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Cleaning up the corruption in business and politics

By Scott Harshbarger and Goutam U. Jois | June 1, 2006

NOW IT'S all over, right? Former Enron executives Kenneth Lay and Jeffrey Skilling were convicted last week of securities fraud, insider trading, false statements, and conspiracy. Washington lobbyist Jack Abramoff pleaded guilty to tax evasion, conspiracy, and mail fraud a few months ago. Soon, Congress will pass lobbying laws, the Securities and Exchange Commission may issue a rule or two, and these actions will clean up the problem of money in politics and put an end to corporate scandals, right?

Probably not. After all, we had this same discussion in 2002. That summer, Congress passed the McCain-Feingold Act to ease the problem of money in politics, and President Bush signed the Sarbanes-Oxley Act in reaction to corporate scandals and to tighten business standards. So why are there still so many such cases?

The answer is complicated. It's easy to write off Abramoff and Lay, senior managers at the hedge fund Bayou, or disgraced former US representative Randy Cunningham as "bad actors." It's harder to recognize that they were also products of their situation. And it's hardest to change that situation to foster integrity and leadership in politics and business.

Take Enron. Certainly there were questionable transactions between the company and its subsidiaries. Those who lied and skimmed money for themselves acted illegally. But in many cases, the earnings restatements we see and the malfeasance now exposed were not the result of a diabolical mastermind. Instead, market pressures prompted executives to post ever-rising profits. As pressures increased, executives moved money, "papered over" problems, and fudged results, until white lies became fraud.

So too in campaign finance. A member of Congress, once elected, generally has to raise an average of \$10,000 a week to get re-elected. Is it any surprise that congressmen outsource fund-raising to lobbyists and friends? The surprising thing isn't that Abramoff was indicted; it's that more people in Washington have not been.

The knee-jerk reaction is to lock these people up and throw away the key. But that would address only the most salient problem. For example, in response to Abramoff's lavish travel, the House is considering a one-year internal ban on private trips. It's unclear what this would accomplish. Is the plan to return to shady deals after a year? There are similar confusions on the corporate side. Some executives have been convicted, but others have gotten off, polarizing business leaders and regulators. Real progress gets stymied when policy reforms don't address root causes.

What should be done? The environment is changing in corporate governance, little by little. The SEC has pushed for more accountability among publicly traded companies, required more independent directors at mutual funds, and will mandate wider disclosure of executive pay. Hedge funds and nonprofits are probably next in regulators' sights. But ad-hoc steps will never completely change the climate. For that, business leaders and regulators need to develop as their common goal a competitive yet ethical corporate culture and work collaboratively toward it.

There is a similar answer in campaign financing. The McCain-Feingold Act was important, but the real issue is not what maximum amount lobbyists can spend on congressmen's meals; it's how to get money out of politics so that we don't have to even ask the question. America should move toward public financing of elections, draw truly competitive districts, and make sure every potential voter can exercise the right.

Both arenas also need independent oversight. The SEC and state attorneys general are increasingly filling this role for corporations. But there is nothing comparable in the campaign finance arena. Congress should create an independent commission with subpoena power, precisely because, as Senator John McCain says, "it puts teeth into things." Oversight is critical, because honest politicians and executives get hurt when wrongdoers

have free rein.

So is the current spate of corporate and political prosecutions wrong? Of course not. Those who broke the law should be held accountable; regulators should make sure that ``bad apples" are punished. But we should all recognize that bad apples are generally made, not born.

In recent years, we have seen a sharp decline in Americans' trust in basic societal institutions, from government to business, from sports to religion. Tossing Lay or Abramoff in jail won't stem that tide. But recognizing the bigger picture, fostering a climate of leadership and integrity, and not simply reacting to the ``crisis du jour," just might.

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