

# The Decline of Moral Standards In The USA

I suppose the elders of each generation grouse that, “This country is going to hell in a handbasket”. And I am no different, so I set out to assemble some facts that would either prove or disprove the premise. And, as you might expect, I found quite a few indications of a general morality decline. But I have to confess that I was surprised to find a considerable amount of good news.

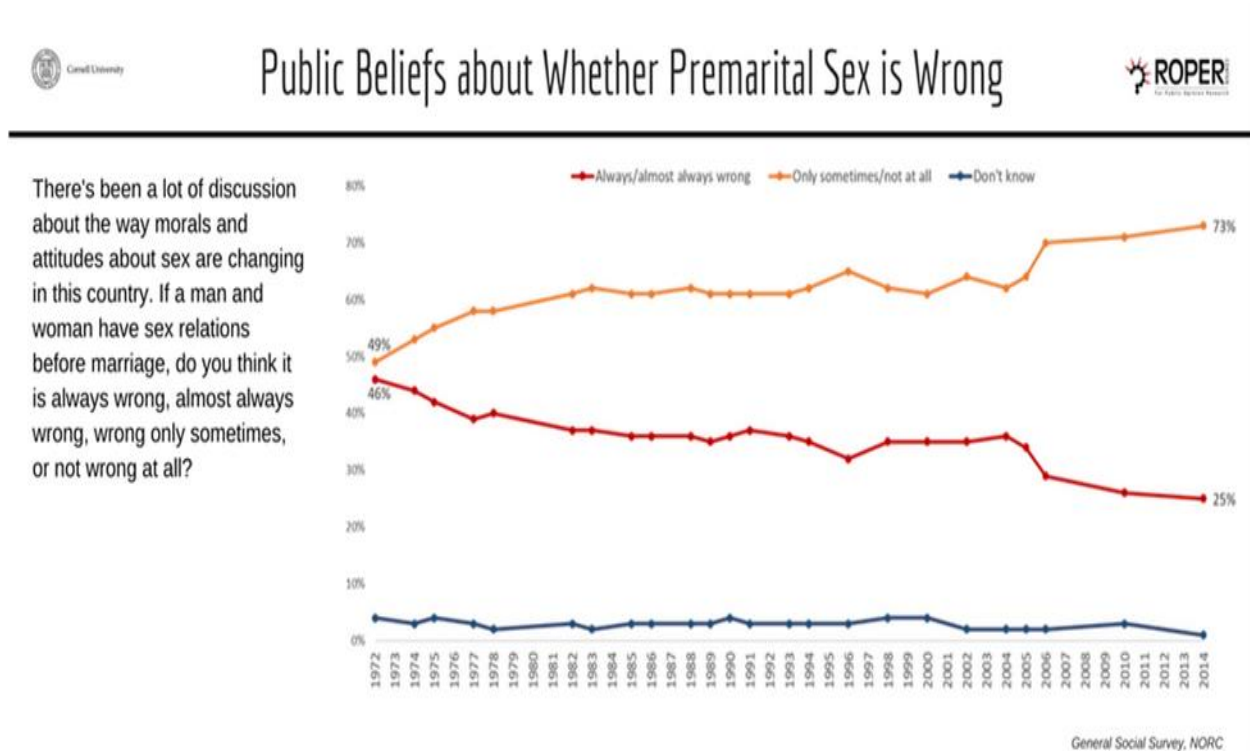
## Sexual Mores

When I was a young man, I was aware that some people had extramarital and premarital sexual relations. But if they were found out it was cause for considerable embarrassment and shame. But then along came the 1960s and the “me” generation had arrived. Openly free sex became the predominant indoor and outdoor sport. I have the impression, gathered from events like Woodstock, that extramarital sex became rampant, and probably still is. Unfortunately, I have been unable to find any statistical trends from 1960 of sexual promiscuity, i.e. multiple partners out of wedlock. But we can take a look at some related data.

## Public Attitudes

In Chart 1, on the next page, we see a dramatic shift in public attitudes about premarital sex.

## Chart 1



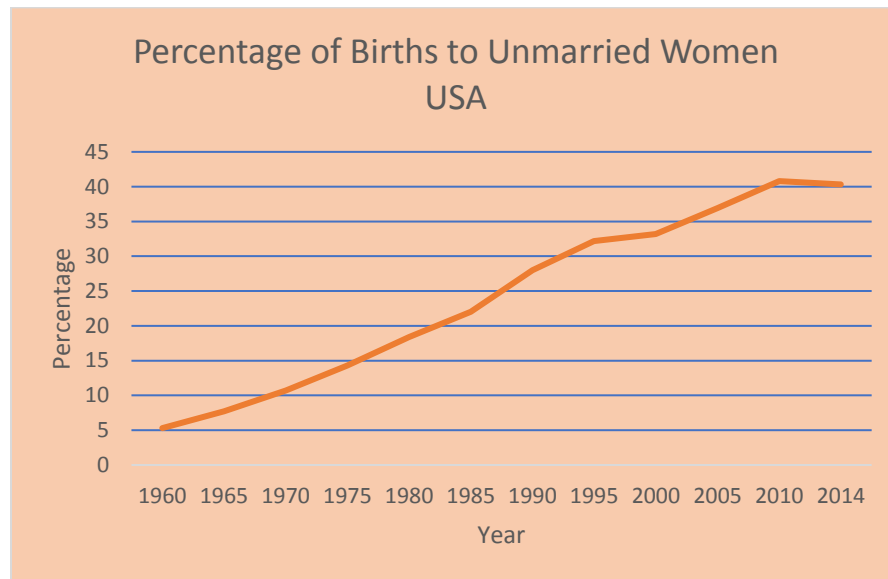
Source: Cornell University  
<https://ropercenter.cornell.edu/1960s-premarital-sex/#post/0>

In 1972, 46% of the people thought that it was always or almost always wrong (Portrayed by the red line) and by 2014 the percentage had declined to 25%. On the other hand, those generally approving moved from 49% to 73%. I suspect that in 1960 the proportion of people considering it wrong would have been well over 50%. A definite decline in a moral standard. I suppose some might say it's an improvement, but not me. Just because a broad segment of the population accepts a certain behavior does not make it moral, just that society's moral standard has fallen.

