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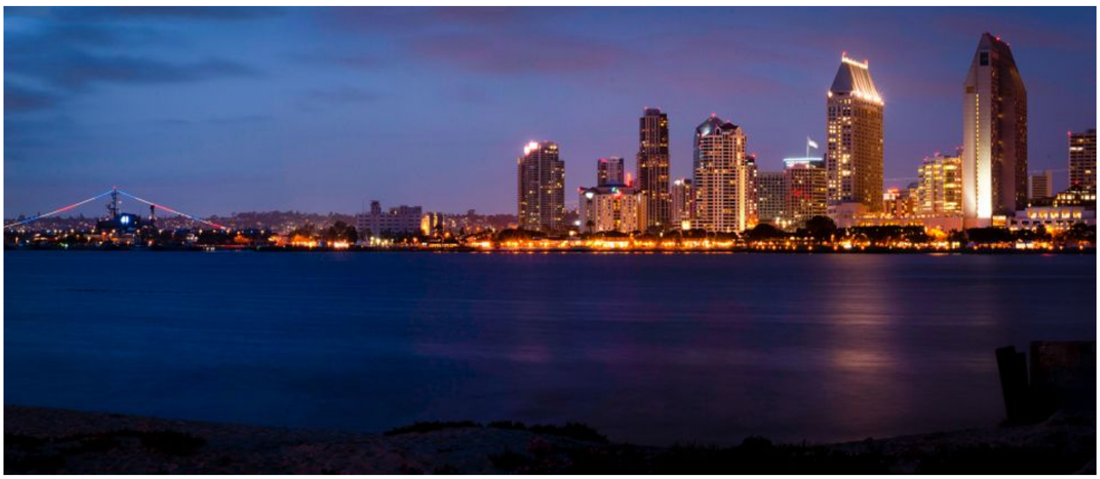
ETHICS

Evolution of Business Ethics in the US: From Exploitation to Ethics?

by Daniel Ginsberg



The Gilded Age of the United States not only gave rise to rapid industrialization, but also the debate over business ethics. As our economy has evolved, regulations and norms have followed in suit. Read more about the history of business ethics in the United States.

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The subject of business ethics has been quite relevant since the rise of business within the United States, under the period of rapid industrialization, better known as the Gilded Age in the late 19th century. For the United States, the rise of large companies, such as Standard Oil and Carnegie Steel, created an economic powerhouse unlike anything ever seen before. Unfortunately, the rise in factory jobs without proper regulation also created an environment of exploitation, and therefore, poverty for many. These burgeoning social issues effectively led to the rise of government regulation and the beginnings of business ethics within the country. By the 1950s, a vibrant consumer economy compounded with Cold War government spending led to an explosion of unparalleled growth, resulting in greater corporate influence on the life of the average citizen.

The Beginnings

The economy of the United States changed profoundly following the period of outstanding economic growth in the late 1800s. By 1910, huge firms run by barons of industry such as J.P. Morgan (finance), John Jacob Astor (real estate), and Vanderbilt (railroads), dominated the economy and gained a sizeable amount of influence within the government—democracy appeared to be corrupted by big interests. Upon hearing the idea of running a railroad for public benefit, Vanderbilt claimed, “The public be damned.” The natural response of the average marginalized farm worker was to embrace economic populism, culminating in the founding of the People’s Party in the 1890s. It was clear that corporate profits were driving business growth, whilst those in the agrarian economy exuded a “disenfranchised” mentality. Instead of responding with violence, as seen in Russia or Germany around the same time, the United States adopted meaningful reforms with restrained government intervention, such as greater acceptance of unions with the Clayton Antitrust Act, or the establishment of set and fair business practices with the National Industrial Recovery Act (NIRA) during the Great Depression. Until the rise of the service industries that currently dominate our economy, workers settled with regulations on factories and employee safety standards.

Industry Reborn

After the end of World War II, the United States experienced some of the highest sustained economic growth that the world has ever seen. Bolstered by government intervention in the form of Cold War research and spending stimulus, defense firms took a point of prominence in our modern economy. For many years, attacks on corporate interests could simply be written off as an attack promoted by communist ideology, enhancing the connection between government and business. With the weaning power of the USSR, public acceptance for halting business ethics in the name of capitalism dwindled. Technological advances also removed many traditional factory jobs which had previously powered the economy; manufacturing positions must now be filled by specialized labor with engineering applications. Instead of simply instituting safety standards for the factory floor, corporations interact directly with their employees in an office environment. In addition, with the increasing influence of the stock market, the role of corporate leadership began to shift away from the “stakeholder” model, which emphasized the role of customers and employees. This was replaced by the “shareholder” model, wherein a company was expected to continue growth and profits to ensure stock growth. Arguably, the promotion of the “shareholder is always right” mentality certainly promotes competition, but perhaps at the risk of maintaining ethics in business.

Financial Grievances

The stock market reached new heights throughout the late 20th century, driving greater interest for the establishment of ethical standards in a financial environment. ERISA was established in 1974, thus allowing employee pensions to be traded on the stock market; this allowed millions of retirement plans to be driven by growth in specific companies, subject to myriad market forces. With the ease of transferring money in our modern economy, responsible accounting practices have never been more important. The 21st century still holds some of the most devastating breaches of business ethics, ranging from the Enron scandal to Bernie Madoff’s Ponzi scheme. On the other hand, some of the most meaningful government regulation was adopted after such events, such as the Sarbanes–Oxley Act in 2002 or the Dodd–Frank Wall Street Reform and Consumer Protection Act in 2010.

Achieving an acceptable ethical framework for businesses to operate has been a journey for the United States, starting over 100 years ago, primarily for protecting factory workers during the spread of the industrial revolution to the shores of New England. Since then, ethical practices have evolved into a complex set of codes that attempt to oversee the billions of transactions executed on the daily. With the greater ability to conceal illicit business practices, the role of maintaining an ethical perspective will be increasingly valued as the world economy continues to expand.

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