



Department of Justice

REMARKS

BY

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Most of you, I'm sure, have seen, if only on TV, one of my favorite Jimmy Stewart movies -- It's A Wonderful Life. Jimmy Stewart plays George Bailey -- president of Bailey Building and Loan -- a reluctant banker, who always plans to leave his hometown of Bedford Falls. But every time he starts to head out of town, he has to turn around and save it instead. He even gives up his honeymoon, doling out \$2000 cash in hand to stop a run on the bank. Eventually he reaches a point of despair. His Uncle Billy has mislaid \$8000, and the bank examiner is due the day before Christmas. George is only kept from throwing himself off a bridge by the arrival of his guardian angel -- Clarence. "I wish I'd never been born," George moans. So Clarence -- a pretty bright angel, long overdue for his wings -- actually shows George what Bedford Falls would've been like if he hadn't lived -- a total sinkhole called Pottersville. And we're all very glad to see George rush back home to hug Donna Reed, safe and -- thanks to a basket full of money from the townspeople -- solvent again.

I recall George's banking career to you because -- for all that Forties' romance -- George Bailey is still how we believe bankers ought to behave. Bailey Building and Loan you will recognize as an important community institution. George's job was to help his community grow, in particular, to help families buy new homes. In fact, any sequel would have had George Bailey taking part in a genuine miracle even his guardian angel couldn't have foreseen - the postwar housing boom. Imagine -- in the last fifty years, 70 million new homes have been built, three quarters

of the existing dwellings in this country. Bankers like George Bailey -- and some of you, I'm sure, here today -- loaned \$2.2 trillion in mortgage money, secured by a national housing stock worth \$4 trillion. The S & L's underwrote that miracle, which let so many of us live, in reality, a Wonderful Life.

But in contrast, listen to what Shirley Lampel, a widow, had to say after losing \$30,000 -- her whole life savings, which she had been deceived into thinking were insured -- when the Lincoln Savings & Loan went belly up in 1989.

"It used to be that a person puts on a mask and goes in with a gun and robs a bank," said Mrs. Lampel. "Now we go into a bank and we get mugged. When did the bank become the crook?"

When did the bank become the crook?

This is only one of the reverberating questions, raised by the nation's S & L crisis. We know that any number of financial and fiduciary failings contributed to their massive collapse, but today I want to turn your attention to the moral failing, the criminality that also stands revealed. Attorneys from our Department of Justice Fraud Squad talk about an "epidemic of fraud" among the S & L's presently in default. Twenty-five to thirty percent of these "thrift failures" can be laid to wrongdoing by miscreant bank officials. And their misdeeds only

compound the many detriments society already suffers from the perpetrators of financial and corporate crimes. These are the public enemies who actually think of themselves as Number One: the white-collar criminals.

Yes, they are different.

They come not as threatening intruders or violent assailants, but in the very good company of those we implicitly trust. There are no gun shots, no blood-stained knives, no wailing police sirens at the scene of their crimes, but white-collar criminals still leave their victims -- such as Mrs. Lampel -- emotionally traumatized as well as economically destitute. In fact, individual financial losses from their thievery far exceed the combined "take" from the more publicized thefts of robbery, larceny, and burglary.

More important, white-collar criminals can undermine our faith in major institutions of business and finance, can cause job loss, false pricing, deterioration of standards -- and coupled with failure to inspect, to report, to account -- a malaise of public anxiety and cynicism that is the bane of good government itself.

Finally, white-collar crime loads tremendous losses on the country's economy -- most to be borne by consumers and tax-

payers. Total losses from the S & L collapse are estimated to be as high as \$200 billion -- a tab that goes up by \$12 million each day. And the direct losses are compounded by an undermining of economic growth, the actual undoing of future chances for that Wonderful Life.

Those are some dire results of corrupt practices that too often plagued the Eighties -- as opposed to the honest business done during the decade. Much activity came from a near frenzy of economic growth, but too much of it slipped beyond legitimate risk into white-collar crime. I can't give you a complete rogue's gallery -- with so many cases still sub judice -- but let me take another approach. Since medieval times, we've had various versions of the Seven Deadly Sins. They parade by us as Sloth, Greed, Lechery, Jealousy, and so forth, in rent garments, deformed by their misdeeds. Let me describe a more modern parade, a hit parade of criminals who give us today's Seven Deadly White-Collar Crimes.

At the head march -- the parade's grand marshals -- those guilty of Savings and Loan Rip-Offs. These crooks have misappropriated bank holdings, pyramided worthless assets into daisy chains of self-serving investment, even embezzled funds. But since their stolen moneys from these looted "thrifts" are all federally insured, in blocs of \$100,000 -- guess who will keep paying until this massive monetary hemorrhage ceases?