## Single Parents

The percentage of births to unmarried women has increased dramatically since 1960, from 5% to 40%. The trend clearly started in the '60s, but it has continued to grow steadily since, as seen in Chart 2. We can't just blame the hippies for this situation

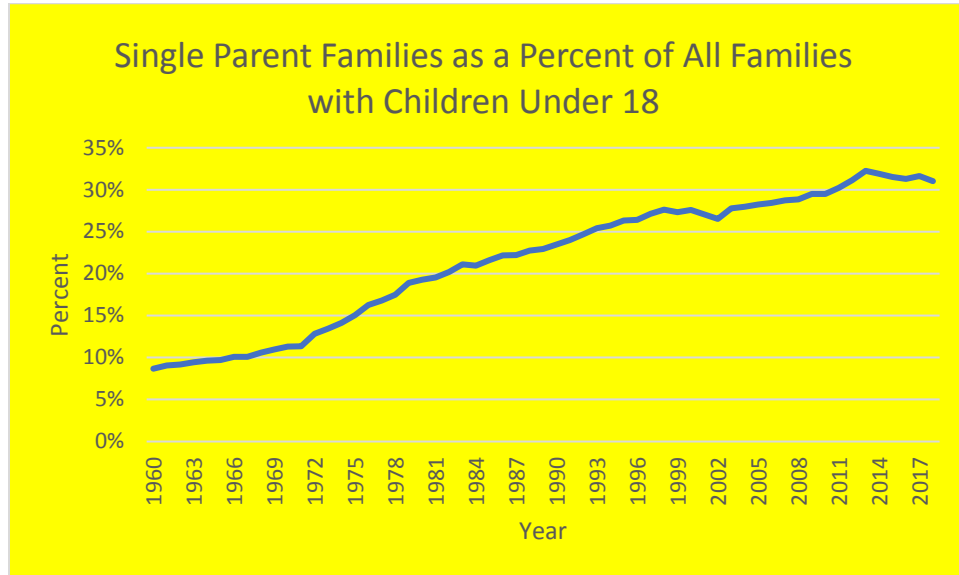
**Chart 2**



Source: Child Trends  
<https://www.childtrends.org/indicators/births-to-unmarried-women>

This suggests that there is a lot of sex going on between unmarried couples. Clearly, the shame factor has disappeared, high school girls proudly display their swollen bellies and count on their parents to look after the child as they finish their education. I find no reason to believe that the trend will not continue. Many will say, “What’s wrong with that?” What’s wrong is that we have a lot of kids growing up in households that don’t have a father figure role model, exposing them to incomplete or biased psychological development. Raising kids is not easy work, even for married couples, but it must be doubly difficult for a single parent. Ah, but maybe most of the unmarried mothers have the father or another man living in the household. So, let’s see.

### Chart 3



Source: US Census Bureau  
<https://www.census.gov/data/tables/time-series/demo/families/children.html>

Single parent families as a percent of all families is still up over 30%. I see this as a situation deserving of serious concern for the future of our society.

Coincidentally, the War on Poverty began in 1964 and it has almost certainly exacerbated the single parent problem.

Robert Rector, Senior Research Fellow at the Heritage Foundation, tells us:

*The burgeoning welfare state has promoted single parenthood in two ways. First, means-tested welfare programs ... financially enable single parenthood. It is difficult for single mothers with a high school degree or less to support children without the aid of another parent. Means-tested welfare programs substantially reduce this difficulty by providing extensive support to single parents. Welfare thereby reduces the financial need for marriage. Since the beginning of the War on Poverty, less-educated mothers have increasingly become married to the welfare state and to the U.S. taxpayer rather than to the fathers of their children.*

These welfare programs provide a strong incentive to have MORE out-of-wedlock births since with each succeeding baby, more welfare \$ are provided.

*As means-tested benefits expanded, welfare began to serve as a substitute for a husband in the home, and low-income marriage began to disappear. As husbands left the home, the need for more welfare to support single mothers increased. The War on Poverty created a destructive feedback loop: Welfare promoted the decline of marriage, which generated a need for more welfare. A second major problem is that the means-tested welfare system actively penalizes low-income parents who do*

*marry. All means-tested welfare programs are designed so that a family's benefits are reduced as earnings rise. In practice, this means that, if a low-income single mother marries an employed father, her welfare benefits will generally be substantially reduced. The mother can maximize welfare by remaining unmarried and keeping the father's income "off the books."*

*For example, a single mother with two children who earns \$15,000 per year would generally receive around \$5,200 per year of food stamp benefits. However, if she marries a father with the same earnings level, her food stamps would be cut to zero. A single mother receiving benefits from Section 8 or public housing would receive a subsidy worth on average around \$11,000 per year if she was not employed, but if she marries a man earning \$20,000 per year, these benefits would be cut nearly in half. Both food stamps and housing programs provide very real financial incentives for couples to remain separate and unmarried.*

*Overall, the federal government operates over 80 means-tested welfare programs that provide cash, food, housing, medical care, and social services to poor and low-income individuals. Each program contains marriage penalties similar to those described above. Low-income families generally receive benefits from several programs at the same time. The marriage penalties from multiple programs when added together can provide substantial financial disincentives to marriage. For example, if a single mother who earns \$20,000 per year marries a man who earns the same amount, the couple will typically lose about \$12,000 a year in welfare benefits. In effect, the welfare system makes it economically irrational for most low-income couples to marry.*

Source: Heritage Foundation, Robert Rector, Senior Research Fellow

[https://www.heritage.org/welfare/report/how-welfare-undermines-marriage-and-what-do-about-it#\\_ftn2](https://www.heritage.org/welfare/report/how-welfare-undermines-marriage-and-what-do-about-it#_ftn2)

Besides the societal acceptance of free sex, our government has contributed to this frightening trend. This didn't happen because the lawmakers and regulators wanted it to, for surely, they were well meaning. But the "law of unintended consequences" reared its ugly head.

### **Sex at College**

For most 18- and 19-year old's, their college experience is the first time they are free from any direct parental supervision. Many are quick to embrace the "free sex" standard of behavior. Colleges, which in 1960 tended to impose restrictions and controls on student promiscuity, now have not only accepted the new standard, but in some cases encourage casual sex. As Heather MacDonald puts it in her book, "The Diversity Delusion":

*While social-justice warriors coordinate antirape rallies, in the dorm next door, freshman counselors organize games of Sex Jeopardy and pass out tips for condom and dental dam use.*

We hear many stories of drunken sex filled parties in fraternity houses and dormitories. How standards have changed. It is one thing to treat college students as adults, free to make their own behavior choices. But it's quite another to encourage debauchery.

When I was a student at St. Olaf College in the early 1950s, the school had very strict morality standards. No drinking on or off campus, no girls in dorm rooms, and even no ballroom dancing on or off campus. Some twenty years later the college debated, extensively, and ultimately approved co-ed dormitories. The only reason given that I remember was that this would allow boys and girls to study together. What happened to the idea of meeting in the library or the student commons? I have trouble believing that the only intercourse between the sexes in the dormitories is scholastic. Universities and colleges have essentially accepted the public's lost moral standard. I say shame on St. Olaf and all the other schools. You have these young people when they are still very impressionable. You should be promoting high moral standards.

