

Lessons in Ethics: The Incredible Story of Patrick Kuhse

By Charlie Curnow

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Patrick Kuhse is the last person you'd expect to give a lecture on business ethics. As a deputy bond trader for Oklahoma's \$9 billion general fund during the early 1990s, Kuhse arranged kickbacks for his superiors in the state Treasurer's office. In return, he received an increase in his commissions which, over time, netted him \$3.89 million more than he would normally earn, according to court estimates.



Patrick Kuhse

But today, business ethics are Kuhse's specialty.

After a story about the scandal appeared on ABC's *Nightline* on Thanksgiving weekend 1993, Kuhse fled with his family to Costa Rica to avoid an imminent indictment. After several years of dodging INTERPOL agents in the jungle, Kuhse finally turned himself in to U.S. authorities when he ran out of money. In addition to four years in federal prison, the court sentenced him to more than 200 hours of community service, which he filled by doing talks on business ethics. Banned from ever seeking employment in the securities industry again, Kuhse now works the lecture circuit full time, touring to Harvard, Stanford and other top business schools, using his fees to slowly pay off the money he owes the state of Oklahoma.

Despite the irony in Kuhse's newfound career, his talks are popular with business audiences. They center on what Kuhse calls the "Eight Slippery Steps to Unethical Behavior" – errors in judgment he engaged throughout his career as a stockbroker, his crimes at the Oklahoma Treasurer's office, his flight from the law, and his ultimate arrest and punishment. By learning to recognize these erroneous patterns in our own thinking, Kuhse says, we can steer ourselves away from unethical acts before we fall prey to them.

Most people who engage in corruption, Kuhse says, begin with a sense of entitlement – a belief that they do not need to play by society's rules. After they do things that they know are wrong, they rationalize them, convincing themselves that they were right in the first place. Kuhse thus warns listeners against engaging in "situational ethics" – doing what one wants, then formulating ethical arguments to justify those actions later, rather than living by a fixed ethical code.

In addition to becoming unmoored morally, people who engage in corruption also tend to lose touch with reality, according to Kuhse. In a thought pattern Kuhse calls "super optimism," they irrationally assume that they will never get caught – that they are untouchable. This psychological phenomenon often leads offenders to get sloppy, hastening their downfall.



It is hard to deny that corruption tends to have a strong psychological component. Anyone willing to commit fraud on the scale of a Bernie Madoff or a Kenneth Lay is likely to be some sort of sociopath. Psychosis, however, is only part of the problem. Corruption, after all, can be perfectly rational from an economic standpoint, assuming one never gets caught – and many never do get caught. Indeed, as Yale law professor Susan Rose-Ackerman argued in her 1975 article, "The Economics of Corruption," bribery tends to mirror legal market behavior – payments between buyers and sellers in the private or public sectors in exchange for scarce commodities. Corruption is capitalism by other means.

While it is indeed possible that Kuhse suffered from delusions, rationalizations and other psychological maladies, his scandal at the Oklahoma state Treasurer's office can just as easily be interpreted as a dodgy business venture gone awry. Kuhse and the other money managers and the state Treasurer's office had something quite valuable to offer – up to \$9 billion in taxpayer-funded capital – that made the cost of a few bribes seem relatively small to potential recipients. Indeed, until a whistleblower in the Oklahoma state government went to the FBI, the entire relationship was a win-win situation for the Kuhse, the state Treasurer's office, and their co-conspirators – everyone except the taxpayers of Oklahoma.

In a way, Rose-Ackerman's view of corruption as a rational economic behavior is far more disturbing than the picture Kuhse paints of the stray delusional neurotic. Under the Rose-Ackerman framework, corruption is not a violation of some abstract notion of "ethics," but a variation on the dominant capitalist ethos: wealth maximization at any cost. The Rose-Ackerman view also suggests an approach to tackling corruption that is far more difficult than the psychological remedies suggested by Kuhse. Economic and institutional problems, after all, demand economic and institutional solutions – they cannot be solved by a visit to the therapist. If financial gain is truly the prime motivation for corrupt behavior, then the surest way to prevent these crimes from occurring in the first place is to tip the cost-benefit balance by raising penalties for corrupt government and corporate officers and by increasing inspection and regulation of private and public officials.

There is a problem, however: As Rose-Ackerman notes, because corrupt relationships are mutually beneficial to both the corrupt official and the briber, they are resilient. Neither party has an incentive to end the relationship unilaterally. Officials thus shape rules and institutions over time in order to protect corrupt arrangements. The Mexican government, which recently announced that it was firing 3,200 federal police officers – nearly 10 percent of its force – largely because of widespread collusion with local drug lords, offers a vivid illustration of this principle at work. In Mexico's Ciudad Juarez district, perhaps the most chaotic region in the country's ongoing drug war, federal police officers were allegedly ordered by their commanders to stay indoors whenever cartel-owned trucks carrying drug shipments drove through the city, according to an interview with an anonymous policeman broadcast on Milenio TV. The Mexican newsweekly *Proceso* reported that Salomon



Alarcon, the city's former federal police commander, who was arrested by his own men in August on corruption charges, had been on the Sinaloa drug cartel's payroll the whole time.

Both Mexico's corrupt police force and Kuhse's Oklahoma kickback scandal recall the central dilemma of all victims of government corruption: Who do we call when the police and the thieves are one in the same?

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