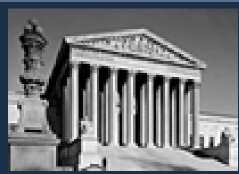

11.21.03

Politics and Economy:

Transcript: Rewriting the Rules

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Transcript

VERBALEE WATTS: We had this fine corporation that had started in Mississippi and was doing so well...and we were so proud, so proud of it.

MOYERS: The company was WorldCom, and by the late 1990s the telecom giant that had been founded by a resident of the small town of Brookhaven was carrying the whole state of Mississippi on a wave of pride and optimism.

WILLIAM QUIN, ATTORNEY: Prior to WorldCom, we had no Fortune 500 company and to my knowledge, had no company even close to reaching the Fortune 500.

MOYERS: But by the summer 2002, WorldCom was staggering under revelations of the most massive accounting fraud in corporate history.

This is a story of how political decisions in Washington D.C. made scandals like WorldCom possible by weakening investors' protections, enabling corporate insiders to become rich beyond belief while the savings of ordinary investors were wiped out...

Investors like Verbalee Watts, who runs an accounting business in Brookhaven. Like so many others here, Verbalee invested her savings in the company founded by Brookhaven's favorite son, Bernard Ebbers.

CONGRESSMAN (FROM WORLDCOM HEARINGS): Do you sleep well at night, Mr. Ebbers?

BERNARD EBBERS: On the instruction of counsel, I respectfully decline to answer on the basis of my Fifth Amendment constitutional rights.

MOYERS: As WorldCom's stock plummeted, so did Verbalee's plans for retirement.

WATTS: I virtually lost all of my retirement and practically all of my savings.

MOYERS: She had bought in at around $12 a share in 1996. A certified public accountant, Verbalee had done her homework.

WATTS: I talked to financial advisers. I didn't look at one set of financials on this company. I looked at several years'. I looked at the track record, okay? And had the track record been correct I wouldn't have put my money in, okay? I was given false information.

MOYERS: False information from executives indicted for cooking the books and from analysts accused of colluding with them: fraud that was overlooked or ignored by accountants, boards of directors, and government watchdogs who had been muzzled and could neither bark nor bite.

WATTS: I think that we should have better laws that protects the shareholders, okay?

MOYERS: Once upon a time we did have strong government regulation intended to protect shareholders like Verbalee.

But a wave of deregulation weakening those protections began during the Reagan and first Bush administrations and continued during the Clinton era.

By the mid-1990s, corporate and Wall Street influence over both sides of Congress was at its zenith and the financial industry was clear about what it wanted, changing the security laws that had shaped our economy for 60 years.

WILLIAM S. LERACH, ATTORNEY: Federal securities laws had been passed in 1933 and '34 in the wake of the Great Depression and Stock Market collapse. They were the most investor-protective laws in the world. And of course, they produced the greatest securities markets in the world over time. They made honesty the coin of the realm in the United States securities markets.

MOYERS: After the Crash of 1929 brought on the Great Depression, government set up the Securities and Exchange Commission as a referee to make sure Wall Street played fair. Laws like Glass-Steagall were passed to protect investors against fraud and conflicts of interest.

ROBERT POLLIN: You had divisions and so-called firewalls between investment banks — so-called investment banks like Merrill Lynch that take your money and they invest it in the stock market — and a commercial bank like Citibank that takes our deposits and then lends to businesses that wanna do business.

MOYERS: Just as the dot-com bubble of the 1990s started to inflate, many of those securities laws were recast by Congress. Proponents say it was for good reason; the laws, they say, were being abused in predatory lawsuits.

STUART KASWELL, ATTORNEY: The trial lawyers were abusing the way the securities laws were designed to work. The securities laws are designed to protect investors if somebody lies, cheats, or steals, if somebody lies on a statement filed with the SEC, lies on a financial statement. That's what the securities laws are designed to protect. But what we found was in the '90s, there were plaintiff's lawyers, trial lawyers bringing cases just because a stock price fell.

MOYERS: Stuart Kaswell was general counsel for the Securities Industry Association at the time. Changing the laws was imperative, he says, because many of these lawsuits were not about securities fraud at all. They were a way for trial lawyers to enrich themselves.

KASWELL: They'd file a suit and then they'd extract a settlement from the company. And it was too expensive for the company to defend the case. They'd just write a check to try to make it go away and then get back to their business. Well, that is an abuse on the whole economy that punishes shareholders, that punishes job creation. It punishes investors.