### Health Implications

Sexual promiscuity has consequences beyond the moral issues. The American Sexual Health Association tells us the following about sexually transmitted infections (STI):

- *One in two sexually active persons will contract an STI by age 25.*<sup>1</sup>
- *The Centers for Disease Control and Prevention (CDC) estimates that nearly 20 million new STIs occur every year in this country, half of those among young people aged 15–24.*<sup>2</sup>
- *Even though young people account for half of new STI cases, a recent survey showed only about 12% were tested for STIs in the last year.*<sup>3</sup>
- *CDC estimates that undiagnosed STIs cause 24,000 women to become infertile each year.*<sup>4</sup>
- *The total estimated direct cost of STIs annually in the U.S. about \$16 billion.*<sup>5</sup>

<http://www.ashasexualhealth.org/>

Health concern is another reason for avoiding casual sex.

### Respect for life

Our society ends human lives much more freely than when I was a youngster, or so it seems to me. So, we'll take a look at the facts.

### Abortions

This acceptance of free sex has led to another serious problem – unwanted pregnancies. This spawns two problems:

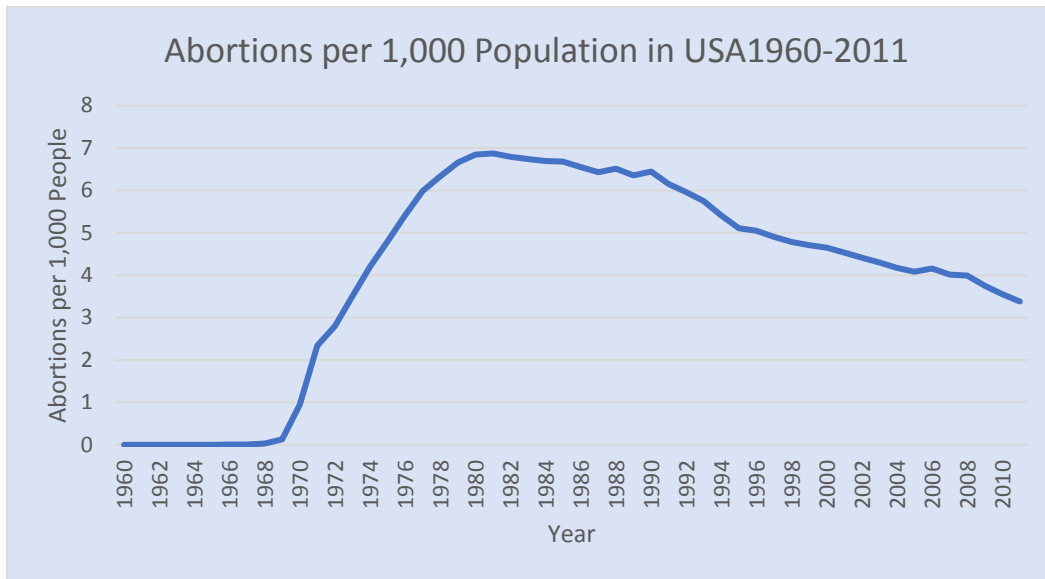
1. Many young girls with promising futures have their education and development essentially terminated by the arrival of a child who needs to be looked after and provided for. In one sense, I admire these girls who are willing to sacrifice for their children. But think how much more satisfying their lives might be if they had avoided pregnancy until they had completed their formal education and found a suitable husband, or at least a significant other. A few years ago, I was chatting with a pastor serving a congregation in a poor

section of the city. He said, “My biggest challenge is to convince bright young girls with very promising futures to keep their legs crossed”

2. And then, of course, on the other side of the coin we find those who are not willing accept the sacrifice or inconvenience involved in giving birth to their child.

Of course, I am speaking of abortion, which has become socially acceptable, at least according to our jurists.

### Chart 4

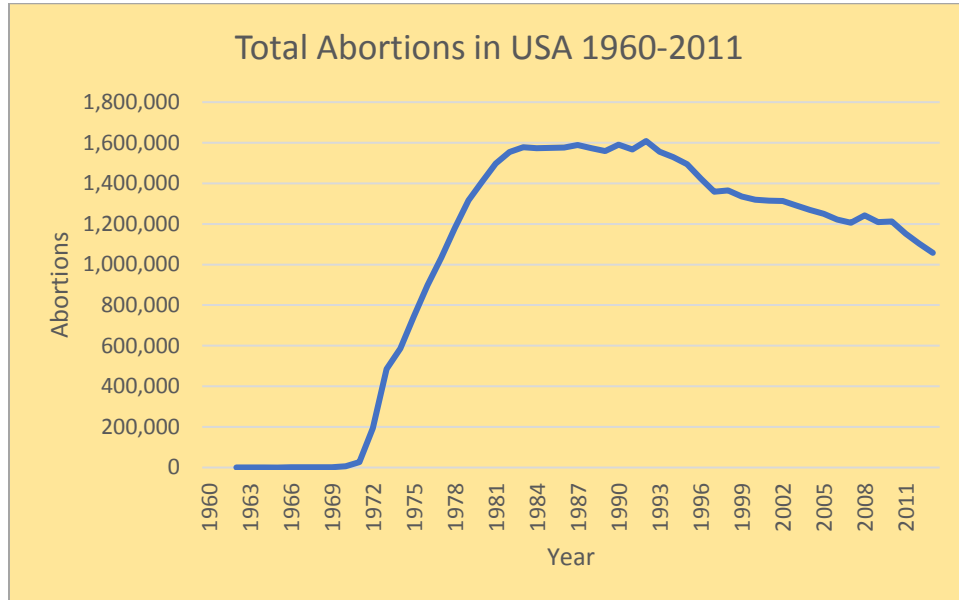


Source: compiled by Wm. Robert Johnston

<http://www.johnstonsarchive.net/policy/abortion/graphusabrate.html>

In this chart we see abortions expressed as a ratio to total population.

## Chart 5



Source: compiled by Wm. Robert Johnston  
<http://www.johnstonsarchive.net/policy/abortion/graphusabrate.html>

Here we see the total number of abortions in the United States. In both charts 3 and 4 we see an extremely sharp increase in the number of abortions throughout the decade of the 70's. This coincided with the legalization of abortion in some of the states and then the landmark Roe vs. Ward supreme court decision in 1973, which effectively legalized abortion on demand in all states. But then the eighties surprised me, as the incidence of abortions per unit of population, began to decline and has continued to decline through 2011. (I was a bit frustrated that I couldn't find data continuing to a more current data). Nevertheless, I take that steady decline as good news, but we are still killing a million babies each year. To my way of thinking, that's just not acceptable.



As evidence that public opinion is gradually shifting away from abortion, we have this poll taken by Gallup.

