts the ideology of "too big to fail" into "too big for jail" as Chorafas mentions.

The final chapter shows how all this works in the "information technology" industry where, for example, "IBM (is) also using low-tax burdens in Holland for tax optimization" (p. 259). What is euphemistically called "tax optimization" is in reality outright tax avoidance—resulting in less hospitals and less schools, etc. Perhaps even more harm is done to the public when Utilitarianism's "no harm principle" is violated. Google remains a case in point. In 2010 Google "avoided paying £218m in tax: internet giant's cash-saving deal on £2.6bn UK earnings" (dailymail.co.uk, 9th Aug. 2012). In 2011, "Google had $4 billion worth of sales in the United Kingdom, while it only paid $5.4 million in UK corporate tax—slightly more than 0.1 percent" (arstechnica.com/business).

Overall, Chorafas presents an impressive array of detail on how, when and where financial and other companies and corporations behave immoral and often outright criminal—but remains rather short on the "why". Even since the "East India Company" this is hardly new (e.g. Dalrymple's "East India Company", *theguardian.com*). Above that, the link between efficiency and ethics—while being the main theme of the book—is never sufficiently discussed as a business ethical issue (c.f. MacIntyre's "why are the Problems of Business Ethics Insoluble", 1982). But out of such a discussion might have developed a more sophisticated elaboration of the "business-vs.-ethics" relationship rather than often implicitly assuming that efficiency leads to ethics. The book would have been strengthened by linking this to a developed framework of moral philosophy under "sense making" of the many cases presented. This might also have led to a conclusion telling readers "what can we learn from all this" while moving beyond "advanced newspaper reading". Nonetheless, Chorafas' book presents a wealth of detailed and extraordinary information for those looking for empirical evidence of corporate wrongdoing and criminality in the world of corporate and public finance.