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Crime at the Top, delivered at the Better Business Bureau on October 21, 2003

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I don’t make speeches! Audiences stretching back more than fifty years have heard everything valuable and dismissible that I have to say. Besides, I am retired from public office and don’t feel obliged to make public statements. Most invitations to speak, proffered since retirement, I have declined. Why am I here before you? First, I have a high regard for your organization and its executive Ken Vander Meeden so it was difficult for me to decline his invitation, though I came close to doing so – an inclination you may wish I had followed after you hear what I have to say. Second, I confess I have been fuming inside about the misbehavior of too many leaders of public corporations, and what audience, I thought, can be more appropriate than the Better Business Bureau to express my opinions about business people who are unethical at best and possibly criminals. I believe corporate malfeasance to be one of the most dangerous problems to our national health. As I set down my thoughts today, I am aware that you are the people in business committed to integrity in your field, holding more experienced views on the subject than mine. I am the amateur and this discourse may seem to you more like that given by the youthful Rotary scholar who returns from an experience abroad to tell the assembled audience of veteran professionals what life is about. I can only hope that you will give me the generous indulgence that Rotarians accord their young scholars.

In our society we have an exalted commitment to private ownership, to property, to stocks, to personal effects, to all forms of wealth we can attain. The right of personal
ownership is affixed in our concept of personal liberty and individual rights. Yet, this perception of ownership is relatively recent in human experience. Civilizations were built on a different premise in the past. The glories of ancient Egypt, the highest development of the Athenian democracy, the technical success and extent of the Roman Empire depended on a substantial number of people who had no rights of property ownership. They were slaves, some in Athens and Rome, especially, were valued and noted. In the Middle Ages and later all property came from the monarch. Though it was granted to and used by the favored, there were no ownership rights, as we know them, only feudal privilege that could be passed from one generation to the next.

In the 17th century a change becomes noticeable. The middle class, the merchant class, was on the rise, and with it the concepts and practices of ownership that eventually lead to what we have today in the United States. One of the first and arguably the first evidence of speculative prices and market manipulation as we know them took place in the 17th century Netherlands tulip bulb market. It has been called the first capitalistic market crash, and was the precursor to modern greed. Followed by the commercial trade expansion and enlightenment philosophy of the 18th century and the Industrial Revolution of the 19th, capitalism, as we understand it, began to bloom.

I believe it was Polly Platt in her book France or Foe who describes the determinants of success in the French, English and American societies. In France you attend by examination the right schools and move into a position in government, which becomes a sinecure for life, one to which you can return if you try something else for a while. In England you must belong to the ruling class. Competent or incompetent, you preserve status, and make it difficult for society to take it from you. In America it’s
strictly how much money you have that makes and preserves your status. One might expect that from a nation whose immigrant past is quite recent and continuing. There are old families who hang on to privilege, but they need to preserve at least a degree of the family fortune to do it. Though the news media talks about the right schools and peoples pedigree, make a lot of money in America and new power is acquired and status usually enhanced. There were those who assumed the status of a class, but they never could inhibit entirely the power and success of those who made money. We were and are a land of opportunity, and that opportunity is defined mostly in economic terms. The confluence of talent, freedom, and economic strength produced an entrepreneurial capitalist society. There is nothing wrong with that. In fact, it may have provided the best human condition for the largest number of people in history.

But life, like a coin, has two sides. The sides of a coin are the same except for some engraving. While one side of life is positive the other is destructive. In a free capitalist society, the positive side is represented by available money for investment, successful entrepreneurship with its creation of jobs, safety nets for the people in economic down times, good paying jobs that provide a reasonable distribution of the wealth, contributions to enhance society by those who are successful, a concept of give back, and a life permeated by the freedoms guaranteed in our constitution. The destructive side is revealed in greed and disregard of others, unfair labor policies, unreasonable demands, unjustified strikes, exorbitant compensation for executives of public companies, political bribery to gain unfair advantage, false reporting of financial conditions, and the inappropriate or illegal use of a public company and its employees for personal gain.
I said to a local corporate attorney that I thought Kenneth Lay should go to jail. He argued convincingly that Lay did not commit a punishable crime, only an ethical one that doesn’t carry a jail sentence. That added to my anger. The anger accompanied by the frustration that I felt has been shared by people each with his or her own example of what was thought unjust. Remember Mrs. Lay explaining they were also hurt by the Enron collapse? They had to sell one of their houses or something to that effect.

Unjustified K-Mart loans to executives shortly before announcing bankruptcy. Their last CEO and his team seem to me like jackals. Incompetency is bad enough. It is compounded when greed comes into play. Remember the Tyco executive, Kozlowski, now under indictment, going to trial. When Jack Batts sold his company to Tyco he was told the plant in Zeeland would remain operating. Tyco announced its closing right after the sale was consummated.

The unrestrained surge for wealth at the expense of millions of people in the 19th century, led to proposed antidotes to capitalist evils. One was socialism; another even more radical economic threat was communism. In the chaos after the First World War and the Russian occupations after the second, communism had its chance to make life better for more people, but it failed. Limiting individual freedom by oppressive means and taking personal economic motivation away by restricting property ownership to the state just didn’t work. Yet we see examples where socialistic objectives were appropriated by our capitalist society. When the depression, which began with the stock market crash in 1929, failed to respond to the policies of the Herbert Hoover administration, Franklin Roosevelt’s New Deal made government more responsible for economic health. Only on the marginal conservative right wing would we find objections
to the concept of social security today. This and other government programs viewed as
socialistic in the 1930’s are well incorporated into what we call our free enterprise
system.

