# US corporate reform bill: much fanfare for a fig leaf

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The corporate reform bill passed by the House of Representatives and Senate July 25 and embraced by the Bush administration will have little impact on financial fraud and does nothing to compensate the victims of the colossal decline in share values over the past two years.

The near-unanimity in the final vote—423-3 in the House and 99-0 in the Senate—is proof enough that the bill does not threaten the vested corporate interests that finance and control both the Republican and Democratic parties.

If further proof were needed, it is provided by the praise for the legislation from George W. Bush, who amassed millions for himself from corporate flimflam at Harken Energy and the Texas Rangers baseball team. A statement issued by the White House hailed the bill, declaring it would "protect investors, crack down on fraud and wrongdoing, and provide tough oversight of the accounting industry."

There is much law-and-order demagogy emanating from the White House and Capitol Hill, backed by the televised arrest of five top officers of Adelphia Corporation the day the House-Senate agreement on the legislation was announced. But neither the Democrats nor the Republicans have any intention of seriously reining in the corporate elite.

More than $8 trillion in paper values have been wiped out on US financial markets over the past two years, since the stock market frenzy reached it peak in mid-2000. Of that staggering sum, nearly half has been lost since the beginning of this year, and more than a quarter, $2.1 trillion, since July 1. This translates into huge declines in 401(k) and pension balances for millions of workers, many of them retired or nearing retirement, the loss of hundreds of thousands of jobs, and the wiping out of life savings.

Even if the Democratic and Republican congressmen wanted to take action to redress this economic disaster for millions of working people, the resources to do so could only be obtained through a radical redistribution of the wealth of society. There is, however, not a single provision in the new legislation to compensate the victims of corporate fraud from the assets of the CEOs and multi-millionaire owners.

A House-Senate conference committee adopted the Senate version of the bill, drafted by Banking Committee Chairman Paul Sarbanes, with minor amendments. This reflected the ground shifting under the feet of the Republicans, who control the House, and who had insisted on an even weaker version of the legislation, until the bankruptcy of WorldCom and the continued plunge on Wall Street made that stance unviable. Party pollsters and political advisers warned of a potential rout in the November elections if the Republicans were seen to be blocking action on the issue.

In the event, the White House concluded that the Sarbanes bill was itself sufficiently toothless. It creates a regulatory board to oversee the accounting industry, defines a new set of criminal acts by corporate executives, related to defrauding stockholders, and restricts the discharge of mid-level managers who "blow the whistle" on misconduct by higher-ups. It limits, but does not forbid, the practice of accounting firms providing lucrative consulting services to the companies they are auditing. And it bars certain types of sweetheart loans by companies to their own executives.

There was one important concession to the Republican version: the conference committee adopted the House version of language imposing criminal penalties on CEOs who file false financial statements.

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The Senate bill said that false statements filed "knowingly or recklessly" would be liable to prosecution. The House version deletes the reference to recklessness, requiring prosecutors to demonstrate that CEOs "knowingly" falsified accounts. This is a much harder legal standard, and insures that the heavier jail terms provided by the House bill will rarely, if ever, be imposed.

Far more significant is what is not in the bill. There is no restriction on the principal means through which the assets of major corporations have been looted by their executives: stock options. Senate Democrats blocked a proposal to require companies to account for stock options as a business expense. They did so in a series of maneuvers July 11 on the floor of the Senate that prevented a recorded vote on an amendment introduced by Republican John McCain of Arizona.

The Democrats retained rules first adopted in 1994, at the behest of Senator Joseph Lieberman of Connecticut, and favored by computer equipment and software companies that have made heavy use of stock options to finance their operations and enrich their executives. Lieberman defended his position in a column July 21 in the *New York Times* in which he praised stock options as "a valuable tool for attracting talent and spreading wealth" and maintained that they have "played a critical role in the democratization of capitalism in this country."

The bill also omitted any restrictions on corporations setting up overseas tax havens, an accounting gimmick that allows some of the biggest companies to escape paying a penny in taxes.

The central purpose of the legislation is to shore up flagging public confidence in the capitalist system, not to aid its victims. Sarbanes, the principal author of the legislation, declared his aim was to "restore capitalism." He said his bill "reflects our determination to see that the confidence of investors in our capital markets is restored."

The senior House Democrat on the conference committee, John LaFalce of New York, said, "It is my hope that this legislation will help to restore the reputation of American business." Liberal Democrat Barney Frank of Massachusetts said, "What we see here is a consensus that increasing regulation is in no way inconsistent with respect for the private sector; that, in fact, the role of sensible regulation ... is to enhance the capitalist system."

These sentiments were echoed in the general praise for the bill from corporate spokesmen. John T. Dillon, CEO of International Paper Company and chairman of the Business Roundtable, said, "Today's agreement represents the right bill at the right time." Bruce Josten of the US Chamber of Commerce grumbled that it would be "more expensive to do business," but predicted it would have "a very salutary effect" on the markets.

The measure is an act of self-preservation for both corporate America and its political servants in Washington. Thus the spectacle of congressmen and senators fulminating about corporate criminals by day, while by night holding fundraisers appealing to these very same CEOs and wealthy investors. (This is to say nothing of the multi-millionaires who have bought their way into the House and Senate through campaign outlays reaching into the tens of millions of dollars.)

One of the crassest displays came last weekend, as 16 Democratic senators flew at corporate expense to a weekend conference. As *New York Times* columnist Frank Rich commented, "such tribunes of the people as Tom Daschle, Hillary Rodham Clinton and John Kerry boarded corporate jets supplied by companies like Eli Lilly and BellSouth to rendezvous in Nantucket with their favor-seeking fat cats."

According to a report issued by the Center for Responsive Politics, large corporations have provided nearly $1.1 billion in soft money contributions to the two parties over the last decade—$636 million to the Republicans, $449 million to the Democrats. Arthur Anderson, Enron, Qwest, WorldCom, Global Crossing and Adelphia—six of the companies most deeply implicated in accounting fraud and the looting of assets—accounted for $13 million of the total.

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