

Summary

a brief overview of what you learned



» **Environmental crime has two main parts:** the pollution of the natural environment, and the dangerous conditions in the workplace environment.

» Illegal dumping by privately owned businesses contributes to **toxic waste pollution that threatens and destroys waterways and pollutes groundwater.** It is difficult to investigate and legally prosecute.

» **Indoor and outdoor air pollution is a major concern.**

Problems caused by car exhaust and other legal sources are compounded by illegal toxic chemical release and asbestos problems.

» The term environmental racism points to the fact that **toxic waste sites tend to be located near minority communities.** The export of dangerous chemicals and polluting factories to third world countries can be seen as forms of toxic terrorism.

» **Five categories of sanction exist for environmental crime.**

The Superfund legislation, passed in 1980 in response to Love Canal, has proved to be largely ineffective.

» **Workplace environments** can also provide polluted and dangerous places for employees. The Occupational Safety and Health Act (OSHA) of 1970 was passed to "assure as far as possible every working man and woman in the Nation safe and healthful working conditions." Both EPA and OSHA were severely undermined during the Reagan administration in the 1980s.

Objectives



after completing this lesson, YOU will be able to



- » Understand how the **mass media scandals** have affected U.S. society; and
- » Discuss how *religious frauds* have eroded trust in religion as an institution.

For this lesson, please read:

» Rosoff, Pontell, and Tillman, *White-collar Crime*:

- **Chapter 5. Institutional Corruption: Mass Media and Religion**

Besides the financial and physical costs of white-collar crime that we have begun to consider in the preceding lessons, there is another more pervasive cost.



The social cost of white-collar crime goes beyond consumers and employees: It entails all of society.

*It would be difficult to identify a major cultural institution that is not affected by white-collar crime. Two major ones are the **mass media** and **religion**.*

The mass media are among the most important and influential sources through which people form *“social constructions,”* or their views of the world. **Our socialization depends heavily on shared knowledge and beliefs, and much of this comes from the mass media.** The corruption of this social institution can therefore have major effects on how we think about others, society, and the world.



You may be familiar with the **quiz show scandals** — *major corruption scandals that occurred in the early days of television.*

The movie **Quiz Show** tells the story of how the highly rated game shows that purportedly tested contestant knowledge had tricked a nation. Congressional investigations in 1959 revealed that the programs were fixed, and that "genius" contestants had been given the answers to questions in advance.



Some have characterized the quiz show fraud as a "*victimless crime,*" but this myopic viewpoint misses the worst part of this sad chapter in the history of television. Perhaps the worst part of the scandal was that it ***failed to scandalize.***

» It not only fueled national cynicism, but those arrested and convicted were largely the contestants. Those who owned and controlled the programs, and who reaped enormous profits from the fraud, were beyond the reach of the law.

Every ethical failing that television has displayed since then can be potentially traced back to this scandal in its infancy.

The *payola scandal* was another large case of corruption that affected the music industry in the late 1950s.

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Payola refers to bribes to disk jockeys and station managers to play certain records over the air. The bribes came from music publishers, record manufacturers, and distributors. Such practices were common in earlier periods of American history as well.

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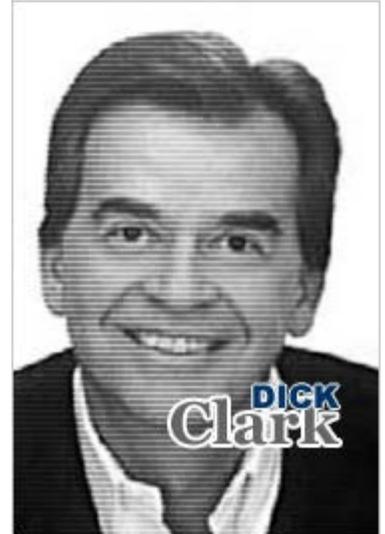
Congress held hearings, and many disk jockeys and others testified. Most said they had accepted large sums of money, but did not consider them bribes. Instead they stated that they were part of a legitimate fee for **"auditioning"** records. *Many later lost their jobs.*



One of the most influential figures in the music industry at the time was **Dick Clark**, the host of *ABC's American Bandstand*. When Clark told the committee that he had never agreed to play a record for payment, a skeptical congressman coined the term "*Clarkola*."

