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### *The World Economic Crises and Human Values\**

Despite crises recognised as a recurring feature of the development of capitalism, people have always held to the comforting notion that contemporary economic development shall avoid such crises. These views have occasionally been expressed by serious economists and well-known financial authorities. For example, in 2003, Robert Lucas, John Dewey Distinguished Service Professor in Economics at the University of Chicago, and the 1995 Nobel Laureate in Economics, strongly argued in favour of the idea that, henceforward, economic development would be stable and avoid cyclic economic disasters<sup>1</sup>. Ben Bernanke, presently head of the US Federal Reserve Bank, in his study of US experience during the Great Depression of the 1930s, carried out whilst a Professor at Princeton University, offered a similar assessment of the robustness of modern economic policies, that would prevent recurrence of a similar economic catastrophe.<sup>2</sup> Neither of these predictions turned out to be correct, and an unprepared world is today having to deal with new serious and unpleasant economic crisis.

When compared to previous economic crises, present events are both more profound and extensive, notably they are truly global in their scope. The economic downturn began in 2008, in the US, economically the foremost country in the world, in the form of a crisis in financing real estate; it rapidly spread to other domestic financial sectors and transformed itself into a crisis affect-

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\* The paper is printed as submitted.

<sup>1</sup> See the article, Lukas . E., *Macroeconomic Priorities*, published January 10, 2003 at p. 24; available on-line at <http://home.uchicago.edu/~sogrodow/homepage/paddress03.pdf>, site visited 2010. 01. 01

<sup>2</sup> *Bernanke B. S., Essays on the Great Depression*, Princeton University Press, 2000

ing economies world-wide. By the second half of 2008, a deep recession was felt by all of the leading economies; by the beginning of 2009, one-quarter of all countries simultaneously were experiencing serious economic problems and attendant political consequences, in the form of changes in government<sup>3</sup>.

The new EU Member States have also suffered both financial and economic crises. Latvia, with a population of 2,3 million, one of the smallest of this group of countries, has been particularly hard hit. Excessive national expenditure, particularly to sustain an over-expanded administration, substantially contributed to the depth of the crisis in Latvia. The current account deficit over the time period 2006–2008 reached 22,5% of GDP, in lieu of a tolerable level of 3 – 5%. Substantial influx of foreign direct investment in Latvia was able to mask this unhealthy financial situation. In Latvia, as elsewhere in the world, easy to obtain credit led to an avalanche rise in real estate prices, accompanied by a rapid rise in inflation and general over-heating of the economy. One result of the crisis is that in 2009 credit was impossible to be obtained in Latvia, all activities in the real estate sector have ceased, unemployment levels have reached 20,9%, the latter the highest unemployment rate in the EU<sup>4</sup>. This has led to a fall of more than 18% in the Latvian GDP.

### **The crisis and business ethics**

The root causes of the present global crisis have been quite extensively investigated, with the conclusions figuring in discussions by economists and financial experts, as well as being widely published. Debate is still on-going as to whether the crisis is that of economic system or the financial system<sup>5</sup>. In addition, some investigation have been carried out into the possible political causes of the present crisis. Relatively little effort has been made in investigating moral and ethical issues associated with this crisis.

Business ethics is a form of applied ethics that examines ethical principles, moral problems and human values that are evident in a business environment. Ethics are no less important at a macroeconomic level and this can be said to be economic ethics. The challenges posed to ethics in business and

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<sup>3</sup> See the publication, *Global Risks 2009. A Global Risk Network Report*, presented at World Economic Forum, January, 2009, at p. 9.

<sup>4</sup> See the Eurostat news release, *Euroindicators. 170/2009*, published 1 December 2009

<sup>5</sup> See, *Posner R. A., A Failure of Capitalism. The Crisis of '08 and the Descent into Depression*, Harvard University Press, Cambridge, Mass. & London, England, 2009

in economics arise from the need to ensure the ability to distinguish right from wrong in this socially very important field, as well as from the need to assess individual actions as ethical (good), or unethical (bad). In order to do this, one needs first to have a clear understanding and appreciation of human values. Admitting that the precise appreciation of what constitutes these values differs from culture to culture, nonetheless there is a set of universally held values; these derive from legal sources (in particular, human rights) and religious beliefs. The set includes the right to life, respect for individuals, freedom, non-violence, trust, co-operation, etc.