### Recent Trend in U.S. Abortion Views.

**Table 1**

<b>Morality of abortion</b>	<b>May 2015 %</b>	<b>May 2016 %</b>
Morally acceptable	45	43
Morally wrong	45	47
<b>Abortion position</b>		
"Pro-choice"	50	47
"Pro-life"	44	46
<b>Legality of abortion</b>		
Legal under any circumstances	29	29
Legal only under certain circumstances	51	50
Illegal in all circumstances	19	19

Source: <http://news.gallup.com/poll/191834/americans-attitudes-toward-abortion-unchanged.aspx>

I take this as encouragement, as almost half the people believe abortion is morally wrong, as of May 2016. But, of course, the flip side shows that a major portion of people still believe it is morally acceptable. I pray that that percentage will continue to decline.

We might review the Roe vs. Ward decision. Wikipedia's explanation follows:

***Roe v. Wade**, 410 U.S. 113 (1973),<sup>[1]</sup> is a landmark decision issued in 1973 by the United States Supreme Court on the issue of the constitutionality of laws that criminalized or restricted access to abortions. The Court ruled 7–2 that a right to privacy under the Due Process Clause of the 14th Amendment extended to a woman's decision to have an abortion, but that this right must be balanced against the state's interests in regulating abortions: protecting women's health and protecting the potentiality of human life.<sup>[2]</sup> Arguing that these state interests became stronger over the course of a pregnancy, the Court resolved this balancing test by tying state regulation of abortion to the third trimester of pregnancy.*

*Later, in Planned Parenthood v. Casey (1992),<sup>[3]</sup> the Court rejected Roe's trimester framework while affirming its central holding that a woman has a right to abortion until fetal viability.<sup>[4]</sup> The Roe decision defined "viable" as "potentially able to live outside the mother's womb, albeit with artificial aid."<sup>[5]</sup> Justices in Casey acknowledged that viability may occur at 23 or 24 weeks, or sometimes even earlier, in light of medical advances.<sup>[6]</sup>*

*In disallowing many state and federal restrictions on abortion in the United States,<sup>[7][8]</sup> Roe v. Wade prompted a national debate that continues today about*

*issues including whether, and to what extent, abortion should be legal, who should decide the legality of abortion, what methods the Supreme Court should use in constitutional adjudication, and what the role should be of religious and moral views in the political sphere. Roe v. Wade reshaped national politics, dividing much of the United States into pro-life and pro-choice camps, while activating grassroots movements on both sides.*

Source: [https://en.wikipedia.org/wiki/Roe\\_v.\\_Wade](https://en.wikipedia.org/wiki/Roe_v._Wade)

I'm no legal scholar but the "right to privacy" rationale does puzzle me. What privacy is being protected? Is it the fact that the lady had sexual intercourse? Nothing very private when a female with a slightly bulging stomach is seen marching into a Planned Parenthood clinic. Apparently, the right to privacy stems from the constitutional requirement that the government does not unduly invade the privacy of individuals. But I don't see a direct connection if a state chooses to outlaw any given activity, in this case terminating a pregnancy. The constitution does not explicitly guarantee a right to privacy. I'm sure my lawyer friends can explain an obtuse line of logic that makes the connection.

At first blush it would seem that the court had concluded that a fetus is, in fact, not a human being, otherwise they would be sanctioning murder on demand. But then, by placing a two-trimester time limit, later modified, they seem to acknowledge that a life does exist in the womb. It's just a question of when it begins. I find the "fetal viability" criteria to be logically weak, for the baby after normal gestation and birth is still not viable on its own. It still is dependent on the mother, or a surrogate, for feeding, cleaning, and housing in order for the life to continue. So I find the fetal viability test to be rather arbitrary.

I believe the fundamental question is, "When does life begin?". My non-legal mind (not illegal, I hope) reasons the question thusly. Clearly, the day before the fetus leaves the womb it is essentially the same as the day after. How about one week before birth? Well its hard to see much difference. Proceeding back through the pregnancy, we see the physical characteristics of a human taking shape. After a very short time after conception, we see a head take shape and the fetus is able to feel pain. So not finding a clear-cut demarcation line, I must conclude that life begins at conception, and therefore I am opposed to abortion, except to save the mother's life.

I believe that in the years leading up to Roe vs. Wade it became clear that a very significant portion of the population wanted to have abortion on demand. The court apparently felt compelled to follow the public's wishes and invented legal logic to support their decision.

At time of writing we are approaching the nomination of a new Supreme Court justice. Much of the conversation centers around Roe vs. Wade, with ample concern and hopefulness, that the appointment might end up undoing Roe vs. Wade. My guess is that, were that to happen, it would do relatively little to reduce the number of abortions, as most states would continue its legalization. A few states might pass prohibiting legislation, but their residents desiring an abortion would travel to an "allowing" state to obtain their abortion.

Before I get off this particular soapbox, we'll take a look at why women choose to abort.

- In 2004, the Guttmacher Institute anonymously surveyed 1,209 post-abortion women from nine different abortion clinics across the country. Of the women surveyed, 957 provided a main reason for having an abortion. This table lists each reason and the percentage of respondents who chose it.

**Table 2**

Percentage	Reason
<0.5%	<u>Victim of rape</u>
3%	<u>Fetal health problems</u>
4%	<u>Physical health problems</u>
4%	Would interfere with education or career
7%	Not mature enough to raise a child
8%	Don't want to be a single mother
19%	Done having children
23%	<u>Can't afford a baby</u>
25%	Not ready for a child
6%	Other

Source: [http://abort73.com/abortion\\_facts/us\\_abortion\\_statistics/](http://abort73.com/abortion_facts/us_abortion_statistics/)

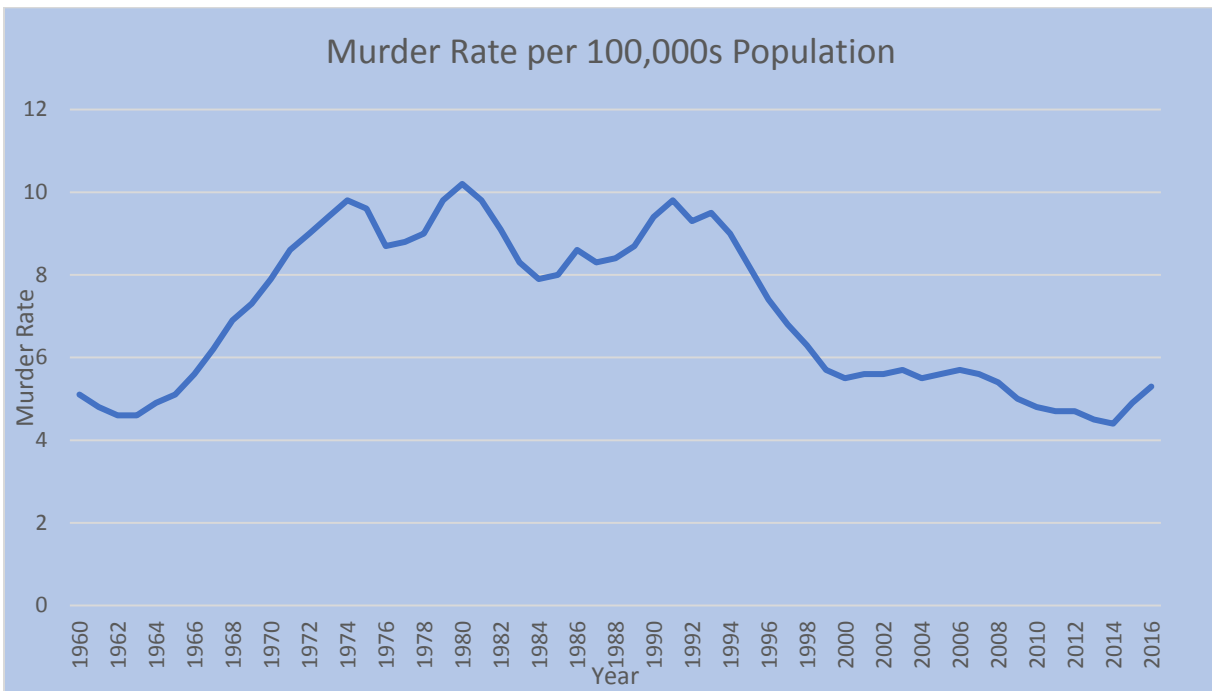
Close to 80% are aborting for their own personal convenience. I wish more of them would consider adoption as a preferable alternative.

