

Fraud and Economic Dishonesty: A Curse on Our Society

James W. Skeen

Several times in Scripture the Apostle Paul states that one of the things that marks him as a genuine minister of God is his honesty. “And so, since God in his mercy has given us this wonderful ministry, we never give up. We reject all shameful and underhanded methods. We do not try to trick anyone, and we do not distort the word of God. We tell the truth before God, and all who are honest know that (2 Corinthians 4:1-2).” And later in 2 Corinthians (7:2), he adds: “Please open your hearts to us. We have not done wrong to anyone. We have not led anyone astray. We have not taken advantage of anyone.” And in other passages he admonishes Christians to be honest in their everyday lives.

Philippians 4:8-9: “And now, dear brothers and sisters, let me say one more thing as I close this letter. Fix your thoughts on what is true and honorable and right. Think about things that are pure and lovely and admirable. Think about things that are excellent and worthy of praise. Keep putting into practice all you learned from me and heard from me and saw me doing, and the God of peace will be with you.

Ephesians 5: 3-9: “Let there be no sexual immorality, impurity, or greed among you. Such sins have no place among God’s people. Obscene stories, foolish talk, and coarse jokes—these are not for you. Instead, let there be thankfulness to God. You can be sure that no immoral, impure, or greedy person will inherit the Kingdom of Christ and of God. For a greedy person is really an idolater who worships the things of this world. Don’t be fooled by those who try to excuse these sins, for the terrible anger of God comes upon all those who disobey him. Don’t participate in the things these people do. For though your hearts were once full of darkness, now you are full of light from the Lord, and your behavior should show it! For this light within you produces only what is good and right and true.”

There are many ways to be dishonest. This paper will focus on economic dishonesty, or fraud. The Old Testament records several passages that state God’s displeasure at economic fraud and His respect for those who are honest. The Pentateuch commanded economic honesty in order for Israel to receive His blessing. The Book of Proverbs connects economic honesty with a happy life and good rewards. And the Prophets rebuke

Israel because of their economic dishonesty and cheating hearts.

Deuteronomy 25:13-16: “You must use accurate scales when you weigh out merchandise, and you must use full and honest measures. Yes, use honest weights and measures, so that you will enjoy a long life in the land the Lord your God is giving you. Those who cheat with dishonest weights and measures are detestable to the Lord your God.”

Proverbs 11:1-5: “The Lord hates cheating, but he delights in honesty. Pride leads to disgrace, but with humility comes wisdom. Good people are guided by their honesty; treacherous people are destroyed by their dishonesty. Riches won’t help on the day of judgment, but right living is a safeguard against death. The godly are directed by their honesty; the wicked fall beneath their load of sin.”

Hosea 12:1-8: “The people of Israel feed on the wind; they chase after the east wind all day long. They multiply lies and violence; they make alliances with Assyria and cut deals with the Egyptians. Now the Lord is bringing a lawsuit against Judah. He is about to punish Jacob for all his deceitful ways. Before Jacob was born, he struggled with his brother; when he became a man, he even fought with God. Yes, he wrestled with the angel and won. He wept and pleaded for a blessing from him. There at Bethel he met God face to face, and God spoke to him—the Lord God Almighty, the Lord is his name! So now, come back to your God! Act on the principles of love and justice, and always live in confident dependence on your God. But no, the people are like crafty merchants selling dishonest scales—they love to cheat. Israel boasts, I am rich, and I’ve gotten it all by myself! No one can say I got it by cheating! My record is spotless!”

In the Ephesians 5 passage above, Paul commands Christians to not participate in the many sins that surround them. One of which is the economic sin of the greedy. Different times and circumstances will form the nature of the economic temptations that will confront Christians, or any person trying to be honest. The economic crimes of today differ in form because our economic system is different. One of the purposes of this paper is to focus attention on our particular economic sins that the general scriptural commands against economic dishonesty might be more culturally specific. This paper will therefore focus on fraud in our capitalistic society.