So here we are. Some aspects of socialism accepted, socialism as a system to
supplant capitalism discredited by experience, a capitalistic system that produces more
wealth than any other in history, and despite all that, still endangered by misuse of free
enterprise capitalism by powerful, greedy people who use public corporations for their
purposes. There is an aroma of malfeasance emanating from corporate America. We must
identify the sources and clean the air. Some reveal themselves by financial collapse;
others can be ferreted by vigorous SEC investigation. They are often difficult to track. Do
you wonder why gasoline prices shoot up every week or two by 10 to 20 cents a gallon?
One week it was 30 cents. Recently a local corporate executive who knows about oil
prices told me that the cost of gasoline at retail has no relationship to the usual standards
for pricing in the marketplace. Do you “raise an eyebrow” when Halliburton, formerly
led by the current Vice President of the United States, charges our government an
exorbitant price for fuel it supplies to us in Iraq? Do you remember that Halliburton was
given contracts to rebuild Iraq without submitting to a bidding procedure? Perhaps you
who are students of history remember that the Texas-based company is a reincarnation of
a corporation that supplied Lyndon Johnson with millions of campaign dollars while he
protected and pushed forward its interests in Washington. Has anything illegal been
going on? I certainly don’t know. How about something unethical? Why won’t the Vice
President tell us what his task force on energy and environmental matters determined?
Though I want the air to be clean, I cannot find a place without the aroma.
We are now engaged in a struggle of world-changing proportions, the terrorists’ war against the militant Islamists. We are watching anxiously to see if our economy will begin to put the jobless to work. We are in the midst of a two-year long Presidential election campaign, which, I believe, will be decided by voters’ attitudes on these two issues. The corporate crooks may find cover in the public preoccupation with them. The result could be less vigorous legal pursuit and less attention paid to the obscene compensation for so many leading corporate executives of public companies. Will the experience at the New York Stock Exchange fade in public awareness? I hope not. The vast sums of compensation there was the most recent example that in the rarified atmosphere of the corporate boardroom something basically wrong is assumed to be right. My grandmother would point out that in creeping subtleties, the devil does his work.

While our eye is on the war and the need for jobs, let it roam occasionally to survey the field of public corporation ethics. The war we are fighting is about the validity of our way of life, our culture. Al Queda attacks our values with bombs that kill people. We must try to live according to the highest ethical standards, thereby demonstrating the legitimacy of our values so deeply rooted in free enterprise. Our fight is for a polity and an economy based on the rights and opportunities of a free society. We cannot allow it to be besmirched by greed and arrogance. Our own attack on our corporate predators makes our battle against those who would destroy us all the more worthy.

There is no economic system yet formalized that is better than our own so our hope for its continued success rests in our ability to periodically cleanse it and our power to protect it. How do we cleanse? The beginning of any purification is a recall to life
guided by moral principles. Ours are based in the Judeo-Christian tradition. If applied, they offer the best plan for survival for they call for fairness and justice. When I read about Enron’s Fastow and his schemes to enrich himself and hide the company’s financial weakness, a fraud that led to making nearly worthless the pension plans of hundreds of fellow employees, I wondered whether Harvard Business School concerned itself with the ethics of its graduates. Those who educate some of the brightest rarely concern themselves with their arrogance. Fastow fits the pattern.

The first question that should be asked at Harvard School of Business and all others as well: Why is it harder for a rich man to enter heaven than it is for a camel to go through the eye of a needle? If the question is seriously asked, and a satisfactory answer discovered, then and only then is a person ready for the pursuit of success and wealth. For the final examination I would require both a written and verbal statement to the following: As an executive, how would you incorporate these concepts into your management style and the policies of your enterprise: “Do to others as you would have them do to you.” “Love your neighbor as you love yourself.” “Do not bear false witness.” When these concepts are affirmatively embraced and committed to for implementation, a person is ready for responsibility, position, influence and power.

We know that not all will pass the test, but we know also if these concepts become a part of our daily consciousness and professional considerations, more will pass.

For those who fail we must have “watch dogs” and laws. We want the hearts of people to be right. For those who have them, fewer laws are needed, but the rule of law is in a sense the rule of incorporated morality. The law is needed to protect honest people from the dishonest. Vigorous government regulators and corruption-free courts make the
system work. In the last half-century, reducing government and cutting taxes have been important public agenda items. Ronald Reagan’s administration may have pushed aside the least useful vestiges of the New Deal during that period. Big business as the “bad guy” used as a political foil by a coalition of labor, academia and government for many years weakened, and there was the recognition that our economic engine needs creative, entrepreneurial, successful businesses to make our system work. That was an important political recognition and turning point. I consider that to be good, but I also understand the “two sides of a coin” theory. The other side of the coin prompts my warning today. As little government as possible may be a theme for a majority of Americans, but I think it is time for us to embrace strong corporate regulations sustained by law and enforced by enhanced agencies. Public corporation boards should not be a haven for those who “scratch each other’s back” or trade their independence for high director’s fees. Our congress and our legislature investigate, but they must do more investigating. Money from corporate interests fuel political campaigns. We must never cease seeking to know if some of that money causes those in government to avert their attention from corporate miscreants.

I hope my concern, which I admit I wanted to articulate, has not cast a cloud over these celebratory proceedings. I have faith in the democratic roots of our nation and in the economic creativity and diversity of the people. I want to make sure we nurture the roots, the creativity, and the diversity. You are the appropriate group for me to share my thoughts because in our province here in Michigan you recognize the best in business practice, you encourage and set the standards for the practice of business, and you point to the malpractice of business when it happens amongst us. Where we live you take
responsibility to keep the bad from happening and warn us when it does. There is a
certain sacred quality to your trust, and you measure up to it. Because I believe that, I am
here today.