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Why Martha Matters
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"I felt the cover-up was part of my daily existence and I just couldn't take it anymore."

So spoke Douglas Faneuil, the young stockbroker's assistant at Merrill Lynch who has become the prosecution's star witness in the Martha Stewart trial. He was describing his decision, six months later, to escape a tangled web of deception -- a web allegedly woven by Ms. Stewart and by his boss, broker Peter Baconovic, to explain her sudden sale of 3,928 shares of ImClone stock just before it tanked in December 2001.

Suppose Faneuil is right. Suppose Martha Stewart really did suffer a moral implosion. Some will be offended at her wrongdoing. Some will insist she was set up. Some will proffer forgiveness for a human failing. But many will sail right on as though ethics simply doesn't matter -- as though her only mistake was getting caught. Why, they'll ask, does Martha matter?

The question goes to the heart of the free enterprise system, which is largely built on trust. Trust lies at the heart of business – trust among clients, customers, and suppliers, and trust between employees and management. In recent years, three tectonic shifts have collapsed this trust:

- A public laxity towards ethical lapses, including those within corporations, that began several decades ago and increased significantly during the 1990s
- An upsurge in technology, presenting executives with complex ethical dilemmas long before regulatory frameworks are developed to provide guidance
- An increasingly cavalier attitude by management toward solid business practices, brought on by pressures that demand ever-larger profits

As a result, trust has taken a hammering. The now-familiar litany of corporate excesses includes Enron, Arthur Andersen, WorldCom, Global Crossing, Tyco, Adelphia, and the New York Stock Exchange. It now extends to the scandals in the mutual fund industry, which former Securities and Exchange Commission chair Arthur Levitt has called "the most outrageous of any of the violations of any of the frauds we've seen in this century."

Not surprisingly, the U.S. public has responded. A Gallup survey in the summer of 2002 found that the top reason cited for the then-depressed state of the U.S. economy was "greed and corruption among corporate executives."

When Gallup asked, "How much confidence do you have that the information you get about a company's finances from its official records will be accurate," a deeply suspicious 54 percent said "not much" or "none at all."

And when a poll by the Pew Charitable Trusts asked whether "government regulation of business is necessary to protect the public interest," 54 percent said yes -- up from 38 percent only eight years earlier.
This last point is most telling. It reminds us that what the public finds unethical, it doesn't trust. And what it doesn't trust, it seeks to regulate. Not surprisingly, this groundswell of public concern led to the passage of the Sarbanes-Oxley legislation in the summer of 2002, intended to tighten corporate governance. That legislation, although widely regarded as a poorly designed stopgap, made plain two things: the public's distrust that business will operate in an ethical manner, and the willingness of Congress to legislate ever more far-reaching controls on business.

What becomes of free enterprise if that legislative trend continues? Do we finally legislate the wealth-creating engines of our culture out of business? Do we get to a point where few businesses will be able to operate in the United States -- and even fewer will start up -- because the regulatory costs are too high?

If that happens, who's to blame? Not Congress, which rightly responds to the will of the public. And not the public, which is rightly incensed by the flagrancy of this collapse of trust. And not even Martha Stewart, who simply may have been going along with an informal culture of insider trading, illegal but widely tolerated. The real culprit is that culture itself -- the assumption that "the way we do things around here" is to spin and bob, weave and deceive. The real villain is the belief that business is hardball, ethics is for sissies, and all that matters is the bottom line.

Why does Martha matter? Because if Merrill Lynch was covering up and we shrug it off, the victim will be business itself. It is nowhere carved in stone that capitalism, entrepreneurship, and free enterprise will forever endure. In a democracy, they'll last only as long as the public thinks they are worth sustaining. And that only happens if, when brokers and executives are given broad freedoms to trade quickly, they do so in ethical ways. Lose that trust, and central planning is but a few steps away.