Fraud is, essentially, larceny by trick or deception (Albanese, 1988). It is

exploitation (Huer, 1991) of the confidence others place in the one who commits fraudulent acts. Confidence is the single most critical element in fraud (Albrect et al, 1995). No one can commit fraud unless the deceived has confidence in the deceptive person. Con artists work (Henderson, 1983) to gain the confidence of their victims through psychological manipulation based on superb understanding of the baser motives of human nature. Con artists are those who are committed to a criminal lifestyle of theft through fraud (Henderson). They are usually transient and do not commit themselves very long to any one place of operation (Mauer, 1974). Con artists can be single, or several, individuals committed to defrauding the public. Their whole operation, or business, is planned (Albanese) around fraud. They have no real function or services that constitute legitimate business objectives. They exist to gain wealth through fraud.

Business fraud is different. Business fraud is committed parallel to legitimate service functions of a business or corporation (Albrect et al). Business fraud can be categorized according to six types (Albrect et al: 5-7):

- 1) embezzlement—employees deceive the company by taking company assets in direct or indirect ways.
- 2) management fraud—an organization's top management manipulates financial statements in order to deceive investors into thinking the company is worth more than it really is.
- 3) Investment fraud—fraudulent and usually worthless investments are sold to investors. This type of business fraud includes telemarketing fraud and ponzi scams.
- 4) Vendor fraud—overcharge or nonshipment of ordered goods.
- 5) Customer fraud—customers not paying for goods purchased in one way or another related to deception.
- 6) Miscellaneous fraud—financial gain through deception not related to the other five types.

Business fraud comes under the broad designation white-collar crime.

Crimes committed by individuals or businesses in ways related to the legitimate functioning of that business. Con artists do not fit this definition and so are not considered white-collar criminals. They are individuals committed to a criminal lifestyle based upon gaining wealth through the use of confidence games.

Who commits business fraud? Anyone can commit fraud. Research into white-collar crime in general reveals that perpetrators are more psychologically stable and satisfied with life than are property offenders. Property offenders are those who steal from others by a more direct and physical means—burglary, robbery, larceny. White-collar criminals are better educated, more religious, less criminally inclined in other areas of life, less likely to abuse alcohol and drugs, are more optimistic, have higher self-esteem, are more self-sufficient, have a greater sense of achievement, more motivation to work, express more social conformity overall, have more self-control, and express more kindness and empathy toward people not involved in the criminal situations (Albrecht et al). For instance, research into employee embezzlement has found that perpetrators cannot be distinguished from other honest employees on the basis of demographic or psychological characteristics. Experience has shown that it is almost impossible to predict in advance the employees who will cross the line into dishonesty (Albrecht et al). It seems obvious that traditional positivist explanations for crime that are centered in explaining property crimes, for example, of the lower classes are inadequate when it comes to business fraud which is committed by middle-to-upper class individuals. As Nettler puts it, “Contrary to theories of criminogenesis that see theft generated only by ‘need’ or by ‘restricted opportunity’ some big frauds are produced simply by the desire to be richer than one is (p. 80).” It is not restricted social opportunities that characterize white-collar criminals but access, increased opportunity, to large sums of money that can be stolen in secret during the course of everyday business practices.

Conceived advantage motivates fraud. Nettler (1982) says that there are two sides to this motivation—pulls and pushes. Pulls are the attraction of wealth and power and are related to perceived opportunity. Pushes are related to the perceived need to defend what one already has. These are felt as pressures to act. Fraud is generated by a meeting of desire and opportunity. Desires based in improving (pull) or maintaining (push) a certain lifestyle. The middle-to-upper class people who are the usual perpetrators of fraud do not commit such offenses out of some desperate

need to survive. They are already well beyond the minimum income level needed for survival. They want more than they have.