•• >> **Clark's denial was probably true.**

He was so powerful that he did not have to resort to crude bribes. His vast holdings in different aspects of the industry gave the records and singers involved in his companies systematic preference.



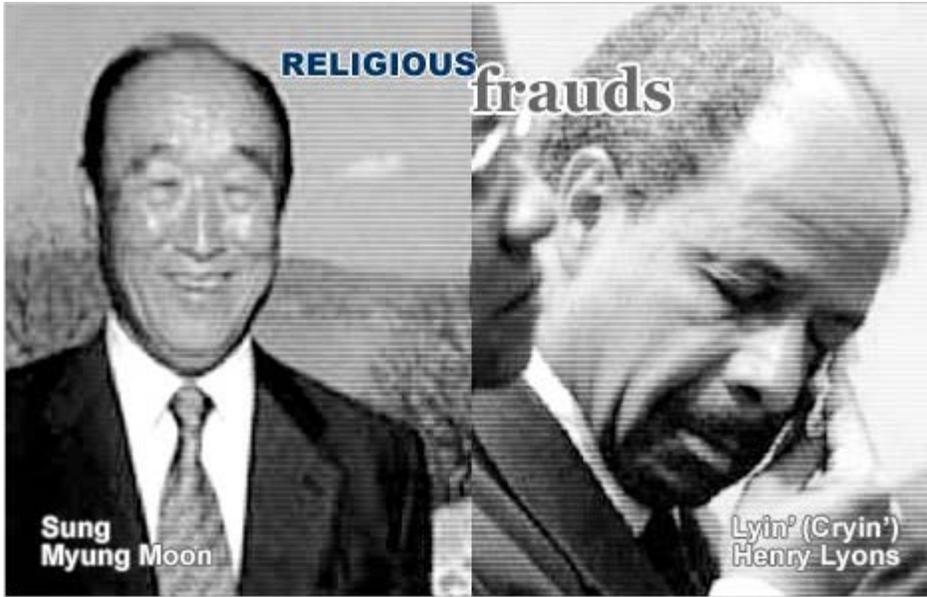
The print media has also been affected by fabricated stories and fraud.

Literary fraud has occurred in some of the nation's most prestigious outlets. The *New Republic*, the *Washington Post*, and the *New York Times* have all had their share of notoriety.

In book publishing, the fabricated story of the *Autobiography of Howard Hughes* found author Clifford Irving convicted of grand larceny and sentenced to a term in prison.



Religion is certainly one of the most fundamental cultural institutions.



According to **mainstream social theories**, religion is a major source of social cohesion. The erosion of public trust probably damages religion more than most other social institutions since it is based, by definition, on faith.

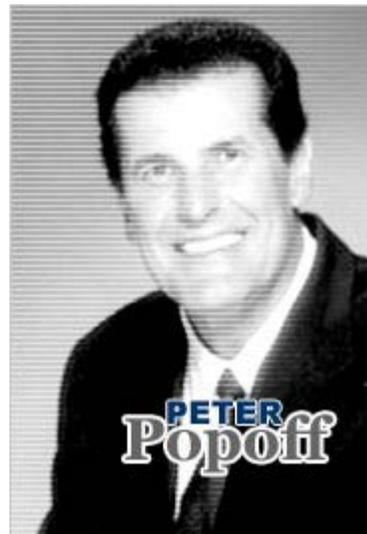
» *Since the 1980s there have been a series major frauds involving religious figures in the United States. The cases of Sun Myung Moon and the Unification Church, and Henry Lyons and the National Baptist Convention USA, are but two striking examples of fraud by religious leaders.*

Phony faith healers have also allowed white-collar crime to affect large numbers of believers.

Peter Popoff and his **Miracle and Blessing Crusade** was perhaps *the most dramatic example of the practice of phony faith healing.*

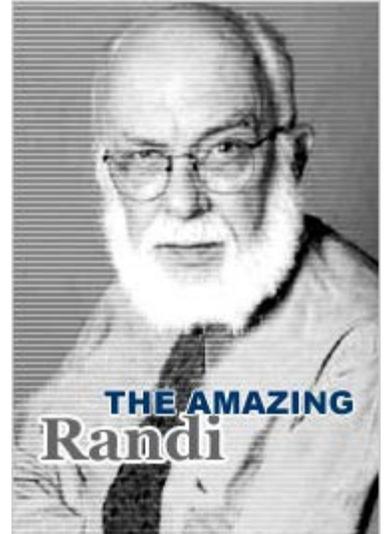
» His show was televised on 50 television stations, and in 1986 he admitted to having \$550,000 per month operating expenses. He had devised a number of bizarre plans for raising cash, including one to float Russian Bibles into the Soviet Union attached to balloons.