Next, we'll take a look at murder.

### Murders

When we look, in Chart 6, at the rate of murders in the U.S. we see a similar pattern, a dramatic rise from around 5 murders per year for each 100,000 of population at the beginning of the 1960s virtually doubling by the early 1970s. There's no question about it, the 60s were bad for the United States. Respect for life just plummeted. Interestingly during the 1990s there was a sharp drop in the murder rate. Its now down near the 1960 level. Good news for sure. The cause of this decline is not clear. Some say that our high incarceration rate has taken a lot of killers off the streets. I suspect that to some degree that is correct. But I am hopeful that it is partly due to a returning respect for life.

**Chart 6**

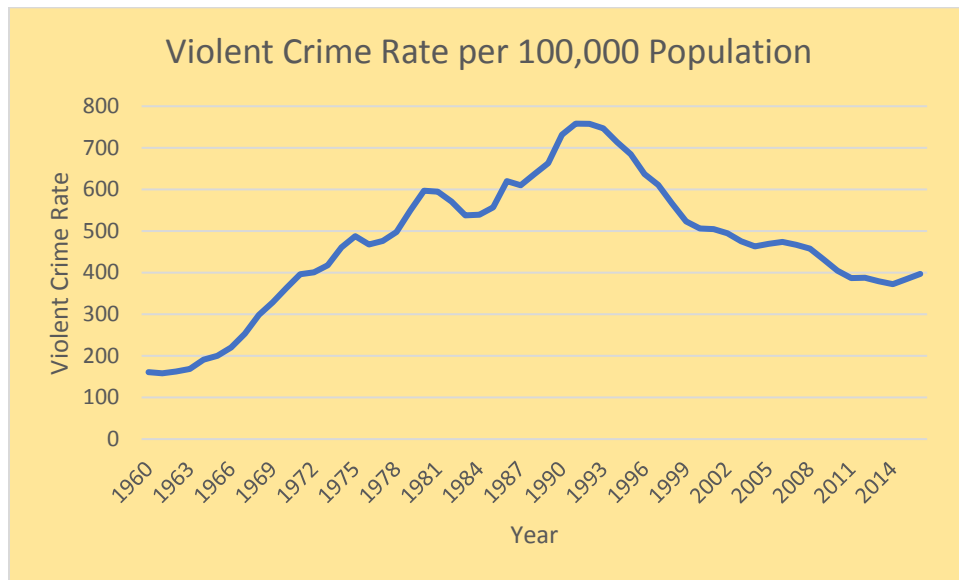


Source: Compiled by the Disaster Center from FBI Crime reports - <http://www.disastercenter.com/crime/uscrime.htm>

## Crime

Next, we'll take a look at violent crime in general. This includes murder, rape robbery and aggravated assault.

**Chart 7**



Source: Compiled by the Disaster Center from FBI Crime reports - <http://www.disastercenter.com/crime/uscrime.htm>

Here, in Chart 7, we see again a dramatic increase starting in the sixties and culminating in the mid-nineties. By then the rate had, astonishingly, quadrupled. Since then there has been a significant decline. But it is still more than double the 1960 rate. And you wonder why we old folks “yearn for the old days”. (Don’t get me wrong, as there are a lot of things we have now that are much better than in 1960, so we don’t really want to go back.) But here we see more evidence of the moral decline in the United States.

I would like to know what caused the decline in crime rates. The Atlantic published an interesting article on the subject, in 2016, and concluded:

*But the forces that drove the Great American Crime Decline remain a mystery. Theories abound among sociologists, economists, and political scientists about the causes, with some hypotheses stronger than others. But there’s no real consensus among scholars about what caused one of the largest social shifts in modern American history.*

*So, what happened?*

Source: <https://www.theatlantic.com/politics/archive/2016/04/what-caused-the-crime-decline/477408/>

There were a number of theories examined, including:

1. Higher incarceration rate
2. A decrease in alcohol consumption.
3. Improved economic conditions.
4. Improved police work.

5. Abortions reduced the number of unwanted babies.
6. The elimination of lead from gasoline.

The research examined suggested that each of these may have made relatively minor contributions to the decline. But with each, there was also some doubt. I suspect it may have been a combination of some of these factors, plus some factors not yet identified.

I had thought that if we looked at the causes of the increased crime rates during the 1960s and 1970s we might find the answer to the decrease. The crime increases coincided with a period of growth in illicit drug usage. This is generally thought to have been the cause and effect. However, this doesn't seem to answer the question about the cause of the decline, since there hasn't been a decline in licit drug usage that correlates with the drop in crime. Perhaps more and more people are concluding that crime does not pay, or, hopefully, more and more people are concluding that violent crime is just wrong, and should be avoided.