Albrect expands our understanding of fraud. He adds a third factor to Nettler's two ingredients—rationalization. Perceived pressure (pushes), perceived opportunity (pulls), and rationalization form the fraud triangle. These ingredients are interactive (Albrect, 19). The greater the perceived opportunity or pressure, the less rationalization it will take to motivate someone to fraud. And the more dishonest someone is the less opportunity or pressure it will take for someone to commit fraud.

Looking at the three ingredients of fraud, we can distinguish individual and situational factors. Pressures can come from within an individual and be of his or her own making. And they can also come from influences in the person's social milieu. Pressures leading to fraud can be divided into four types (Albrect et al: 20): 1) financial, 2) vices, 3) work related, and 4) others. Financial pressures associated with fraud are greed, living beyond one's means, high personal debt, high medical bills, poor credit, financial loss, and unexpected financial need. Vice pressures are things like gambling, drugs and alcohol, expensive sexual relationships, and the love of power (which wealth can supply). Work-related pressures relate to things like revenge toward an employer, little recognition given for job performance, job dissatisfaction, loss of a promotion, and a sense of being underpaid. Other pressures include a spouse who insists on an improved lifestyle and a challenge to beat the system. Notice that some of the above pressures are individual specific. The pressure is within the individual. He or she is pulled toward an 'object' because it seems attractive. Adler (1991) would classify these attractions as noxious apparent goods. They are apparent because they are not related to actual needs. They are noxious because they prevent us from gaining or pursuing goods that are related to genuine human need. The other pressures can be conceived as some kind of meeting between real environmental pressures with individual psychological predispositions that make one susceptible to perpetrating a fraudulent act.

American society seems especially susceptible to the development of fraudulent enterprises. Some of the grandest scams were produced in the mid-to-late nineteenth century by capitalistic barons when many of the fraudulent acts counted illegal today—price-rigging, collusion, monopoly—were not considered against the law, although they were dishonest and

unfair (Nash, 1976). The big con games developed by con artists were rooted in nineteenth and early twentieth-century America (Mauer). Why is this so? The reason, I think, is tied to a fundamental observation of evil in general. Evil creates nothing. Evil perverts and is parasitical of the good. Evil needs the good to exist. But the good does not need the evil. Evil can serve to point out the qualities of the good by contrast and deepen a commitment to good, but it is existentially unnecessary for good's existence. This is why Cesare Beccaria (1764) stated in *Crime and Punishment* that one should not be shocked to see great crimes connected with a great and noble country. Following this fundamental assumption about evil in general, I point to a quote by Ross as a specific example of how this fact about evil plays out in real life: "Fraud is a perversion of all the incentives that propel a well-functioning capitalistic system. The drive to best the competition, to win the contract, to reduce costs, to maximize profits, [which are to promote] efficiency and the most rational use of resources. [However], the same competitive drive unfortunately produces an impulse to cheat, particularly in an environment where cheating is easy, the stakes are high and the odds of getting caught are favorable" (p. 108).

Albrecht et al in their book *Fraud: Bringing Light to the Dark Side of Business* lists twenty-one different fraud facts in this country. We will take note of only seven (pp. 8-11).

- 1) The US Chamber of Commerce says that losses from employee embezzlement may be as high as \$20 billion to \$40 billion annually. These figures place employee theft at a larger amount than burglary, car theft, robbery, and larceny combined. This estimate is slightly higher than the estimate of employee theft by the Bureau of National Affairs, which places the total at between \$15 billion and \$25 billion annually.
- 2) The FBI and other federal agencies have estimated total US fraud losses are between \$60 billion and \$200 billion annually.
- 3) In the aftermath of the savings and loan failures, studies found that criminal fraud had been perpetrated in 60 percent of all S @ Ls seized by the government.
- 4) The Federal Trade Commission and the Health Insurance Association of America estimate that fraud comprises 10 percent of the nation's health care bill. By 1989, this translated to \$60 billion, in 1990 to

about \$67 billion; by the end of the 1990's, fraudulent charges may cost the nation over \$160 billion a year.... 20 percent of all medical procedures are unnecessary. The total cost of such waste is estimated at \$132 billion per year.