One elderly woman sent him her entire life savings of \$21,000. Another scheme, which involved selling "Holy Shower Caps," netted him \$100,000 (a failure by his standards).



Popoff's faith healing was exposed in a sting set up by **James Randi**, known professionally as "**The Amazing Randi.**" Randi, a veteran magician, is one of the foremost debunkers of paranormal claims.

When Randi played a tape proving the hoax on *Johnny Carson's Tonight show*, the nation (and Mr. Carson) were stunned. Incredibly, Popoff and his crusade were back on the air in 2002. Right now, the most lucrative faith healing ministry in the country is that of California-based Benny Hinn.



The misappropriation of funds by *televangelists*

has received much attention in the media.

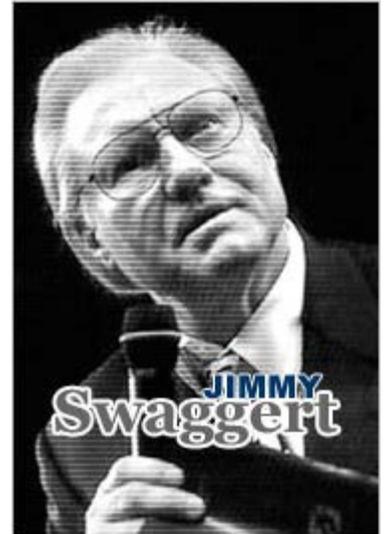
The revenues in these ministries can be enormous.

Oral Roberts oversaw a \$500 million complex in Tulsa, Oklahoma. Many others have millions of subscribers, and congregants. Although their salaries are modest, their opulent lifestyles seem to be far in excess of their reported incomes.

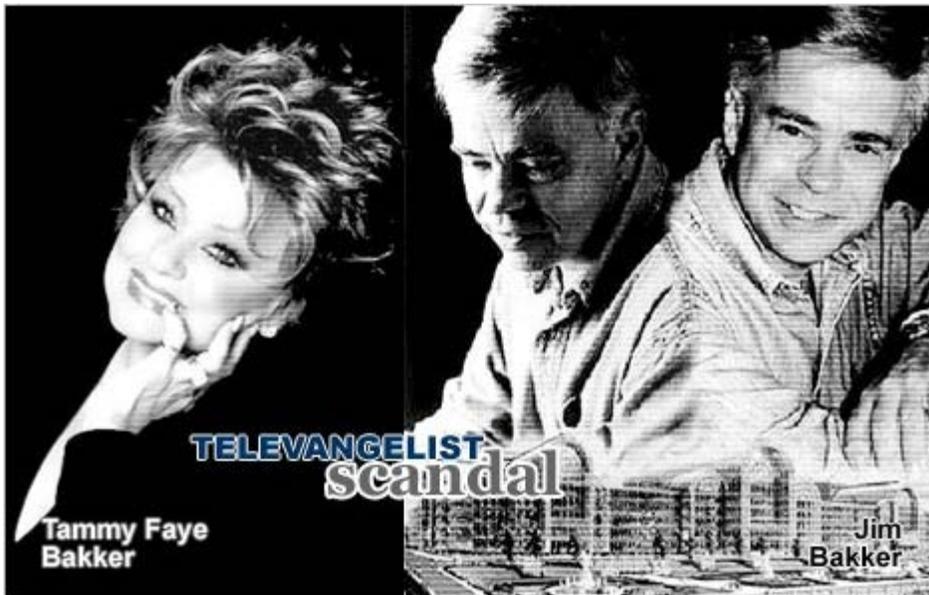


Televangelist **Jimmy Swaggert** had ***one of the most conspicuous salary***-lifestyle discrepancies.