The underlying motivation for a market economy and associated business practices is a relentless search for profit. Furthermore, until very recently, market economies espoused economic liberalism, i. e. the freedom to pursue business interests, with minimal regulation and control by government. The present global economic crisis has demonstrated that the assumption that a free market economy would be self-regulating and, thus, able to meet all challenges, has tangibly been proven to be incorrect. One consequence of recent events is that government control of markets will increase through the adoption of legal measures to regulate the market economy. Inevitably, these measures shall be insufficient to meet future challenges if present-day business ethics and the nature of economic relations remain unchanged.

We note that the sequence of events which induced the onset of today's crisis showed that the process was exacerbated not only by disregard of basic economic precepts and illegal activities, but also by a low level of business morals and unethical behaviour, and the degraded human values characteristic of modern society. Bankers, brokers and investors have tended to focus on search for profit (at all costs) as the only indicators of success, ignoring all other considerations. Unethical practice, foolhardy risk taking, refusal to accept the consequences of actions, greed and relentless speculation and profit-taking at all costs, are all features of the economic ethos, which has led to the crisis inflicted on society today.

One important cause of the present crisis is an irresponsible credit policy followed by financial institutions, coupled with large numbers of irresponsible creditors. Without overstepping the letter of their guidelines and legal requirement, banks were able to issue an ever increasing amount of credit, having regard purely for their short-term profit, and without due appreciation of the future credit repayment capacity of their creditors. The attitude adopted

by those seeking credit is no less reprehensible, in that excessive amounts were borrowed despite the applicants having minimal financial income. No matter how stringent legal measures might be adopted in future in this respect, the damage done by unethical behaviour and deformation of moral values, including both creditors and bank officials alike, can never be remedied.

Dishonest business dealing is not only one of the causes for the present crisis, but it has been present in the past and continues presently. Standardised contracts which are regularly used by banks and insurance agencies, largely protect the interests of the bank or agency; clients are regularly urged to sign such documents as presented, without making any changes under the implied threat of not receiving the service he has requested. The crisis has generated such a mass of speculative contracts that considerable more assets were 'sold' than existed in fact; this phenomenon was particularly evident in the real estate market where derivatives were extraordinarily in evidence. Sale of virtual assets produced substantial profits and satisfaction, in the face of which moral and ethical considerations beat a retreat.

The rapid growth in the extent of business transactions carried out in a virtual environment has been accompanied by burgeoning ethical and moral problems. People who know one another, or who close contracts „face-to-face”, are less likely to be confronted by dishonest offers, as these circumstances favour socially responsible behaviour. In contrast, the anonymity accompanying transactions effected by computer, or in the virtual environment, a business form that has become commonplace in many large countries, provides fertile ground for the development of unethical forms of behaviour, not least because such transactions are difficult to control and it is also difficult to prevent unethical practice.

Ethical and moral issues were visibly present during the time when extraordinary measures had to be taken to save the economy and state stability from even more substantial perturbation. It is well known that state support for organisations facing bankruptcy was in fact distributed to employees as bonuses. For example, AIG, the giant US insurance company, reported on March 2<sup>nd</sup>, 2009, a quarterly deficit of \$US 61,7 bn, the largest in its corporate history,

yet hurriedly paid out \$US 30 million (out of support funds deriving from the US taxpayer) to its leading executives.<sup>6</sup>

It has also been the case that not a few of those whose bankruptcies brought on the crisis, not only have avoided taking responsibility, but have even managed to retain their speculative profits. For example, in order to save the „Parex” Bank, the second largest bank in Latvia, the government hurriedly invested 674 million Latvian lats (approx. 960 million €), which represented 37% of the total projected Latvian government income for 2009. This support action meant that the national debt rose from 6% to 38%.<sup>7</sup> In its examination of this activity the Latvian State Audit Office concluded that the principal beneficiaries were the former bank owners, who were absolved of all personal responsibility for debt, and who moreover continue to receive (even today, a year later) monthly interest earnings of 380 000 Latvian lats (more than 540 000 €); the beneficiaries have also not been compelled to relinquish ownership of their villas and luxury automobiles<sup>8</sup>. Despite their being insufficient evidence found to date to prove legal misdeeds, the question still remains about the need for the former bank owners to face up to accept their social and moral responsibilities. Tolerance by society in Latvia of the aforementioned behaviour seriously hinders its ability to mobilise itself to face up to the present crisis and overcome it; it also is evidence for the extent to which human values have become degraded and society apathetic.

