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Moral Mazes Redux[1]

Moral Mazes: the World of Corporate Managers is based on an intensive field study in the 1980s of upper-middle-level managers in several corporations. The most important of these were a major chemical company, an integral part of a huge conglomerate; a major textile company; and a large public relations firm. Materials were also gathered in 36 other corporations to which full field access was ultimately denied. The research also included detailed case studies of 18 whistleblowers in 13 large organizations, both corporate and governmental. The guiding intellectual problem was: how does bureaucracy shape moral consciousness? I addressed this problem by examining the occupational ethics –the moral rules-in-use– of the quintessential bureaucratic work group, the managers who both make and are bound by bureaucratic rules. The metaphor "moral mazes" refers simultaneously to the labyrinthine structures of large bureaucratic organizations and to the moral and ethical quandaries that such organizations regularly create for the men and women who work in them.

Consider, in brief form, the cataclysms that have shaken American economy and society in the past few decades.

♦ Business leaders, working in conjunction with political elites, have outsourced American core industries to other countries, stripping the nation of much of its industrial capacity.

♦ At the same time, several American businesses, working closely with brokers and national politicians, have encouraged and benefited from the illegal immigration of at least 12 million low-skill, low-wage workers, who place enormous burdens on schools, hospitals, and all other social services in key states.

♦ In the 1980s, Wall Street firms developed or refined a number of instruments that eventually transformed financial markets. These included: junk bonds, portfolio insurance, stock index futures to hedge portfolios, and computerized program trading. The 1987 market crash revealed the extent to which financial markets had become 'institutionalized.'

♦ Between 1986-1995, more than 1000 savings and loan associations (S&Ls) failed. Two Congressional acts had allowed S&Ls to go beyond their historical role of providing personal mortgages in specific localities and to make commercial real-estate loans regardless of geography. This prompted many S&L executives to sell low-profit mortgages to Wall Street firms to obtain money for more lucrative, much riskier investments. The eventual governmental bailout of the S&L industry cost taxpayers $124 billion.

♦ Wall Street firms, joined later by Fannie Mae and Freddie Mac, the government-sponsored enterprises that provide a secondary market in home mortgages, bundled thousands of mortgages into collateralized mortgage obligations to be sold as bonds to investors around the world.

♦ The Clinton administration placed enormous pressure on Fannie Mae and Freddie Mac to enforce the 1977 Community Reinvestment Act that encouraged banks to make loans to minority borrowers in high-risk neighborhoods. To reach the quotas that the government-sponsored enterprises eventually demanded, banks lowered their standards of credit-worthiness eventually reaching the point of no-income-no-assets-no-down-payment-no-documentation loans. Fannie and Freddie accepted the lower standards in the loans they purchased in the secondary market and provided default insurance for them.

♦ The use of derivatives exploded in the financial markets, reaching $1 quadrillion in the 2008 estimate of the Bank for International Settlements. The market in derivatives has no agreed-upon standards, no transparency, and no central clearing and recording house. Despite their high profitability, derivatives add no tangible value to an economy. Under the Clinton administration, Congress passed legislation that allowed the consolidation of investment and commercial banks and another law that exempted derivatives from oversight by state gaming commissions. In a separate ruling, the Federal Reserve allowed the use of derivatives instead of equity to back loans.

♦ Enron rationalized newly deregulated markets in oil, gas, and later electricity by developing financial instruments that allowed customers to lock up supplies at stable prices. It became the middleman in trading 25 percent of the nation's energy, a concentrated control that enabled it to game the markets repeatedly. Enron kept liabilities off its books by assigning its risky holdings in volatile technology stocks to fictitiously-independent partnerships. Many of these partnerships collapsed with the bursting of the dot.com bubble because they held derivative contracts obliging them to cover losses in technology stocks. Enron's failure, which was a financial catastrophe for all but its top managers, most of whom who profited handsomely, forecast things to come in the American economy.

♦ President George W. Bush continued the Clinton administration's policies of pressuring Fannie Mae and Freddie Mac to increase homeownership among minorities whatever their credit-worthiness. This 'diversity' initiative, along with the Federal Reserve Bank's policy of extremely low interest rates, helped fuel an already blazing housing market. Prices spiraled upwards causing many investors to bet more money on collateralized mortgage obligations on the view that even if the lowest-rated, highest-risk tranche of notes in a portfolio defaulted, properties could be sold for more money than had been borrowed.