Swaggert was brought down after it was revealed (and he later admitted to) **longstanding obsessions with prostitutes, pornography, and voyeurism**. Because of his intolerant tirades against such subjects (*as well as against Catholics, Jews, secular humanists, mental health professionals, gays, liberals, and intellectuals*), his flock was naturally conditioned not to forgive sin — including his.



The most highly publicized televangelist scandal involved Jim and Tammy Faye Bakker of the PTL (Praise the Lord) ministry.



Jim Bakker got his first real start as a **preacher on Pat Robertson's Christian Broadcasting Network**, and became a rising star. In a short time, he was hosting the *700 Club* evening show.

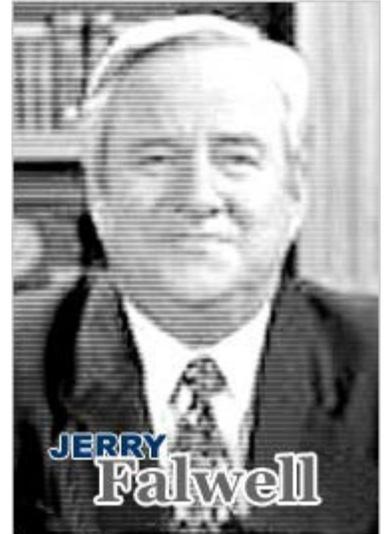
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Soon Bakker was hosting his own show on the *Trinity Broadcasting Network in Southern California*, and then moved his ministry to North Carolina. At the height of his career, Bakker's show was aired on 70 stations and 28 cable systems in the United States alone.

It all fell apart when Bakker was accused of fleecing investors (his congregants) in a **"religious"** real estate venture, and was involved in a sex scandal with Jessica Hahn, a former church employee.

Things got even worse when he entrusted his ministry to **Jerry Falwell**. Falwell later turned on Bakker, calling him a liar, a sexual deviate, and an embezzler. Bakker in turn claimed that Falwell was merely a thief trying to steal the PTL from him.

As Bakker's criminal case began, Falwell countered with the statement that Bakker had created **"probably the biggest scab and cancer on the face of Christianity in 2,000 years of church history."**



Bakker was *convicted in federal court of fraudulently raising more than \$158 million in contributions, and was handed a stunning 45-year prison term.* It was later reduced to 18 years, still a rather stiff penalty.



Bakker was released on parole in 1994. His contributors, who numbered in the thousands, had nothing returned to them. Bakker announced his plans to write inspirational books to help people who had suffered great losses in their lives. Perhaps he should have started with his former contributors.

The **religious scandals of the 1980s** caused an immediate *decline in teleministries*. Jimmy Swaggert lost over 80% of his former audience. Oral Roberts lost half his viewers and revenues. Even Jerry Falwell suffered losses.

The scandals also affected other ministries not directly tainted by these crimes. The one exception here appears to be Billy Graham.

» These crimes also appear to have **weakened organized religion overall, as witnessed by church membership, which went down in the late 1980s**. As a result, the *National Religious Broadcasters* approved a stronger code of ethics to restore faith in financial and fund-raising activities and other matters.

Passing the code is one thing. Enforcement and compliance are others.

Since the codes were enacted, other evangelists have already violated them.

Forum *discussion*



"to post your reply, select OUTLINE from the TOOLS menu and enter the FORUMS area"



What do you think should be done to **prevent religious frauds?**

Why?

» Write two paragraphs on this topic.

Summary

a brief overview of what you learned



» The **corruption of the media** can have major effects on how we think about others, society, and the world. The quiz show and payola scandals that rocked the United States in the middle of the last century fueled national cynicism.

» Since the 1980s there have been a series of **major frauds involving religious figures in the United States**. Phony faith healers, notably Peter Popoff, have also allowed white-collar crime to affect large numbers of believers.

» The **misappropriation of funds by televangelists**, including Jimmy Swaggert and Jim Bakker, has received much attention in the media. The religious scandals of the 1980s caused an immediate decline in teleministries, and was accompanied by a decline in regular attendance.

Objectives

after completing this lesson, YOU will be able to



- » Understand how **securities fraud violates public trust** and undermines the U.S. economy;
- » Discuss the *problems relating to insider trading*; and
- » Know something about *other forms of stock manipulation*, and their effects on public trust.