5) Thirty percent of all business failures are caused by white-collar crime. Crime against small companies accounts for 80 percent of all crimes against business.

6) Studies have shown that 3 out of 10 workers look for ways to steal, another 3 out of 10 will steal if given the opportunity, and 4 out of 10 will usually be honest.

7) Forty-five of the nation's 100 largest defense contractors have been investigated for overbilling the federal government. Companies such as General Electric, Boeing, Rockwell International, Sperry Corporations, and McDonnell Douglas have allegedly submitted false work time cards, altered time cards without employees' knowledge, charged labor costs to wrong contracts, and billed the government for perks for corporate executives, including country club memberships and even tickets to the Metropolitan Opera.

All this fraud and abuse of the system gives ammunition to those who oppose capitalism. Marxists have long condemned capitalism because of its inherent tendency to promote fraudulent and destructive, rather than healthy, competition. Quite frankly, much of what they say is true. Of course what they offer as a solution has resulted in more atrocities and murder in the last 100 years than any other system since the beginning of recorded history. Marxists are dishonest. They strain at a gnat but refuse to see the log in their own eye. But their critique of the negative possibilities of capitalism is informative. There is much room for the rich to exploit the poor and disadvantaged. Even more than in James' time when he said (James 2:6b-7): "Isn't it the rich who oppress you and drag you into court? Aren't they the ones who slander Jesus Christ, whose noble name you bear?"

Without voluntary moral restraint, the amoral nature of capitalism can have devastating effects on the lives of those who are of little worth to the workings of the system. With voluntary moral restraint, capitalism can promote the welfare of society as jobs are created and technological

advances are used for human welfare rather than just personal enrichment. Widespread honesty is required.

Unfortunately, the relentless pressures to survive in our society are demanding. Keyed to self-interest and paranoid feelings, they condition us to: 1) look out for number one, 2) break promises when expedient, 3) trust no one, 4) hide personal errors, 5) win and retain power by any means, 6) subvert the law, 7) suppress generosity, 8) affix a price on everyone and everything, and 9) stress loyalty over truth (Williams and Houck, 1992, p. 76). These are the negatives of a capitalism that lacks voluntary moral restraint. A focus on survival and dominance eventually leads to rampant self-interest—inordinate self-interest. And with such self-interest only the individual or the group in which the individual is a part matters. In such circumstances, fraud becomes easier to rationalize.

Deceit, corruption, and fraud are not unique to America. Look at the despotic regimes in Africa whose policies have resulted in millions of dead and homeless. Look at the corruption in Marxist, Communist countries where a very few enrich themselves at the expense of the masses (whom they are supposed to be speaking for and protecting). The Old Soviet Union had no shortage of corruption. Instead of some corporate giant enriching itself by fraudulent means, the ruling party enjoyed relative luxuries while the many suffered with menial labors and basic product shortages. Instead of the corruption being in the business sector it was in the political sector, which ultimately oppressed and destroyed many more individuals than any capitalist baron or executive was able to do. The rationalizations of the capitalist who commits fraud is much less destructive than the Marxist who justifies the mass killing of millions for the sake of his or her 'sacred' cause. The form of the social system helps determine the form of the corruption. The capitalistic system presents many opportunities for temptation.

While capitalism has many economic benefits, it has had unintended negative consequences. Because of an overemphasis on the economy and economic issues in America many people tend to become obsessed with economic issues at the expense of other more important things. This economic obsession also tends to encourage economic dishonesty if economic gains can be achieved. The author wants the readers to understand why economic dishonesty is such a temptation in America. The writings and research of Steven Messner and Richard Rosenfeld will be

used to show how the American obsession with economic issues has harmed America in several areas. Messner and Rosenfeld, in *Crime and the American Dream*, focus their attention on making a connection between America's economic focus and the higher levels of crime in America.