♦ But the housing market began to weaken in 2006 and then fell apart in 2007, especially in California, Florida, Arizona, Nevada, and Michigan. Financial institutions began to tumble.

♦ Bear Stearns, which held over $13 trillion in derivatives, was the first major house to fall, although the Federal Reserve cushioned its collapse by underwriting its

merger with JPMorgan Chase. Countrywide Financial, the issuer of 20 percent of all mortgages in the United States and a leader in abandoning all prudent lending standards, followed suit, though not before its top executives parachuted to luxurious safety. IndyMac's depositors made a run on the bank because of its soaring mortgage defaults.

♦ Wall Street plunged into a dizzying tailspin in September 2008. Fannie Mae and Freddie Mac were both put into conservatorship. Lehman Brothers declared bankruptcy and the Federal Reserve declined to rescue it. With help from the Treasury, the Bank of America bought a failing Merrill Lynch, even as the bank received, as it later continued to receive, handouts from the quickly-formed Troubled Assets Relief Program (TARP). American International Group (AIG), the huge insurance firm, had its own credit rating downgraded because of its vast derivative holdings of credit default swaps and collateralized debt obligations. The downgrading required the firm to put up collateral with its trading partners. Over the next few months, government agencies propped up AIG with more than $163 billion, much of which AIG passed on to investment houses and banks to back contracts on derivatives. Washington Mutual Bank collapsed, becoming the largest bank failure in United States history. Wachovia Bank, staggering under mountains of bad loans, was ready to be bought by Citigroup, which had already received $25 billion in TARP money, when Wells Fargo swooped in with a better offer and embraced Wachovia. Within no time, Citigroup returned to TARP for another cash infusion of $20 billion, and then $25 billion more, and a government guarantee that taxpayers would bear its potential losses of $300 billion.

♦ Throughout all of these separate but related crises, the business executives involved rewarded themselves royally, even when their firms suffered catastrophic losses.

♦ The economy suffered dramatically. Unemployment soared; consumption declined sharply; household wealth fell precipitously all across the globe; businesses went broke; home foreclosures continued to rise at a rapid rate; credit-card debt increased; major industries were brought to the edge of bankruptcy. At the end of President George W. Bush's presidency, the federal budget deficit was over $1 trillion and the national debt exceeded $10 trillion. The International Monetary Fund declared that the entire world economy was suffering its most severe recession since the Second World War with dramatic shrinkages in economic activity across the globe.

♦ In short order after assuming office, President Obama signed a stimulus bill for $787 billion, signed an omnibus spending bill for $480 billion, and put forward a 2010 budget totaling $3.6 trillion, all to be paid for by increasing taxes on the 5 percent of American taxpayers who pay 60 percent of all personal federal income taxes. The Secretary of Treasury and the Chairman of the House Ways and Means committee, both known tax scofflaws, pledged to go after citizens who were delinquent in their taxes. The Secretary of the Treasury announced a plan to salvage the banking system that had the government giving $6 of public financing for each dollar that investors put up to take mortgage-backed securities of dubious value off the books of banks. The plan made taxpayers liable for about $2 trillion even as it offered a wind-

fall to the same institutions whose speculation in derivatives helped create the financial calamity. The Congressional Budget Office estimated that the United States federal deficit would exceed $1.8 trillion in 2009 and reach $9.3 trillion in the next decade. The Obama administration's plan for the nation to claw its way out of unsustainable debt was to take on yet more debt. In the meantime, foreign countries that had underwritten America's debt by buying United States Treasury notes decried America's budget deficits. China called for a new global reserve currency to replace the debased dollar.

♦ The new president appointed to his advisory staff Clinton-era stalwarts who had insisted on relaxing credit rules to encourage minorities to buy homes, and Wall Street players who had advocated the consolidation of investment and commercial banks and had championed the wealth-making potential of derivatives. These joined long-time Congressional champions of Freddie Mae and Freddie Mac in overseeing the remediation of the catastrophe they had helped to create.

Moral Mazes notes that men and women in organizations establish affinities with others in their cohorts based especially on shared occupational experiences. They work hard to attract their superiors' attention and to break into social circles anchored by bosses. With both peers and higher-ups, the task is to demonstrate that one grasps and shares frameworks of understanding about how the world works and "what has to be done". Only those men and women who allow peers and superiors to feel morally comfortable in the ambiguous muddles of the world of affairs have a chance to survive and flourish in big organizations when power and authority shift due to changes in markets, internal power struggles, or the need to respond to external exigencies. The larger the organization, the more thorough are the shakeups, and the shorter the intervals between the upheavals that reshuffle hierarchies and determine personal fates.