MOYERS: To fix the problem, supporters of deregulation argued for passage of a bill called the Litigation Reform Act of 1995.

Connecticut Senator Christopher Dodd, a Democrat, was a leading sponsor of the bill. Without it, he said, 'frivolous' lawsuits could puncture the dot-com boom.

SEN. CHRISTOPHER DODD (D-CT): One-half of all the firms in Silicon Valley have been subjected to securities fraud suits in the last 4 or 5 years. That just gives you an indication of what is going on here. These new startup, high-tech firms, they are the ones who are victimized by this. Those are the firms of the future.

PAMELA GILBERT, ATTORNEY: Getting rid of frivolous lawsuits is a very good idea, but that's not what the legislation was all about. The legislation was gonna protect criminals and swindlers and white-collar defrauders.

MOYERS: Attorney Pamela Gilbert is an advocate for investors' rights. She fought the Litigation Reform Act. She says accounting firms were pushing it in order to limit their own liability.

GILBERT: One of its major elements was that it would relieve or very much limit the liability of people who assist in fraud. So they may not be the mastermind behind the swindle, but they are the accountants or the lawyers or the brokers who enable the fraud to go on. And what the bill did was, in some cases, say that those people couldn't be sued at all, or when you could sue them, that it would limit their liability.

REP. BILLY TAUZIN (R-LA) [HOUSE HEARING, 1/19/95]: There ought not to be a debate anymore about whether we need reform, that ought to be behind us.

MOYERS: The powerful Republican Congressman Billy Tauzin of Louisiana argued for the Litigation Reform Act's "Safe Harbor Provision." This would protect corporate executives from lawsuits if they made inaccurate projections about their companies' future performance.

REP. TAUZIN (R-LA) [HOUSE HEARING, 1/19/95]: It's time to end this predatory system that is costing everybody in this country a loss of initiative, a loss of corporate initiative because everybody is afraid to disclose too much they're gonna get sued.

MOYERS: To attorney Bill Lerach, the Safe Harbor rule protecting executives from lawsuits had the result of giving corporations free rein to lie to shareholders.

LERACH: Most investors have no idea that Congress eliminated the liability of corporate executives for even deliberate lies. I want to say that again. Even deliberate lies about future corporate performance. This was one of the most astonishing parts of the 1995 act.

MOYERS: Lerach is a class action attorney — one of those accused of making millions of dollars in settlements from those so-called frivolous lawsuits.

In 1995, Lerach told members of Congress that passing the Litigation Reform Act would be a big mistake.

LERACH: In 10 or 15 years, you will be holding another hearing with a debacle in the securities markets that will make you remember the S&L mess with fondness.

MOYERS: President Bill Clinton also opposed the Litigation Reform Act, even though his party chairman and chief fundraiser, Senator Dodd, was pushing for it. When the act passed both Houses of Congress, Clinton vetoed it.

He told Congress, quote: "Those who are the victims of fraud should have recourse in our courts. Unfortunately, this bill could well prevent that."

But Republicans controlled both Houses of Congress, with an agenda virtually written by big business. They enlisted enough Democrats to line up a two-thirds majority, overriding Clinton's veto and turning the Litigation Reform Act into law.

GILBERT: When this bill was being debated, two things were predicted. One is that the incidents of fraud would increase, and two was that victims would not be able to collect when that happened. And not just with Enron, but with many other situations, we are seeing that the incidents of securities fraud have been on the rise, the incidents of restatements of earnings have been on the rise.

MOYERS: Which brings us back to WorldCom. Two years before the company's collapse as the stock was beginning to falter, institutional investors and analysts told Bill Lerach's law firm something didn't smell right. They were skeptical of the accounting procedures and not satisfied with the public assurances made by CEO Bernard Ebbers. Lerach's investigators went to work.

LERACH: And what we found was shocking. We found that the company was engaged in a wide ranging falsification of virtually everything about its business that was important to investors. Its revenues were falsified. Its profits, its rate of growth, its business expenses were artificially depressed and hidden. And its stock was grotesquely inflated for a long period of time.

MOYERS: Six months later, Lerach's firm filed a shareholder's lawsuit in Federal Court in Mississippi. The dot-com boom was still going great guns, and no one seemed to take notice — not the financial press, not WorldCom's board of directors, not the auditors or the government regulators.