There is no evidence that business ethics, or economics ethics, have improved as a result of the present on-going crisis. Those who have managed to weather the crisis while suffering only a serious scare and incurring moderate financial loss, when the opportunity presents itself, again pursue profit and other material gain, instead of respecting spiritual values or displaying an equilibrated morality. One of the largest US investment banks, Goldman Sachs, which a year ago received (needed) government financial support, planned in 2009 to pay its employees an average annual salary of \$US 700 000; the bank thereby would in 2009 have disposed of the largest administrative budget in its 140-year history. As a result of public indignation, the bank was compelled,

<sup>6</sup> Data taken from a document available on-line at, <http://www.nato.int/docu/review/2009/FinancialCrisis/PHOTOSTORY/index.htm>, site visited 2010. 01. 10

<sup>7</sup> See the article (in Latvian), „Parex bankas” pārņemšana notikusi Kargina un Krasovicka ietekmē, available on-line at, <http://www.tvnet.lv/zinas/latvija/181966/print>, site visited 2010. 01. 10.

<sup>8</sup> Ibid.

in lieu of paying out \$US 16,7 bn in bonuses, to reward its executives with its shares.<sup>9</sup>

From the viewpoint of ethics, it is inappropriate that those who suffer the most severe effects of the crisis are those who survive on a modest income, and pensioners, in particular, and not those who caused the crisis or who accelerated its progress. It is the less well off who are having to bear higher medical bills, cuts in social welfare, increased education costs, as well as increased tax burdens which are necessary to balance the state budget and to compensate for decreased government income. The crisis has raised queries about the extent to which politicians and the government must become responsible for decisions, as well as ethical and moral issues arising from these decisions. Latvian politicians had promised before the local elections of 2009 that pensions would not be decreased; however, a few days afterwards a decision was taken to reduce all pensions by 10%, and by 70% in the case of those still working. At the same time dividends and investment interest remained untaxed, and proposals to introduce a progressive income tax were rejected. In December 2009, the Constitutional Court of Latvia judged the reductions in pensions to be unconstitutional<sup>10</sup>. Not a single political party making up the ruling coalition has taken any political responsibility for having taken this illegal decision, or for the unethical behaviour prior to the local elections. Needless to say, no apology has been forthcoming.

### **Ethics in the global economy**

Experience already gained from the present crisis and one of the lessons learned is that establishing moral standards and a code of business and economic ethics would not avoid future crises as such, but would mitigate their gravity and extent. In order to proceed along this path, it would first be necessary to agree what are the values that should underlie business and economics; then achieve their acceptance and implementation, not only in a number of states or even in a region, but globally, independent of national. Territorial, ethnic, religious or racial borders. Facing the future challenges of the 21<sup>st</sup>

<sup>9</sup> See the article, Clark A, *Goldman Sachs breaks record with \$16.7 bn bonus pot*, published by The Guardian, October 15, 2009, accessible at <http://www.guardian.co.uk/business/2009/oct/15/goldman-sachs-record-bonus-pot>, site visited 2010. 01. 10.

<sup>10</sup> Cf. the announcement of December 22, 2009 by the Constitutional Court of Latvia, available on-line at Internet address, <http://www.satv.tiesa.gov.lv/?lang=2&mid=7&rid=366>, site visited 2010. 01. 10.

century, we can only be satisfied with a global ethical system, a global system of human values that encompasses the entire world<sup>11</sup>. A global approach to business and economics is necessary, as they have long ignored territorial and other borders.

In response to the present on-going global crisis the first steps have been taken in beginning to develop a global economics ethic. A global ethics network (Globeethics. net), encompassing 177 countries has been established, in cooperation with the UN Global Compact, and other international organisations. On October 6<sup>th</sup>, 2009 all countries have been invited to subscribe to a Manifesto for a Global Economic Ethic<sup>12</sup>.