## Substance abuse

I suppose there could be arguments as to whether consumption of alcohol or illicit drugs is a moral issue. However, since excessive use can and often does lead to immoral behavior, I will treat it as a moral issue for purposes of this discussion. When I was a youngster, alcohol consumption was a big issue. The nation had gone through a period of alcohol prohibition, which really didn't work with a number of unintended consequences, e.g. bootlegging crime, etc. The Cato Institute tells us:

*National prohibition of alcohol (1920-33)—the “noble experiment”—was undertaken to reduce crime and corruption, solve social problems, reduce the tax burden created by prisons and poorhouses, and improve health and hygiene in America. The results of that experiment clearly indicate that it was a miserable failure on all counts. The evidence affirms sound economic theory, which predicts that prohibition of mutually beneficial exchanges is doomed to failure.*

*Although consumption of alcohol fell at the beginning of Prohibition, it subsequently increased. Alcohol became more dangerous to consume; crime increased and became “organized”; the court and prison systems were stretched to the breaking point; and corruption of public officials was rampant. No measurable gains were made in productivity or reduced absenteeism. Prohibition removed a significant source of tax revenue and greatly increased government spending. It led many drinkers to switch to opium, marijuana, patent medicines, cocaine, and other dangerous substances that they would have been unlikely to encounter in the absence of Prohibition.*

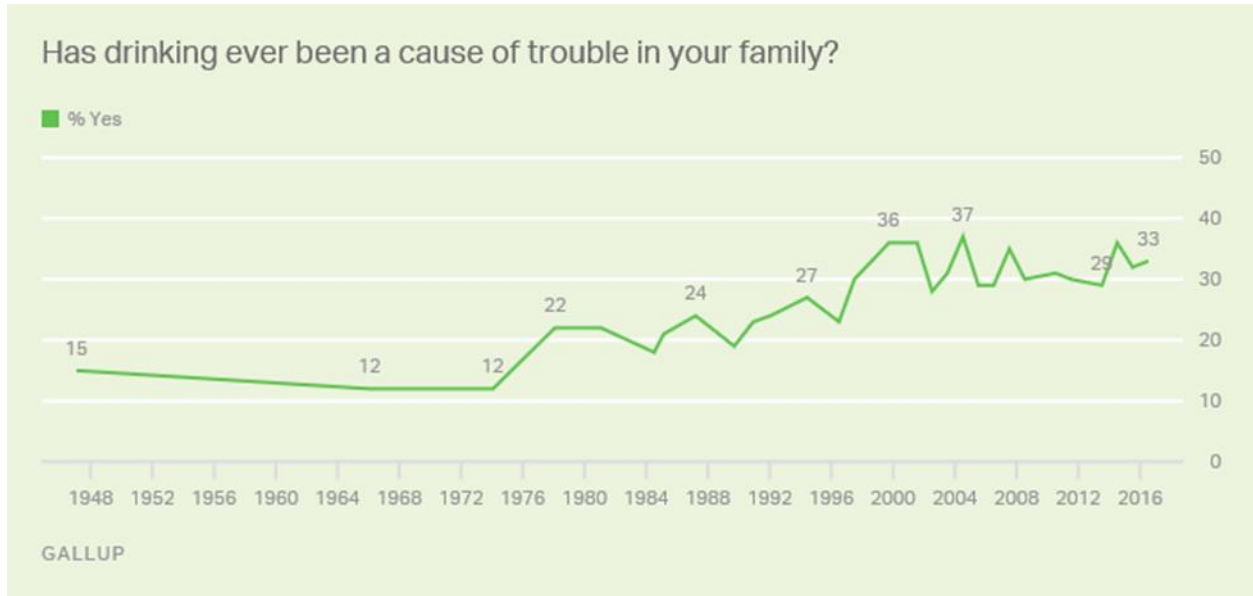
Source: Mark Thornton, Cato Institute, July 17, 1991

<https://www.cato.org/publications/policy-analysis/alcohol-prohibition-was-failure>

**Chart 8**



**Chart 9**



Source: Gallup

<http://news.gallup.com/poll/1582/alcohol-drinking.aspx>

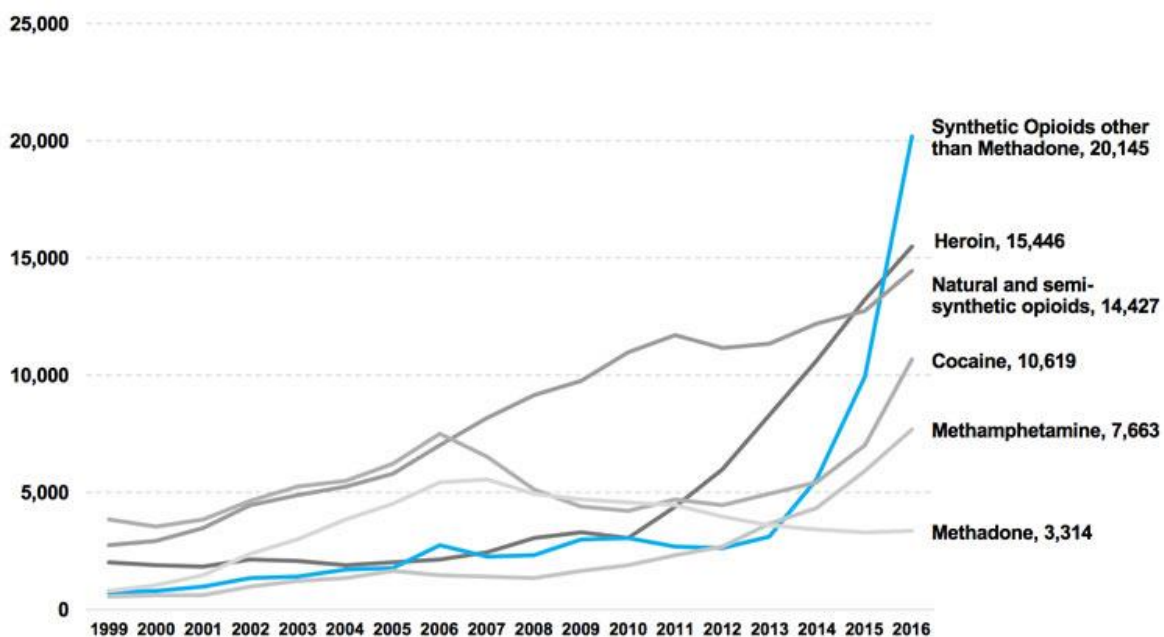
Chart 8, above, suggests that there has been relatively little increase, if any, in the percentage of the population who consume alcohol. There was a marked increase during the 60s and 70s, which retreated during the 80s. There we have those pesky 60s and 70s again. But clearly there has been

no long-term increase in the imbibing portion of the population. I think that by now there are few people who consider moderate consumption to be immoral or wrong. But clearly, excessive consumption of alcohol does create problems. So has there been any change in the number of people who consume excessively? Well, Chart 9, above, does suggest that there has been a significant increase in alcohol consumption causing problems, starting in the 70s and ending around the year 2000. Alcohol abuse appears to be a contributing factor to morality decline.

Next, we'll take a look at illicit drug usage.

Chart 10

### Drugs Involved in U.S. Overdose Deaths, 2000 to 2016



Source: National Institute on Drug Abuse

<https://www.drugabuse.gov/related-topics/trends-statistics/overdose-death-rates>

What an alarming picture Chart 10 shows. Since this chart only displays overdose deaths, it suggests that there are massive increases in illicit drug abuse, especially opioids. No wonder the politicians of all ilk are expressing alarm and concern. Since it appears that more and more people are relying on mind altering chemical substances to help them cope with life, I am very fearful. I wonder if anyone understands why this is happening. And more to the point, what can be done to correct the problem. In my mind, I see the individuals who make bad choices as the heart of the problem. Part of the decline in morality.