For this lesson, please read:

» Rosoff, Pontell and Tillman, *White-collar Crime*:

- **Chapter 6. Securities Fraud**

» Pontell and Shichor, *Contemporary Issues in Crime and Criminal Justice*:

- **Griffen and Block, "Penny Wise"**

Perhaps no other institution is violated more by fraud and other illicit activities than the economy. Simply defined, **economy** refers to all activities organized around the production and distribution of goods and services, and it functions to satisfy people's basic material requirements.



Some feel that the economy in the United States is the most dominant and important of all social institutions. As such, maintaining trust in the economy is vitally important. The honest trading of securities provides the major foundation for a successful capitalist economy.



Paper Entrepreneurism

» Over the years, the United States has moved to a new form of capitalism. The older form, ***industrial capitalism***, was built upon a strong manufacturing and production sector.



» While we are still in the business of production, there has been a major shift in the U.S. economic form to that of ***finance capitalism***, also known as ***paper entrepreneurism***. Here, little is "produced" except paper profits based on zero-sum games of dubious value to the overall economy. We have moved from investing to trading, and from industrial production to deal-making as major sources of income.

By the 1980s greed had *"come out of the closet."* Its new *"dignity"* could be seen clearly on Wall Street. *A number of major scandals rocked the financial markets, including those involving Technical Equities Corporation, Prudential Securities, and E. F. Hutton.*



Two major categories of securities fraud became the most prominent in the financial markets: ***insider trading and stock manipulation***.

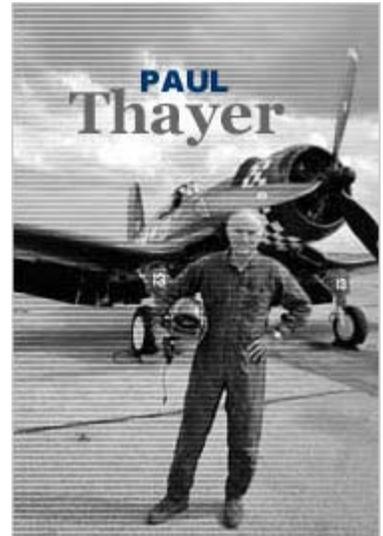
Although they are not always clear-cut categories, we can make some distinctions.

» ***Insider trading*** is traditionally committed by corporate and brokerage insiders. ***Stock manipulation*** is a more inclusive category for general frauds of the "new economy" that involve numerous outsiders.

Insider Trading

Insider trading was made illegal under the Securities Exchange Act of 1934. It prohibited "insider traders" (stockholders, directors, officers, or any recipients of information not publicly available) from taking advantage of limited information for their own benefit.

Before Ivan Boesky and Michael Milken became household names, two other cases surfaced that shocked the business community. One involved Paul Thayer and the LTV Corporation in Dallas. Thayer, a former CEO, was serving as the Deputy Secretary of Defense under Ronald Reagan. Thayer had leaked information on LTV to numerous associates, who were later caught profiting from it. He also shared information on other companies on whose boards he sat.





THE WALL STREET JOURNAL.

- * *A second major case involved Wall Street Journal reporter R. Foster Williams. Williams entered into a conspiracy with a stockbroker to supply information from his column before it was published, allowing the stockbroker's clients to make trades before the news was public.*

» This clearly illustrates the "problem" with insider trading as it relates to a "free economy." It's like ***"having your own time machine . . . knowing the winning horse in the fifth race at Belmont before post time."***

It is no mere coincidence that insider trading has been termed "the financial equivalent of fixing a race."

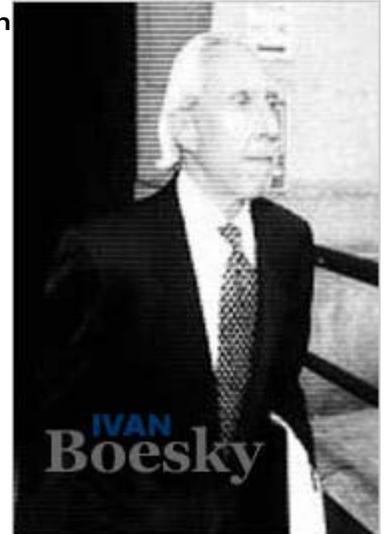
» Here's the problem for the economy: If insider trading were left unchecked, there would be little reason for persons to invest. Without ***"inside information,"*** they would certainly lose their funds to those who had access to the information. The economic growth engine would be stifled, if not shut down entirely.