Next come those guilty of Defense Procurement Fraud. Those who have rigged bids, lied about test results on defective weaponry, overcharged or falsely billed the government, even stolen government secrets to gain an edge in contract negotiations. Some are shivering, you will notice, from having been caught in Operation Illwind -- a three-year FBI investigation into payoffs to Pentagon officials that left a number of convicted contractors chilled to the bone.

Third come those investment bankers who engaged in Insider-Trading. They sold each other inside tips on corporate takeovers, "parked" each other's stocks to manipulate prices or escape taxes, joined each other in fraudulent stock loans, penny stock flotations, even illicit deals in junk bonds. If we recognize their faces most readily in this parade, it is because they first pointed each other out to us. And they have paid a high cost -- \$650 million in penalties for Drexel Burnham Lambert and jail terms for the likes of Dennis Levine, Ivan Boesky, Martin Seigel, Boyd Jeffries, and Paul Bilzerian. They all owe their fame and shame to themselves.

Right behind these figures of finance come those accused of Public Corruption. They are holders of public office, who in so many petty but profitable ways betrayed their office. They took kickbacks or bribes, traded votes for contributions, hired out their services in devious ways that put them into conflict of

interest. They were inventively devious, and as putative authors or secret condo-owners, took pay-offs -- literally -- by book and deed.

Close on their heels come those involved in today's HUD Scandals -- those who, connected officially or otherwise with governmental housing projects, served "the greedy, rather than the needy." Often there is legal question whether they broke the law, or only "greased the skids," but our prosecutors are very much ready to measure their conduct against the statutory norms.

Next trail by those worldwide operators guilty of Money Laundering. They include everybody from check-cashing fronts in the barrio to international bankers, running sophisticated, electronic money exchanges. But they are all guilty of illegally clearing \$100 billion annually from the sale of illegal drugs through the international banking system. Theirs may truly be the deadliest of the Seven White-Collar Crimes because their disguised money transactions are what allow the drug cartels to realize a "safe" profit from the drug trade.

And last -- bringing up the rear as the most recent offenders -- are those guilty of Corporate Violations. Close scrutiny of anti-trust activity is the order of the day, together with a new focus on activities despoiling the environment. The last is an aspect of White-Collar Crime -- clearly deadly to the

planet -- that we are only beginning to master, but we grow wiser -- and tougher -- with every oil spill.

A varied parade then -- these Seven Deadly White-Collar Crimes -- but there is one highly important, singular point to be noted about this whole parade. Like all parades, it leaves behind a lot of paper. Indeed, every one of the Seven Deadly White-Collar Crimes creates its own paper trail, and the task of sophisticated law enforcement is to trace that paper trail back to the white-collar culprit.

Easier said than done. Having spent a dozen years myself as a corporate lawyer -- before ever trying a criminal case -- I can verify how complicated even legitimate business transactions can be. When shifty operators start to bend such transactions into illegitimate shape -- to hide fraud, pay-offs, kickbacks, etc. -- that deliberate tangle is even harder to unravel. It takes much more than the police breaking down doors and seizing evidence. It requires adept craftsmen who can break open false books to discover hidden assets. Catching a white-collar criminal still demands the kind of probing Judge Samuel Seabury of New York used in his famous prosecutions of the corrupt in the 1920s. As described by his biographer,

"Seabury's technique was to perform the unspectacular job of research where it hurt: income tax returns, bank deposit

slips, savings account of the accused's family, brokerage statements, real estate and other filed papers."

"Research where it hurts" -- to uncover that damning paper trail that can corral the white-collar criminal. That is exactly what we have undertaken to do, for example, by setting up eight Securities and Commodities Fraud Task Force units, including one here in San Francisco, to go after insider-trading and other illegal market practices. That is how we will use the additional \$50 million voted us by Congress -- to double Justice Department personnel devoted to prosecuting the S & L crooks in 26 cities across this country, using the specific model of our highly successful Dallas Bank Fraud Task Force. And that is how we will proceed vigorously during the Nineties, in accordance with President Bush's stated goal that the Department of Justice intensify its investigation and prosecution of all white-collar crime.