LERACH: Nobody in the mix had an incentive for the truth to come out. The directors went along with it. Why? Because they're flying around on corporate jets and getting all the handouts that Bernie Ebbers is giving them. Where's the accounting firm, Arthur Andersen? Well, they're sitting there collecting huge fees. Nobody listened because nobody wanted to hear.

MOYERS: Shareholders like Verbalee Watts were not even aware that fraud charges had been filed against WorldCom.

WATTS: I might have got out. But I didn't know about it. No. I don't know if anybody in Brookhaven knew about it.

MOYERS: After a year and a half of proceedings, the judge in Mississippi finally ruled on the WorldCom case. He dismissed it.

What were his grounds? The allegations in Lerach's lawsuit, said the judge, did "...not attain the heightened pleading requirements of the Litigation Reform Act of 1995."

KASWELL: Occasionally, judges get it wrong. That's why we have a system of appellate courts in America. But the basic premise should be the court should let the good cases go through. That's what the Litigation Reform Act was designed to do.

MOYERS: But Lerach claims that the law passed by Congress over Clinton's veto was giving corporate insiders exactly the cover they wanted.

LERACH: It gives the judge the ability to look at the complaint and say, "Yes, I see there's a lot of pages there. There are a lot of typewritten words there. But I just don't see the kind of detail that I think Congress wanted to require for a securities case to go forward, therefore you're dismissed." It's way too subjective.

MOYERS: Ironically, in March 2002 — the same month that Lerach's allegations were dismissed — the Securities and Exchange Commission finally began its own investigation of fraud at WorldCom.

By the summer of 2002, news of accounting fraud at the company did hit the headlines. Within weeks, WorldCom filed for bankruptcy protection — the largest in U.S. History.

It wasn't the only one, of course. Thousands of investors lost everything in scandals like WorldCom. Meanwhile, with their companies on the verge of collapse, some corporate executives enjoyed huge stock options that pumped salaries higher than ever.

POLLIN: The average corporate executive, even at the end of the George Bush I administration, was making a lot lot more than the average worker. 119 times more. But by the end of the Clinton administration, so that's only over a course of eight years, the average corporate executive is making 449 times more than the average worker. So, an astronomical increase in inequality...

MOYERS: Other laws passed during the same period further lifted regulatory burdens from Wall Street and weakened corporate oversight, creating a climate in which conflicts of interest grew like Topsy.

The 1930s banking law Glass-Steagall was revoked, permitting the creation of superbank conglomerates like Citi-Group, in which Citibank — a commercial bank — could merge with Travellers Corp., an insurance and investment company.

LERACH: And when those banks were allowed to recombine their commercial and their investment banking lending operations, you saw Enron. You saw WorldCom. You saw whole host of fraudulent situations where the top bankers on the top floors manipulated the levers on the floors down below them, the commercial arm, and the analysts, hyping and pushing the stocks they knew were no good, pouring out the securities offerings for the huge fees the banks got.

MOYERS: Citigroup's commercial arm had boosted WorldCom's stock value by floating huge bond offerings and loaning Bernard Ebbers millions for his acquisitions.

Meanwhile, analysts working for Citigroup's investment arm — like Salomon Smith Barney's Jack Grubman — touted WorldCom shares as good buys for investors.

QUIN: Among the claims in our suits are that the analyst, Mr. Grubman, for Salomon Smith Barney was married to WorldCom and that his analyst reports were not exactly as they should have been.

MOYERS: Attorney Billy Quin represents Verbalee Watts and thousands of other investors who lost their retirement savings.

QUIN: Because there's the WorldCom bankruptcy proceeding, the company's not a defendant in our suits. We are seeking to obtain recovery from persons or entities that can pay.

MOYERS: Entities like the Arthur Andersen accounting firm and Citigroup itself and individuals like analyst Jack Grubman — all parties Quin charges either facilitated the fraud at WorldCom or looked the other way.

QUIN: They should pay because accountants like Arthur Andersen have an auditing function that they failed to perform. Banks like Citigroup had a due diligence requirement that they failed to meet.

LERACH: So, it was just a big money making machine for the banks, who were safe and secure, while ordinary people were chewed up by it when the end came, and the bubble broke.

WATTS: Different times Congress has loosened the law that allowed these people to do these things that have put us in this position today. Not just one, not just WorldCom. Several large corporations. And it's wrong. They should be regulated 'cause if you don't regulate 'em you think they're gonna do it willfully? I don't think so. I don't think so.

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