The stories of **Dennis Levine**, **Ivan Boesky**, **Martin Siegal**, and **Michael Milken** are among the most dramatic instances of major insider trading in U.S. history. The collusion that took place was all the more remarkable in that these individuals didn't have to engage in crime to make money: ***They were already quite successful.***

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*This brings up the inevitable question: **Why did they do it?** Perhaps the simplest answer is, "**Because they could.**" The arrogance and greed that was evident in these crimes was unparalleled at that time.*

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Forum *discussion*



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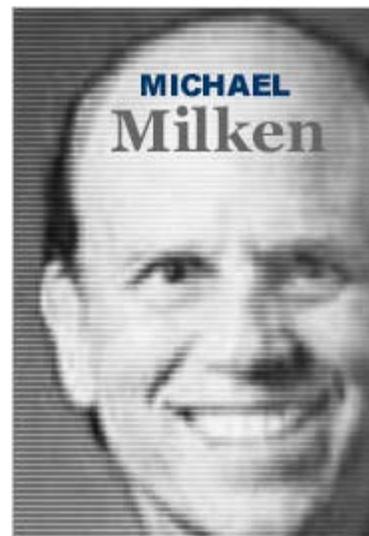
After reading about Levine, Boesky, Siegal, and Milken, *how do you make sense of their crimes? What factors* (individual, cultural, situational, and so on) *do you think had major effects and why?*

» Write two paragraphs in response.

Perhaps the most controversial figure in the insider trading scandal was Michael Milken, who to this day has strong defenders (and his own Institute in Santa Monica, California). ***They claim he found "real money" and put it into "real businesses."***

Others claim, however, that his "product" (junk bonds) was a fraud sustained largely through Milken's hype. ***He essentially overfunded his issuers, so that they in turn could buy the funds of other issuers of junk bonds. This greatly expanded the junk bond market before it finally collapsed.***

His business represented a gigantic chain letter, which is a version of a Ponzi scheme (a "get rich quick" fraud where money from new investors is used to pay off old investors). Milken's market manipulation caused major economic turmoil and was associated with the failure of large numbers of S&Ls that had invested in his junk bonds.



Forum *discussion*



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What do you think of Warren Buffet's idea for controlling insider trading (as described in the book) compared to the traditional law enforcement response of increasing the risk (deterrence)?

» Write two paragraphs in response.

Video



» [Watch Henry Pontell talking to CNN's Aaron Brown about Martha Stewart.](#)

One of the most interesting cases of the corporate scandals was **Martha Stewart's** recent insider trading case. Most interestingly, perhaps, she was never formally charged with insider trading (although it was suspected), but with lying to federal investigators.

The case also divided the public on the treatment of white-collar offenders, and what many saw as selective enforcement against a powerful and successful woman.

Assignment

"select OUTLINE from the TOOLS menu.
In the OUTLINE, click on the appropriate ASSIGNMENT in this week's lesson"



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One of the most interesting cases of the corporate scandals was Martha Stewart's insider trading case. Most interestingly, perhaps, she was never formally charged with insider trading (although it was suspected), but with lying to federal investigators. The case also divided the public on the treatment of white-collar offenders, and what many saw as selective enforcement against a powerful and successful woman.

» What aspects of white-collar crime/deviance come into play in the case of Martha Stewart, in terms of the crime, public reaction and sanctioning?

Write three pages describing the relationship of the Stewart case to white-collar crime and deviance theory and research.

Stock Manipulation

Insider trading is an insidious form of illegal stock manipulation. There are other forms as well, that not only manipulate markets, but countless investors as well.

Boiler rooms mushroomed during the stock market bubble of the 1990s, as investors threw money at seemingly legitimate stocks in an ever rising market. Inexperienced investors were taken by those who saw an incredible opportunity to reap illegal gains on bogus stocks.



As the chairman of the SEC lamented in 1998,

"The best markets bring out the worst elements."