The manifesto insists that differences between cultural traditions should not be an obstacle to engaging in active cooperation for esteem, defence, and fulfilment of human rights. Human beings must always be the subjects of rights and must never be the objects of commercialization and industrialization in economics. The fundamental principle of the global economic ethic must be humanity. The Manifesto recalls the golden rule, which has been known and appreciated for thousands of years, and which is present in all religions and humanist tradition, „What you do not wish done to yourself, do not do to others.”<sup>13</sup>.

All economic and business decisions should be taken based on values such as non-violence, respect for human life, fairness and solidarity, honesty and tolerance, mutual respect and partnership. Non-violence in this context means that no form of violent action is to be tolerated in the pursuit of economic objectives. Respect for human life includes also avoiding environmental pollution and the conservation of natural resources. Fairness and honesty, in conformity with religious beliefs and ethical traditions, must serve the global interests of society, ensuring equal opportunity for all members of society. Economic and political power is not to be used in order to impose a dominant position in society. Honesty and tolerance as values are fundamental in business, but one ought not to confuse freedom with taking liberties and

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<sup>11</sup> See, Larue G. A., *Human Values for the 21st Century*, published in, *Humanism Today (The Journal of the Humanist Institute)*, vol. 12, accessible on-line at, <http://www.humanismtoday.org/vol12/larue.html>, site visited 2010. 01. 10.

<sup>12</sup> See, *Manifesto „Global Economic Ethic – Consequences for Global Businesses”*, published October 6, 2009, accessible on-line at <http://www.globaleconomicethic.org/02-manifesto-02-eng.php>, site visited 2010. 01. 10.

<sup>13</sup> Ibid.

indulgence; one must distinguish between pluralism and indifference to the truth. Mutual esteem and partnership between all those involved in business are recognised in this Manifesto to be essential mutual respect, cooperation and understanding, all contributing to ensuring that common interests are satisfied<sup>14</sup>.

The ideas listed in the Manifesto are not legally binding since the Manifesto is purely a political document. In fact this Manifesto is largely based upon the work of the Parliament of World religions which at its meeting in 1993 in Chicago adopted a „Declaration Toward a Global Ethic”.<sup>15</sup> In the case of the European Union, although approximately half of its Member States have a population that is strongly religious<sup>16</sup>, adoption of legal measures to implement these values might be problematic. It became public knowledge that during the inter-governmental conferences that developed the Treaty establishing a Constitution for Europe, and later the Lisbon Treaty, all attempts at inclusion of an explicit reference to Christian values as the moral basis of common European values were rejected, as they failed to achieve consensus support. Nevertheless, the revised Treaty on European Union states (article 2) that the Union „is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail”.

The discipline of ethics as practiced in the global economy has now gained a number of new observations thanks to the on-going global crisis; these have been both positive and negative. Undoubtedly these observations shall be duly studied and conclusions drawn. It is, however, already apparent that greater attention has to be paid in the teaching of business ethics in higher educational establishments, as well as modernising these programmes. Lessons learned from the present crisis have to be incorporated in these revised programmes. A place also has to be found in these programmes for the culture-specific

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<sup>14</sup> Ibid.

<sup>15</sup> See, *A Declaration Toward a Global Ethic*, published by *The Global Ethic Foundation*, accessible on-line at, <http://www.weltethos.org/dat-english/03-declaration.htm>, site visited 2010. 10. 01.

<sup>16</sup> See, Crabtree V., *The European Union. Democratic Values, The Euro, Crisis and Migration*, published May 19, 2007, accessible on-line at, <http://www.vexen.co.uk/countries/eu.html>, site visited 2010. 01. 10.



aspects of ethics as they are understood in various regions around the world. Ethics have to be examined in depth taking into account the realities of globalisation and information technology, and oriented towards facilitating sustainable development processes and goals. The presently held notion that ethical considerations begin where legal norms reach their extent<sup>17</sup>, needs to be reviewed, since the application of legal norms also has to be ethical and based on moral standards. Ethical considerations underpin the application of law and determine behaviour and the outcome in questions for which there does not exist an explicit legal framework. However, ethical considerations cannot become the alternative to rule of law, since the interpretation and implementation of legal norms are based on ethics principles. Instruction on the subject of legal ethics could be a good addition to educational programmes on business ethics as they are offered at institutions of higher education.