## Business Ethics

People conducting business enterprises, and even nonprofit enterprises, often have the opportunity to treat their customers, employees, and shareholders unjustly, e.g. embezzle, price gouge, steal



employees' contributions for payroll taxes, fix prices, etc. Fortunately, we have laws intended to protect us from such abuses. However, I know that some of these abuses still occur. I would like to mention a couple of very high-profile cases that have happened in the recent past. I would have expected that as more and more laws and regulations are enacted to protect us, it would be necessary for the scoundrels to find more sophisticated methods of stealing our money. But, as you will see, in both cases we will discuss, very old methods were employed. I think that the subterfuges were so basic, shopworn, and well known that no one would suspect their use in the modern world. And that, I believe, is precisely the reason they succeeded in fleecing a lot of people out of a lot of money.

### Salting

*Bre-X Minerals Ltd. was involved in a major gold mining scandal when it reported it was sitting on an enormous gold deposit at Busang, Indonesia (in Borneo). Bre-X bought the Busang site in March 1993 and in October 1995 announced significant amounts of gold had been discovered, sending its stock price soaring. Originally a penny stock, its stock price reached a peak at CAD \$286.50 (split adjusted) in May 1996 on the Toronto Stock Exchange (TSE), with a total capitalization of over CAD \$6 billion. Bre-X Minerals collapsed in 1997 after the gold samples were found to be a fraud.*

Source: Wikipedia <https://en.wikipedia.org/wiki/Bre-X>

Bre-X was a Canadian junior mining company engaging in mineral exploration and mine promotion. The CEO was a man named David Walsh, whose only mining related experience had been as a stock broker. They had obtained drilling rights in a very remote area of Indonesia. They had raised enough money to conduct a small exploration program. And low and behold they began to report substantial high-grade gold intersections in the bore holes. That, of course led to additional financing and a larger drill program. When the remarkable drill results continued, the money just flowed in. Many of the large financial houses and pension funds began buying the Bre-X stock. Some of the investment houses sent technical experts out to Indonesia for their due diligence work. The experts have the technical knowledge and experience to determine whether or not the reported drilling results were valid and reasonable. They all gave a thumbs up. Towards the end it was expected that this would be the largest gold discovery in the history of the world. Gold fever reigned supreme. Everyone wanted to get on the band wagon.

About this time Bre-X and the Indonesian government wanted to proceed with development of the mine. But the Indonesian government knew that Bre-X did not have the know-how to develop and operate a large mine, so they proposed that Freeport McMoRan, an American company that had operated a major mine in Indonesia for many years should take a financial interest, develop and operate the mine. It was well connected with the government. To their credit, Freeport undertook its own due diligence, part of which was to drill twin exploration holes beside some of the prolific Bre-x holes, so that they could compare the results. When they announced to the world that their holes produced only minor amounts of gold, the bubble began to burst. Bre hired an independent consulting firm to audit the situation. They also drilled parallel holes which found no significant gold. They further determined that the drill samples had been salted, i.e. gold from other sources

was added to the drill samples before they were assayed. Bre-x stock soon became worthless. Salting is a scam that goes back to the early days of the world's mining. There is a well-established method of protecting against reporting of faulty assay results. Normally when the core is taken from the drill, it is split. Half is crushed and goes into the assay process and half is saved for future reference. On this subject, MacLean's magazine tells us, in a 1997 article:

*...the decision - made, he says, by Felderhof - to have pieces of whole core crushed for sampling. It is common practice in the mining industry to split the core, crush half, and retain the other half. An acquiring company, a Barrick Gold or a Placer Dome Inc., would then have crushed and assayed the rest of the core, to be checked against the initial results. Felderhof's explanation, that splitting the core meant losing too much of the gold, seems not to have alarmed any of the analysts.*

Source: McLeans magazine

<https://www.thecanadianencyclopedia.ca/en/article/bre-x-collapses/>

It is amazing that this fact and the reason given didn't raise serious red flags when due diligence for the investment houses was being done.

Such a well known trick as salting, which can be easily detected, if one is at all suspicious, was, apparently, farthest from anyone's thoughts. When gold fever strikes, everyone wants the party to continue, and fact-based logic is ignored.

So, who lost the six billion dollars? Certainly, a lot of individual investors lost their investments. In addition, many very sophisticated investment houses were taken to the cleaners. That same MacLean's article lists the Canadian pension fund losses:

*Pension funds were among the biggest losers when Bre-X shares tanked. A sampling of funds and their losses:*

*Ontario Teachers Pension Plan Board: \$100 million*

*Caisse de dépôt et placement du Québec: \$70 million*

*Ontario Municipal Employees Retirement Board: \$45 million*

*Newfoundland Public Sector Pension Plan: \$5 million*

*Halifax Regional Municipality pension fund: \$1.5 million*

*Edmonton Telephone Endowment Fund: \$750,000*

In addition, a number of Wall Street investment houses, such as Fidelity suffered tens of million dollar losses.

The Bre-X field geologists, and perhaps others, apparently did the salting. The chief geologist, who was a Filipino named Michael de Guzman, is believed to have been the main culprit in this fraud. Oddly Mr. de Guzman was reported to have fallen out of a helicopter during the time when Freeport were doing their due diligence. A body was found weeks later in the jungle. Oddly, the body had no fingers and no toes. And of course, it was badly deteriorated, so no positive

identification was possible. It's also reported that at about that time a corpse went missing from a local morgue. So, it is widely believed that Mr. de Guzman is living the life of luxury under a new identity. In any event, he was never brought to justice.

And, how about the executives of Bre-X. Walsh and his VP for Exploration, John Felderhof, as well as de Guzman, sold small amounts of their Bre-X stock before the fall, netting them 10s of millions of dollars each. Shortly after the collapse Felderhof moved to the Cayman Islands, which did not have an extradition treaty, and Walsh to the Bahamas. After a number of years, the RCMP closed their investigation without filing any criminal charges, because they couldn't find proof on anybody.

Felderhof was charged with securities violations but was acquitted. The bilked investors brought a civil suit to recover some of their losses, but eventually dropped their case as both Felderhof and the Walsh estate had run out of money.

Before long after moving to the Bahamas, Walsh died of a stroke, which is not too surprising, as he must have been under a great deal of stress. My personal opinion is that Walsh had nothing to do with the scam since he didn't have sufficient technical knowledge of the mining industry.