The scope conditions for Messner and Rosenfeld's analysis are on the macro level. They sought to explain the differences in serious crime rates [including white-collar crimes] between the United States and fifteen other Western, industrialized, capitalistic countries. They document the significantly higher levels of serious crime (murder and robbery) in this country.

Messner and Rosenfeld classify their American Dream thesis as a new version of anomic theory. They build on the work of Robert Merton. Merton subdivided culture into two parts: 1) the society's central value and goal orientations, or ends, and 2) the institutionalized means for attaining them. He posits that crime and deviance result from the malintegration or contradiction between these two elements. By malintegration he means the expressive cultural emphasis on success goals, defined as monetary success, with corresponding diminished emphasis on legitimate means for achieving success goals, in other words, a monetary-success-by-any-means-possible mentality. Contradiction points to the unequal distribution of legitimate opportunities (means) to achieve success goals. If legitimate opportunities for financial success are blocked then illegitimate opportunities are sought. Cloward (Traub and Little, 1994, pp. 148-168) adds that the choice of illegitimate means for success is also a function of the availability of illegitimate opportunities available for an individual. One cannot choose an illegitimate means to financial success if one does not have access to illegitimate opportunities.

Merton's idea is that the goal or value of monetary success enjoys a position of prominence in the hierarchy of goals in the milieu of the United States. And so, also in the valuation of many who live in the United States. And where this valuation of monetary success exists, it results in an anomic atmosphere, an atmosphere where rules and laws are virtually powerless in restraining illegitimate activity (Traub and Little, 1994, pp. 114-148). Marco Orru (1987) adds that anomie is not merely the absence of rules and regulations but anomie is the product of a culture in which monetary success enjoys a supreme evaluative position. If monetary success is one's, or a nation's, *summum bonum*, supreme good, then that

fact alone produces an anomic condition. This anomic condition can reside in a person, a group, or a nation.

Messner and Rosenfeld posit that this monetary success goal is a chief component of the American Dream. And the American Dream is a national fixation. We pride ourselves as the place where all can strive for individual material success with the corresponding prestige and comforts such success supplies. These beliefs and evaluations of the American Dream are present in our culture. They are chief components of our culture. Merton, Messner, and Rosenfeld all admit that monetary success is not the only value in the United States, but that there are many values that compete for the attention and validation of the American people (p. 60). The values "playing-field" is not level, however. The scenario is not one where proponents of different metaphysical and ethical values are given their time at the podium to state their case followed by the American people deciding which ones they will adopt to give their lives meaning. The structure of our culture favors the supremacy of monetary success. "We argue that the anomic pressures inherent in the American Dream are nourished and sustained by a distinctive institutional balance of power dominated by the economy. The interplay between the core cultural commitments of the American Dream and its companion institutional balance of power results in widespread anomie, weak social controls, and, ultimately, high levels of crime" (p. 68).

Messner and Rosenfeld explain that economic dominance (in pursuit of the American Dream) is present in America because of three factors (pp. 78-83): 1) The devaluation of noneconomic institutional functions and roles. Noneconomic goals, positions, and roles are devalued in American society relative to the ends and means of economic activity. 2) The accommodation to economic requirements by other institutions. Economic conditions and requirements exert a much stronger influence on the operation of other institutions than vice versa. 3) The penetration of economic norms into other institutional domains. Things like pay for grades, economic terminology in language of education (value added, accountability), "bottom line" mentality in the polity, and the "breadwinner" roles in family units. Devaluation, accommodation, and penetration describe the institutional structure in American society. Therefore, the nature of the American Dream itself and the institutional dominance of the economy in this country are mutually supporting and reinforcing toward an anomic environment. Major fraud cases and business corruption cases seem to pop up

frequently.