When organizations fall apart, one can see what held them together in the first place. Bureaucracies place powerful premiums on certain behavior, and reward those able to recognize those premiums and behave accordingly. Both the premiums themselves and conformance to them are, however, ambiguous because they are constantly subject to peers' and superiors' interpretations. Hard work, talent, ability, and experience do not necessarily lead to success. Instead, success becomes contingent on others' interpretations of one's performance, leading to a break in the accepted moral economy between talent, effort, and reward.

This makes compulsive sociability an occupational virtue, as one attempts to discern and shape peers' and superiors' interpretations. Although specific premiums and requisite conformance to them vary considerably depending on the nature and purpose of particular bureaucracies and on organizational leadership, all bureaucracies require varying degrees of self-rationalization of their members. Wise and ambitious men and women ruthlessly tailor their public faces, that is, their personal appearances, their vocabularies, and their expressed worldviews, to suit the fashions of the moment. They also tailor their habits of mind to match the institutional logic of their organizations. Such voluntary self-rationalization produces the deepest internalization of organizational goals, creating at the same time relatively enclosed social worlds that allow people to bracket moralities to which they might adhere in their

homes, churches, or other social settings. The objectification of self that self-rationalization requires becomes an enduring habit of mind and frames and paces one's stance to practical matters and other people alike. Occupational rules-in-use gain ascendancy over more general moral and ethical standards. Moral choices become inextricably tied to organizational fates.

Within such a context, bureaucracies typically separate men and women from the human or economic consequences of their actions. Top managers rarely meet workers fired because of their decisions; they rarely visit communities devastated economically because of their reallocation of resources; they rarely encounter consumers inadvertently injured by their companies' products; government officials rarely encounter men and women who have become "cases" under procedures they have authorized or visit regions reshaped by laws they have passed; bankers never meet shareholders whose investment monies have disappeared because of banks' bad loans; corporate managers responsible for skimping on infrastructure maintenance costs because of pressures for short-run gains, on which they are judged, are rarely called to account when major equipment grinds to a halt; and city officials who cut back funding for long-term repair projects to balance municipal budgets are nowhere in sight and often long forgotten when bridges or roads collapse.

Such insulation heightens rational decision-making according to the impersonal criteria at the core of every modern bureaucracy, even as it makes notions such as the ethics of brotherhood irrelevant. Further, despite claims to the contrary, bureaucracies also separate people from accountability for their actions. Bureaucratic hierarchies generally encourage superiors' usurpation of credit for the work of subordinates. At the same time, few bureaucracies have formal tracking systems to allot blame for mistakes. Men and women who are upwardly mobile can outrun their mistakes, leaving others to bear blame for them. With luck, those who succeed in outrunning their mistakes end up with the authority to declare others responsible for their own errors. At the upper levels of organizations, among men and women of proven and relatively equal abilities, the allocation of credit and blame, and corresponding success and failure, is thus very often experienced as arbitrary, indeed capricious. Being in the right place at the right time or in the wrong place at the wrong time become more salient explanations for organizational fates than notions of hard work or merit. In short, big organizations often seem to be vast systems of organized irresponsibility –even, perhaps especially, to those within them.

Organizational leaders can attempt to set standards of moral evaluation and practical moral reasoning to guide their charges' actions. But since there is no necessary connection between the good of a particular individual, the good of an organization, and the common good, standards that leaders might assert are arbitrary to some extent, subject to constant negotiation and reinterpretation by competing organizational interests, and always suspect as public relations ploys. In regard to the last point, one notes that Enron boasted an elaborately articulated code of ethics. Leaders can impose certain standards by dint of effort and authority, and sometimes those standards become deeply institutionalized in a particular organization. Typically, however, standards last only as long as leaders themselves. When looking up provides little direction, men and women in large organizations look around. They turn to each other for moral cues for behavior and come to fashion specific situ-

ational moralities for specific significant others in their world. As it happens, the guidance that they receive from each other is as profoundly ambiguous as the social structure of big organizations. Moral rules-in-use for all issues become indistinguishable from the rules for achieving success or avoiding failure.