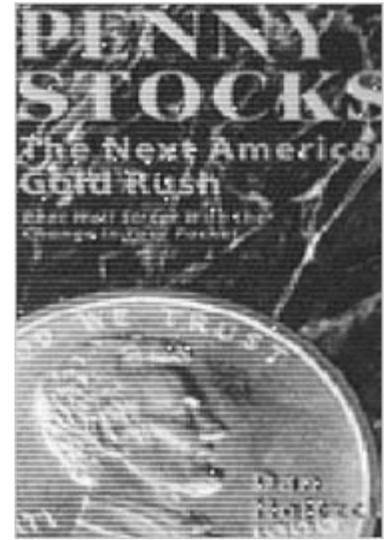


Security fraud has also moved to the Internet, making it a form of computer crime as well. **Mass numbers of targets, low costs, and the anonymity of cyberspace make this an attractive environment for fraudsters.**

*In fact, authorities have seen evidence that those formerly running boiler room operations
» have moved onto the Internet to continue defrauding, in scams dealing with everything from wireless cable television to ostrich farming.*

The variety and forms of such scams are seemingly endless. Microcap frauds are particularly popular and involve **penny stocks**. Unlike major corporations, these are highly unregulated, with little information-reporting requirements. *Swindlers post bogus messages about such stocks, which allow prices to rise and then fall dramatically.*

The persons behind the fabricated messages usually **"dump"** their shares when the value is **"pumped"** up high enough through their hype, and can receive considerable profits through the scheme. *Hence the term for this fraud: "pump and dump."*



Organized crime has found that pump and dumps can easily raise their profit margins as an illicit organization, and have taken to the business in earnest.

In doing so, they've brought a new level of violence to Wall Street.

*An early episode of the popular HBO series **The Sopranos** shows the organization involved in a traditional boiler room pump and dump scheme that turns vicious when an employee's personal ethics gets the better of him and he forgets to hype the penny stock of the moment.*



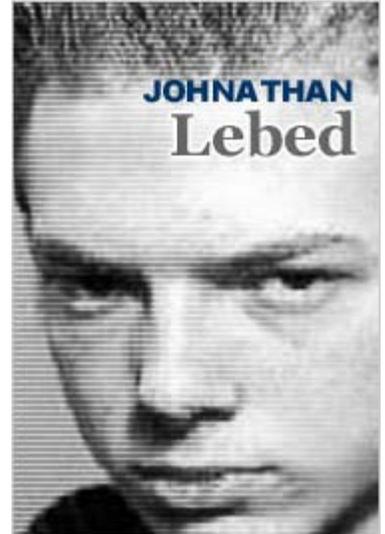
Lebed had bought cheap microcap stocks and then posted fictitious messages about them on the Internet, pumping up their value. He then sold his shares. He even put in advance orders to sell stocks as they spiked, so that he would not have to miss school the following day.

He reached a settlement with the SEC in which he returned \$285,000.

Further investigation showed that he had made over \$800,000.



Lebed's case exemplifies a new breed of delinquent in society. Juveniles who commit massive economic crimes might be termed "**white-collar delinquents.**"



Forum *discussion*



"to post your reply, select OUTLINE
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Now that you have read "I was a Teenage Wheeler Dealer",
what aspects of this case do you feel are most relevant to white-collar crime, and why? What do you think needs to be done to curb the growing threat of white-collar delinquency?

» Write two paragraphs on this topic.

Summary

>> a brief overview of what you learned



- » The honest trading of securities provides the major foundation for a successful capitalist economy: **all activities organized around the production and distribution of goods and services**. Unfortunately, this institution is repeatedly violated more by fraud and other illicit activities.
- » The US economy, built on industrial capitalism, has shifted to paper entrepreneurship, where little is produced except paper profits. **The greed this engendered led to several types of securities fraud, notably insider trading (committed by corporate or brokerage insiders) and stock manipulation (frauds involving outsiders)**.
- » Insider trading must be controlled. Otherwise, there would be little reason for people without inside information to invest. **This might eventually shut down economic growth entirely**.
- » Other forms of illegal stock manipulation include boiler rooms (notable during the stock market bubble of the 1990s), Internet security fraud, and microcap frauds, which involve penny stocks (called "pump and dump"). **Organized crime has recently become involved in these scams**.
- » The Internet has also made it possible for scams to be conducted by young people. These new **"white-collar delinquents"** can commit massive economic crimes.