It is my contention that capitalism is a system that will only survive if the people practicing it are basically honest in their business dealings. The system is responsible for much growth and good in this world. It is also responsible for much harm and corruption. The greater the potential freedoms a system promises, the greater the potential harms are possible if the people using it are dishonest and corrupt. If America is going to survive as a strong nation, it must give heed to God's admonitions to be honest. The Old Testament commands of God calling Israel to justice, mercy, and honesty were not commands meant just for them. God gave these commands because He is a just and holy God who loves righteous and honest business dealings. They apply to all people during all times of recorded history, including us.

The Bible commands the Christian to live in such a way as to be above reproach, to be blameless in matters that reflect our personal choices. "In everything you do, stay away from complaining and arguing, so that no one can speak a word of blame against you. You are to live clean, innocent lives as children of God in a dark world full of crooked and perverse people. Let your lives shine brightly before them (Philippians 2:14-15)." The Bible just says, "Do not defraud, cheat or be dishonest toward others." It does not give social or psychological analysis, it merely says, "Do not do it, or stop doing it if you already are!" It may help us to understand the etiology of economic dishonesty by studying the social and psychological factors that seem to encourage it. And it is in our best interest to socially construct a system that results in as little fraud as possible. But the individual Christian is to reject the practice of fraud no matter the external circumstances.

The secular push to rid this country of the influence of theological Christianity is a mistake. Because when Christianity loses its theological influence it will also lose its moral influence, as well. Look what happened to the Old Soviet Union when they started to phase in capitalism. Because they were largely an atheist nation, they did not have a solid moral foundation on which to build. Fraud and corruption were widespread. Many used their new freedom to enrich themselves at the expense of the economic health of the nation. And due to the lack of a theological and consequent moral stance of many in our country, secular concerns have resulted in a growing fraud problem in this country. If people do not have a

righteous and holy God above them to restrain their selfish actions, what will restrain them? If God is out of the picture, other viable candidates include country, race, political party, corporation, or self. All of which have resulted in great atrocities in the last century. Christians have been called to be salt and light to a corrupting and dying generation. Being honest is paramount to fulfilling that function!

References

Adler, Mortimer J. *Desires: Right and Wrong*. New York: MacMillan, 1991.

Albanese, Jay S. "Tomorrow's Thieves..." *The Futurist*. Sept.-Oct., 1988, v. 22, n. 5, pp. 24-25.

Albrect, Steve W. et al. *Fraud: Bringing Light to the Dark Side of Business*. Burr Ridge: Irwin, 1995.

Beccaria, Casear. *On Crime and Punishment*. Translated by Henry Paolucci. New York: MacMillan, 1963.

Cloward, Richard A. "Illegitimate Means, Anomie, and Deviant Behavior," *Theories of Deviance*. eds. Stuart H. Traub and Craig B. Little, Itasca: F. E. Peacock, 1994.

Henderson, Allen M. *Flim-Flam Man: How Con Games Work*. Bouldwer: Paladin, 1985.

Huer, Jon. *The Wages of Sin*. New York: Praeger, 1991.

Mauer, David W. *The American Confidence Man*. Springfield: Thomas, 1974.

Merton, Robert K. "Social Structure and Anomie," *Theories of Deviance*. Eds. Stuart H. Traub and Craig B. Little, Itasca: F. E. Peacock, 1994.

Messner, Steven F. and Richard Rosenfeld. *Crime and the American Dream*. Belmont: Wadsworth, 1994.

Nash, Jay Robert. *Hustlers and Con Men*. New York: M. Evans and Co., Inc., 1976.

Nettler, Gwynn. *Lying, Cheating, Stealing*. Cincinnati: Anderson, 1982.

Orru, Marco. *Anomie*. Boston: Allen and Unwin, 1987.

Traub, Stuart H. and Craig B. Little, ed. *Theories of Deviance*, 4th edition. Itasca: F. E. Peacock, 1994.

Williams, Oliver F. and John W. Houck, ed. *A Virtuous Life in Business*. Lanham: Rowman and Littlefield, 1992.