Again, I cannot open our complete files on recent actions against white-collar criminals, but let me mention several cases in which the paper trail, carefully followed, led to conviction, and incidentally, some significant losses being restored. The headlines have acquainted us with the Jim Bakkers, the Lyndon LaRouches, the Leona Helmsleys. But the more systematic wrongdoers have been our most important targets. Our Dallas Bank Fraud Squad, for example, has picked up a paper trail that led to

indictments against 59 individuals in the Dallas thrift community, producing 49 convictions to date, including the entire executive roster of the notorious Vernon Savings & Loan, with only two acquittals.

Then there is operation "Polar Cap" -- in which DEA investigators followed fake gold receipts to sham jewelry firms in Manhattan to dismantle a \$1.2 billion money-laundering scheme by the Colombian drug cartels. The "jewelers" were shipping boxes of "scrap gold" to Los Angeles -- hardly heavy enough for gold, in fact, light enough to be cash, which is indeed what they contained. The L.A. "jewelers" deposited the cash in L.A. banks, which flashed the money on to New York, Panama, Uruguay and the British Isles. A multi-national investigation indicted 147 defendants -- among them, Banco de Occidente of Panama, which forfeited \$5 million gained from this illegal money laundering.

This January, I awarded the Attorney General's Exceptional Service Award to Keith C. Syfert, an assistant U.S. Attorney in Northern Illinois. Prosecutor Syfert had picked up the paper trail of fraudulent labor charges by the Sundstrand Corporation. Once Syfert marshalled the evidence, Sundstrand pleaded guilty, and paid the United States \$115 million -- the largest civil recovery ever obtained for Defense Procurement Fraud.

Then there are the undercover FBI investigators who moved right onto the floors of the Chicago Board of Trade and the Mercantile Exchange, to penetrate a complicated web of conspiratorial pit trading that defrauded innocent investors. These "stings" -- Operations "Sour Mash" and "Hedgeclipper" -- have already produced guilty pleas by fifteen traders and brokers, out of an audit trail, plus secretly recorded pit talk, that revealed an insider-trader scheme of kickbacks.

We continue to press forward against other Deadly White-Collar Crimes -- for example, with nearly 800 criminal investigations into the HUD scandals, producing thus far convictions against "Robin HUD," who illegally diverted \$5.6 million in settlement funds, and a former HUD deputy assistant secretary, who conspired to receive kickbacks.

Fourteen years ago, as Assistant Attorney General in charge of the Criminal Division, I established the Public Integrity Section to prosecute public corruption. Since then, almost 7000 federal, state, and local public officials have been convicted, including twenty-two members of Congress, from both parties.

As for prosecuting Corporate Violations -- on anti-trust, we have increased our attorney staff by 15%, and we're currently looking into everything from college tuitions to airline fees.

And our oil spill prosecutions have thus far produced record recoveries, with more to come.

In all of this heightened effort to pursue white-collar criminals, one root matter sometimes gets curiously lost: why are we doing it?

There is always the wrong-headed charge that going after white-collar crime is anti-business. Of course it is not. In fact, I have always looked upon our efforts against White-Collar Crime as designed to thwart a reprehensible attempt to subvert our free enterprise system. We are protecting the valued institutions of that system when we act against insider-trading, public corruption, or corporate violations.

At the same time, we are also protecting our citizenry. We prosecute white-collar crime for the sake of all our citizens, especially those who are most hard-pressed to pay the prices that are fixed artificially high, or the taxes that go only toward further abuse of the public trust -- those whose very futures are most threatened by high-profit drug-trafficking.

And we do this because we -- that is, the Feds, the Department of Justice -- are the only ones with the investigative manpower and prosecutorial capacity and legal scope to handle the cases. White Collar Crime can't be effectively addressed by

private suit or a local constabulary when it involves sophisticated conspiracies to defraud, or complicated money laundering schemes reaching across international boundaries, or environmental damage to a national coastline.

Our responsibility to prosecute White-Collar Crime, to protect our institutions and citizenry, is especially awesome during a time when so many elsewhere -- in Russia, and Eastern Europe, and indeed, the world over -- are looking to the United States for institutional wisdom. How can we advise others on how to move toward democratic societies and free-market capitalism if we do not make every effort ourselves to preserve our institutions from reckless subornation -- against the depredations of those who would subvert their very integrity?

In other words, even globally, we are in this for all the right Jimmy-Stewart reasons. We believe in George Bailey's approach to the banking business. Even more, we believe in protecting the values of institutions like Bailey Building and Loan, protecting them from fraud and manipulation and looting -- that serial run of white-collar crimes -- because upon them depends the integrity of the whole system. We are helping protect George Bailey's customers, his depositors, his mortgage-holders, so that they too can enjoy the full fruits of their labor, the honest increment of their savings, and the real prospect for a Wonderful Life. And it can be one, can't it?