Ethical issues regularly get translated into problems of public relations. What matters is how one's decisions are perceived by crucial publics, not whether those decisions conform to any internalized and institutionalized sets of standards. Leaders in every institutional sector must address competing factions within their organizations, as well as multiple, warring external constituencies. Leaders in the top stratum of organizations are subject to constant scrutiny by the fourth estate and by pundits who flourish in the exploding new electronic media. Thus, adeptness at inconsistency, in particular doublethink and doublespeak, becomes an essential requirement for those who aspire to big-time leadership. Such adeptness must be coupled with the ability to project absolute conviction in whatever one asserts at the moment.

The themes of *Moral Mazes* resonate throughout the economic and financial cataclysms of recent decades. Happenings in the tight-knit occupational world of investment banking provide a classic illustration. Investment bankers typically hail from top business schools where they were drilled in the imperative of increasing the value of the assets in their care in as short a time as possible and by any means necessary without regard for the overall well-being of their own organizations, let alone for the stability of key social and cultural institutions of our society. They made the market for the bundling and securitization of mortgages. They created myriad, extraordinarily complex derivative instruments that produced no tangible value whatsoever for the economy, but made the workings of financial markets impenetrably opaque and baffling even to putative experts. The derivatives chained financial institutions to each other in ways that proved fatal when the market declined. Investment bankers bet other people's money in a high-stakes intramural competition for ever-upward-spiraling, short-term returns, and the crucial peer recognition that those returns conferred in an intensely self-enclosed, self-referential world, one that is oblivious to outside points of view and frames of reference. At the same time, they hedged their bets to eliminate or temper risks to themselves. They paid themselves kings' ransoms even when their firms were tanking and their shareholders losing money. When their world crashed, they demanded that taxpayers rescue their firms because they were too big to fail. They also demanded bonuses because, they argued, their expertise was vital to repair the ravaged financial system. All the while they insisted that the real culprit was not their own recklessness, but mark-to-market accounting rules that forced them to disclose publicly the worthlessness of assets they held.

One observes similar patterns of thinking and behavior in corporate managers who de-industrialized America by not reinvesting in domestic plants and outsourcing manufacturing and millions of jobs to foreign lands; in congressmen, senators, presidents, attorneys general, and cabinet officials who insisted on relaxing long-standing credit rules to curry favor with particular voting blocs and continue to insist on importing poor, illiterate, and unskilled workers into a postindustrial economy by ignoring and even decrying enforcement of immigration laws; in regulators at the Securities and Exchange Commission who missed entirely Bernard Madoff's theft of more than $50 billion from investors, the biggest but by no means the only fraud

that the institutionalized recklessness of the financial markets allowed, despite repeated, detailed warnings from knowledgeable financial experts; and finally in United States Treasury officials, as well as functionaries at the bond-rating agencies, not to mention professional economists who, as long as times were good, ignored and even blessed the use of precarious debt instruments that sooner or later had to come due.

Organized irresponsibility has migrated to the nooks and crannies of our society. One sees presidents of universities and colleges who preside over the destruction of their institutions' endowments let alone the intellectual integrity of curricula and then outrun their mistakes and move on to higher academic and even high political posts. One sees intellectuals who are completely committed to the destruction of the Western tradition that nurtures them and who help create the profound social and cultural centrifugality that marks American society. One sees big-city mayors who cede control of the streets to drug dealers and other thugs for fear of being labeled non-progressive by various advocacy groups and the press. One sees long-time political insiders in Washington who "screw up and move up", an aphorism that aptly captures the ethos of government bureaucracies. And doublethink and doublespeak now permeate public discourse, bewildering even intelligent, thoughtful citizens.

The legitimacy and stability of a social order depend on the credibility of its leaders.When crucial publics as well as masses fear that industrial, financial, intellectual, and political elites have no firm grasp on the workings of the economy or of other key institutions that shape citizens' everyday lives, then leaders' waning credibility beckons social unrest, perhaps chaos. But in a world marked by an ethos of organized irresponsibility and the recklessness of key elites, who will envision and articulate a compelling vision of the common weal and harness the energies of men and women to strive for it? ■

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1. A fuller version of this essay was presented at the Séminaire AEGIS, École polytechnique CNRS, Paris, France, 26 March 2009 and will appear as the Foreword to the 20th anniversary edition of *Moral Mazes: the World of Corporate Managers* (New York: Oxford University Press). I wish to thank Professor Hervé Dumez for the invitation to participate in the AEGIS seminar and I thank him and his students for their many helpful insights. I also wish to acknowledge the colleagueship of Professor Hervé Laroche, editor of the *European Management Journal*. Finally, I am most grateful, as always, to Janice M. Hirota and Duffy Graham for their careful, critical reading of my work.

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