

Why Do We Behave Badly?

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Key Points:

- Public displays of rude and appalling behavior are running rampant
- A “moral hazard” is created when acting irresponsibly is allowed with few negative consequences for the actions
- Acting badly draws attention and gets news coverage
- Holding emotions in check is supposedly bad for the psyche
- We may be witnessing a deterioration of society that speaks to a cynicism for institutions and the rules that bound them
- Without consequences incivility will continue to run rampant

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Since everybody else is weighing in on the topic, why shouldn't we? In the past several months we have publicly witnessed some terrible displays of rude and appalling behavior. In perhaps the most widely watched incident, a U.S. Congressman shouted at the President of the United States, “You lie!” At a U.S. major sporting event, a well-known tennis star told an official that she would like to take “the (family newsletter) tennis ball and shove it down the referee's (family newsletter) throat.” Finally, one of today's most popular recording artists snatched a microphone away from a stunned award recipient and told the audience someone else was more deserving of the award.

Unfortunately, the rudeness displayed by Congressman Joe Wilson, tennis star Serena Williams, and rapper Kanye West is not that unusual. In fact, had not all three incidents occurred within a few weeks of one another, it would probably be business as usual in the press, with perhaps, the rude remark made to President Obama being given the most coverage in the media. While these public displays of boorish behavior are certainly clear and egregious examples of the loss of civility in today's society, it might also be interesting to tie such behavior to another term making the rounds today in the context of the economic meltdown of our nation's leading financial institutions. In particular, we are referring to the notion of *moral hazard*.

In the world of finance a moral hazard is created when both individuals as well as the institutions that employ them are allowed to act irresponsibly and yet suffer few if any negative consequences for their actions. More specifically, moral hazard arises because individuals and institutions do not absorb the full consequences of their careless behavior; and hence, they behave in an inconsiderate and imprudent fashion. In the last couple of years, major banks and brokerage houses created complex and arcane financial tools that led to major disruptions in the credit markets; thereby, adversely impacting the world's economies. The answer to such reckless behavior was a mind-boggling bailout in the vicinity of a trillion dollars. There is no question that this action had to be taken or the economy would have ground to a halt and a major world-wide depression would have ensued in

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the aftermath of the financial meltdown of the world's credit markets and banking systems. But in the end, the misbehavior that pervaded much of the world's financial community, especially in the United States, was saved by the actions of others (in this case the U.S. taxpayer).

In the example of our three public figures, they too operated with a sense of moral hazard by their public outbursts. They embarrassed not only themselves, but the many people and institutions in the worlds of politics, sports, and entertainment that support them. Now, one could argue that all three worlds – politics, sports, and entertainment – are nothing more than variations of the latter, entertainment, and putting on a show is what attracts and holds the public interest in these areas, but that's a subject for another newsletter. Regardless, all three people we initially discussed got "bailouts" from the public for their boorish behavior.

For example, Joe Wilson, the Congressman from South Carolina, saw his campaign contributions jump dramatically even though it was reported that his probable opponent received a sizeable amount of money as well. From all indications, however, Mr. Wilson got the better of the deal in terms of receiving more cash. As for Serena, she was fined a substantial amount of money for her little temper tantrum, but then she was rewarded with advertising endorsements for products that will not be discussed in our family newsletter. Moreover, the size of her monetary fine is pocket change for a sports celebrity of her magnitude. And finally, our friend the rapper, while he was chastised in the press, and there is even a report that the President of the United States called him a name perfectly fitting with his behavior, his record sales remain strong. Talk about no consequences for bad behavior!

So back to moral hazard. If these three individuals received at most minor sanctions for their behavior and they were bailed out by their supporters and endorsers, what is to prevent future outbursts by them or any other public figures viewing the ineffective "punishments" meted out to our three paragons of public morality? Unfortunately, the concept of consequences is critical to understanding why people behave badly (or goodly for that matter). All three public displays we discussed earlier were driven in large part by emotions, and in fact, it would be fair to say, very strong emotions. As a result, it is often hard to keep such behavior in check, especially in the heat of a sports competition or an intense political debate. As for Kanye West, we are at a loss to explain the reasons he reached his tipping point other than to be in agreement with the President. But when behavior, no matter how seemingly justifiable, is allowed to continue unchecked and without any concern for consequences, there is little to deter its persistence in the future. In short, we as a society create a moral hazard for bad behavior.

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This whole notion is made that much more interesting since during the past 15 years or so, we have seen a wave of political correctness envelop our public and private institutions. So, if being politically correct is of such importance, how come we experience such instances of incivility? We sense that even beyond the notion of moral hazard and being given a free pass without accountability, there are several other reasons for such incivility. First and foremost, acting badly draws attention, and more importantly it gets attention on the news. Second, when people are frustrated, holding one's emotions in check is supposedly bad for your psyche, so why not let it all out. Finally, a lack of respect for others might portend a deteriorating trend in our society that speaks to a cynicism for institutions and the rules that bound them. Regardless, unless our epidemic of callous and downright bad manners is brought into check, incidents like what we've just witnessed will continue. In sum, if we allow incivility to run rampant and there are no consequences so to speak for such boorish behavior, we are creating a societal moral hazard that ultimately might prove more malignant than the one we have created for our financial institutions.