People say that business ethics are lousy. Worse than ever. Horrible. Frightening. Something's got to be done.

Prominent business people say so.

What are business ethics? They're what people expect. What they're used to, a community standard. So, who sets them? Leaders. Who are they? The people on the cover of Business Review Weekly? "Not any more they're not!" I hear you say.

Tom Paine, in an essay written in the 18th century, talked about common sense. Societies, he said, follow their own best interests by and large. But not always. Government exists to curb the instincts of those who cheat that tendency.

Australia has had its share of cheats over the years. Macarthur and his mates were keen on the odd monopoly. The early 20th century, especially the well established industries, making them bigger and better. Macarthur and his mates bought the untradable shares many co-operatives. Elliott and his mates bought the untradable shares of fruit growers to get control of a jam maker. Skase found a jeweller that addicts of money often look respectable. Plausible. Because they conform to our expectations of respectability and plausibility.

Remember the Drug Summit? Well, the business debt summit was like that. Prominent business people proclaiming that we had overdone it. Our consumption was excessive. We couldn't afford it. And now the whole community had to get behind an effort to stamp it out. The trouble is, half of the speakers were people who had been prominent dealers.

Rather than be cynical about this, let's deal with reality. The fact is that Australian business culture has been, up until recently, a very cosy place. Managers in many businesses, especially the well established domestic ones like brewing, farming, media, banking and retailing all have had nice arrangements about how to cut their cloth. People got on by asking few questions: by being agreeable.

Capital was largely locked up in a friendly, faithful way, whether through the wealth of individuals who built the business originally or through friendly superannuation funds. Then, in the mid-1970s, things began to change.

John Elliott, John Spalvins, Alan Bond, Christopher Skase and Ron Brierley got hold of companies that, characteristically, had been safe, conservative, rich in assets and in cash. Importantly, their management had rarely - if ever - been contested.

With a foothold, each grew by acquisition. And with debt. Each case is different, but all found acceptance in changing the face of stodgy businesses, making them bigger and more aggressive. The trick, taught most prominently by the success of Rupert Murdoch, was to "leverage" assets and cash flow. Brierley found cash in the hidey holes of the nation's many co-operatives. Elliott and his mates bought the untradable shares of fruit growers to get control of a jam maker. Skase found a jeweller and some regional TV.

Importantly, all were favoured by the realisation among long term investors that there was money around to unlock the "real" value of their old investments. The money that turned the key was debt. What banks and shareholders really were saying was that business should perform better. Why?

Let's go back to the beginning, to the 'seventies. Institutional investment managers will say that the turning point was the 1974 metal industry award and subsequent flow-ons that kicked over the rule book. Businesses with flat profit growth found that, with wages increasing sharply, they had to find better profits elsewhere. As costs were cut, and jobs shed, there was also pressure for super funds to produce better returns. So the funds began looking more harshly at the shares they invested in.

By the mid-1980s, superannuation funds' performance was compared quarterly, which was ridiculous. They invest for retirement, over generations. Yet competitive pressures encouraged them to chase trading profits almost daily. Coupled with the debt offered in newly competitive banking, any company was up for grabs. Literally. Remember the days when Robert Holmes à Court was, seriously, going to borrow billions to buy BHP?
Retiring NCSC head Henry Bosch: a watchdog with no teeth.

Now this is not exclusively an Australian phenomenon. But it was unusually prevalent here. And, to get back to the point, it was not entirely due to a change in ethics.

Everyone in Australia got a new sense of leadership in the 1980s. Politics was different. The ALP, in government, was still the Whitlam-esque party of the middle class. But the middle class was different. They were the ones being offered cash for their assets, with a nice multiple of capital gain. And the ALP, perhaps unknowingly, fuelled that ambition.

There was a will for new management to emerge. Perhaps it was a necessity given the much better educated quality of trade union officials.

And there is no doubt that a very well-educated, well-paid industry of advisers grew up who could find the money and the rationale for almost any financial scheme.

A lot of people, transfixed by what appeared to be the benefits of radical change, ignored or forgot old rules about debt. Those who had doubts were, everywhere, confined to social cupboards. Many were prepared to encourage the radicals as they shafted old enemies. BHP, the Herald and Weekly Times, CUB and others had few friends when the raiders knocked.

Now the anthem of capital is "Back to Basics". Managers are wanted who know who owes and who gets paid. Auditors, who used to let the odd pork pie slip past with an eye to the cheque in the mail, now threaten not to sign corporate reports that aren't dinki di. Regulators are arresting people. And banks are tough. Very tough.

Something might happen this time, if only for a generation. Because this time people who did the deals are still in the chair when the rug gets pulled. Bankers are having a lousy time, because the debts they approved are turning rotten before they get a chance to move on. Auditors, too, are having to explain why last year's returns look not a thing like this year's. Those people will have the rest of their usually long careers to chew on that.

Australian business will probably end up better managed. The nation's mineral companies have emerged much better for the excesses of the 1970s 'resources boom'. Media, once the debts are cleared, will probably be better too. Brewing is a bigger, better international - though it might yet be owned by foreigners. BHP is now a very strong company, with an eye to worthwhile growth. But one fundamental is still missing.

After all that, we still don't have an instinct - ethic - of building companies.

Economic management is damage control. Interest rates are inflicting damage, and our economic managers are controlling that. The natural tendency to monopoly which, in Australia, remains a characteristic of business, has been encouraged by government policy. Manufacturing, after all the evidence, still rates second to financial engineering.

Personally I think we'd be much better off if the policy signals were direct and said: "Don't be a merchant banker/merger lawyer/tax adviser, make something!". A great many of the nation's best synapses are busy unscrambling tax laws, trust deeds and dividend yields. That's not the case in any of the societies where things work. In fact, as things have gone, we might soon have to compare Australia's economy with that of Monaco.

Ethics and leadership do not occur in a vacuum. If political leaders prefer the company of smart people, then most likely they will be brokers. Not people who face hard decisions making things. Not people who have to worry about the long term effect of high interest rates or an over-valued currency.

Smart people often like to get the highest income available to them. That, most often, will not be long term effort, but in jobs where the quid comes in big lumps. So the leadership, de facto, is most likely still among those who won't know what it's like in the tough jobs.

To change that, only the political leadership can act. And, so far as the ALP is concerned, that will mean talking to people they regard as traditional enemies. People who, probably, vote Liberal. Or, at least, aren't fashionable.

It may well be that that process is happening. It's just that there's no sign yet. If it's not happening, then we're probably headed for more of the same.

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