### **Lessons learned from the crisis and science**

The global crisis has led to scholars and academics being criticised for their failure to warn, or at least to speak out forcefully enough, about looming problems leading to an economic downturn, which have now beset the entire world and has brought tornado-like consequences for society and politics. The criticism is well-founded and could give impetus for an early-warning system alerting the onset of future crises based on various measures of the development of society. It is to be hoped that future Nobel Prize laureates will be able to devise mechanisms to cushion the effects of such future shocks, or even, to avoid them.

The on-going global crisis has produced a number of important challenges not only to the social sciences, but also to humanities scholars. Ethics, as a branch of philosophy, not only has to investigate and further develop traditional human values, but also has to participate in identifying new values and their development, one which are oriented towards the future developments in society. The manner in which human values manifest themselves in business and in the economy has to be studied in the context of political culture and legal ethics. The behaviour of individuals has to be studied systematically. Such investigations have to track the impact of globalisation and the need to

<sup>17</sup> See the article, Crane A., Matten D., *Questioning the Domain of the Business Ethics Curriculum*, published in *The Journal of Business Ethics*, No. 54, 2004, at p. 357, accessible on-line at Internet address, <http://www.jstor.org/pss/25123356>, site visited 2010. 01. 10.

ensure sustained development. In overcoming the present crisis there is a role to be played not only by psychologists but also by the science of psychology, which latter could offer modern methods to achieve balanced behaviour by individuals.

Faced with a serious economic crisis not a few countries have failed to appreciate the need to prioritise support for science and its development as a means of speeding up recovery from this crisis. This is particularly true for social studies and the humanities, whose budgets have been the first to be cut back. This short-sighted approach undoubtedly damages the prospects for a balanced and sustainable development of society.

### **Conclusions and suggested remedies**

Today's economic and financial crisis differs from all past crises by its global extent as well as by its profound extent; this crisis also has pointed up faults in accepted human values, the latter crisis affecting accepted ethical precepts and moral values. Unethical practice and dishonest behaviour, foolhardy risks, refusal to accept responsibility, greed, speculation and profit-taking at all costs may not have been the immediate factors that have led society to its present state of despair, yet they have strongly contributed to the process.

The fact that business is being conducted to a considerable extent in a virtual environment, and in addition, extremely rapidly, has meant that respect for ethical principles and observance of moral standards has become very lax. The extent to which individuals can act anonymously in this environment has had profound psychological implications in that social control of dishonest practices and unethical behaviour has become more difficult and thus has raised the risk of such occurrences going unpunished. These conditions have to be taken into account in formulating future policy on business ethics.

Lessons learned from overcoming today's crisis shall lead to a series of new measures in the field of how economies are to develop, with less emphasis on accepting a liberal approach with acceptance of greater government (state) control and oversight in the financial sector, as well as in the economy in general. In addition to taking these measure, one ought also to insist on observance of ethical and moral standards by business, in this way ensuring that economic development will occur in a socially responsible fashion. One should insist on greater emphasis given by educational institutions on

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the study of business ethics, at the same time as ensuring that such studies are updated regularly, taking into account the newest tendencies in economics and philosophy.

Undoubtedly, it will be necessary to mobilise society in general, and, psychologically, in particular. One should take care to avoid an outcome where the greatest burden of suffering shall be borne by those individuals who were responsible for the onset of the crisis, and not by those who have low incomes to begin with, as well as by pensioners. Scrupulous adherence to ethical principles and social justice during the economic recovery process will avoid excesses and furthermore ensure a more rapid recovery of the economy and society.

The global nature of the economy today demands international cooperation in developing and establishing standards for economic ethics. Cultural differences and different political systems should not be claimed as hindering a state of affairs coming to pass where economic co-operation would respect such commonly-held human values as non-violence and respect for human life, fairness and solidarity, honesty and tolerance, mutual respect and partnership. Adhesion to these principles, based as they are on religious beliefs and traditional ethical principles, ought to serve the interests of individuals and groups alike, since they would promote economic development and social advances.

It falls to social scientists and those active in the humanities field, not only to research and analyse the factors leading to and the factors exacerbating the present global crisis, but also to clarify our understanding of, and even to develop our appreciation of human values. It is also our task to identify new values and to participate in their formation and development. Such studies need to appreciate various aspects of the process of globalisation, and have to be oriented towards ensuring sustainable development of society. The straightened economic circumstances notwithstanding, financial support for such investigations should not be decreased.