As a footnote, I will add the account of some personal dealings we had with Bre-X and David Walsh. A couple of years before Busang became big news, Walsh had acquired an option on a formerly mined gold property near Oatman, AZ. He was ready to begin raising money to develop and operate the property. He had in hand a pre-feasibility study which concluded that the project was financially viable. However, that study had been prepared by the person selling the property and was therefore suspect. His financial advisor told him he needed an independent assessment of the property, and our firm, Performance Associates, Inc., was engaged to do so. Since Bre-X had little cash and no track record, we agreed to take half of our fee in cash and the other half in Bre-X common stock. But we required the cash to be paid up-front, which it was. Unfortunately, our assessment concluded that there was not a proven mineable ore deposit. At best the property might be an exploration prospect, but even that was doubtful. Walsh was displeased and refused to give us the stock. By then we had concluded that Walsh knew very little about the mining game and Bre-X prospects were dismal, at best. So, we decided not to waste any resources pursuing the issue. We came to rue that decision when Bre-X stock was riding high. After the collapse we comforted ourselves by judging that if we had held the shares, we probably would not have had the good sense to sell when the value was high. At any rate, it is that experience that leads me to believe that Walsh probably didn't know anything about the scam when it was going.

### [Ponzi Scheme](#)

A Ponzi scheme is a fraudulent investing scam promising high rates of return, with little risk to investors. The Ponzi scheme generates returns for older investors by using the funds from new investors. This is like a pyramid scheme in that both are based on using new investors' funds to pay the earlier backers. For both Ponzi schemes and pyramid schemes, eventually there isn't enough money to go around, and the schemes unravel.

*Bernard Lawrence "Bernie" Madoff is an American financier who executed the largest Ponzi scheme in history, defrauding thousands of investors out of tens of*

*billions of dollars over the course of at least 17 years, and possibly longer. He was also a pioneer in electronic trading and chairman of the Nasdaq in the early 1990s.*

*Despite claiming to generate large, steady returns through an investing strategy called "split-strike conversion," which is an actual trading strategy, Madoff simply deposited client funds into a single bank account that he used to pay existing clients who wanted to cash out. He funded redemptions by attracting new investors and their capital, but was unable to maintain the fraud when the market turned sharply lower in late 2008. He confessed to his sons -- who worked at his firm but, he claims, were not aware of the scheme -- on Dec. 10, 2008. They turned him into the authorities the next day.*

*The [SEC](#) had been investigating Madoff and his securities firm on and off since 1999 -- a fact that frustrated many after he was finally prosecuted, since it was felt that the biggest damage could have been prevented if the initial investigations had been rigorous enough.*

*Markopolos was one of the earliest [whistle-blowers](#). In 1999, he calculated in the space of an afternoon that Madoff had to be lying. He filed his first SEC complaint against Madoff in 2000, but the regulator ignored him.*

*In his 2005 letter to the SEC, he wrote: "Madoff Securities is the world's largest Ponzi Scheme. In this case there is no SEC reward payment due the whistle-blower so basically I'm turning this case in because it's the right thing to do."*

*Using what he called a "Mosaic Method," Markopolos noted a number of irregularities. Madoff's firm claimed to be making money even when the S&P was falling, which made no mathematical sense, based on what Madoff claimed he was investing in. The biggest red flag of all, in Markopolos's words, was that Madoff Securities was earning "undisclosed commissions" instead of the standard hedge fund fee (1 percent of the total plus 20 percent of the profits).*

*The bottom line, concluded Markopolos, was that "the investors that pony up the money don't know that BM [Bernie Madoff] is managing their money." Markopolos also learned Madoff was applying for huge loans from European banks (seemingly unnecessary if Madoff's returns were as high as he said).*

*It was not until 2005 -- shortly after Madoff nearly went belly-up due to a wave of redemptions -- that the regulator asked him for documentation on Madoff's trading accounts. He made up a six-page list, the SEC drafted letters to two of the firms listed but didn't send them, and that was that. "The lie was simply too large to fit into the agency's limited imagination," writes Diana Henriques, author of the book *The Wizard of Lies: Bernie Madoff and the Death of Trust*, which documents the episode.*

Source: Investopedia

<https://www.investopedia.com/terms/b/bernard-madoff.asp>

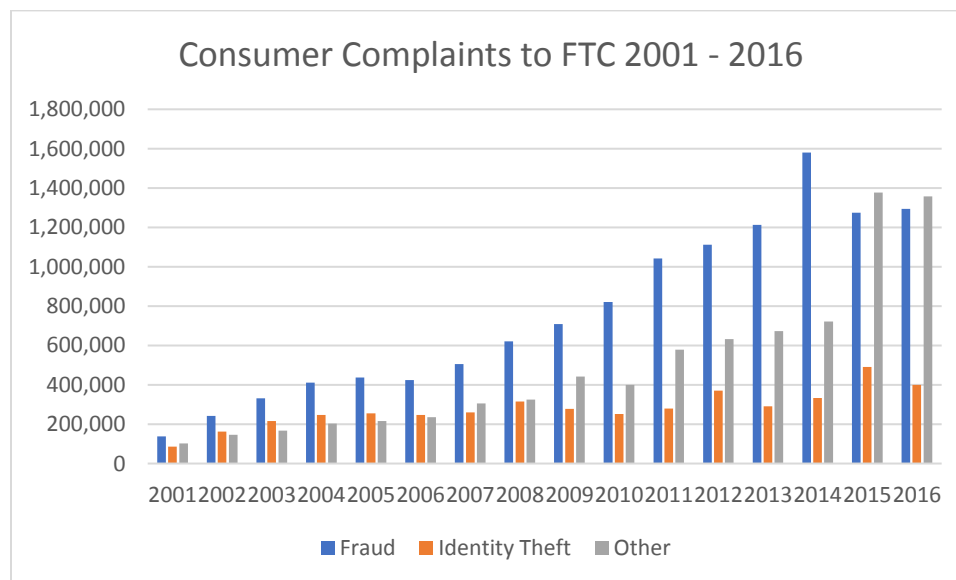
His scam was successful because he consistently provided 15% to 18% returns to his clients, using new investors funds. Therefore, Madoff was considered a genius. He was an upstanding figure in the community, supporting charities, etc. Therefore, most people, the SEC included, overlooked any suspicious irregularities. No one honored the adage, “When something seems too good to be true, it probably is”.

Here again, the oldest scam in the history of investing worked simply because we assumed that a person of Madoff’s sophistication would certainly not stoop to such a basic ruse. Additionally, no one likes to spoil a party.

### Identity Theft and Other Frauds

Lest we conclude that the modern fraud perpetrators are unimaginative and lacking creativity, we’ll take a look at Identity Theft. The Federal Trade Commission, an agency of the U.S. government, is charged with looking after consumer protection. They keep track of the complaints they receive. If consumer complaints are any indication of actual crimes, chart 11, below, suggests an alarming trend in these white-collar crimes over the periods from 2001 to 2016. While, as we saw earlier in this paper, crime rates in general have been declining over this time period. But, that has not been the case with identity theft and other forms of fraud. Since most identity theft crimes are committed using the internet and high technology, the crooks are certainly keeping up with the times and technology.

**Chart 11**



Source: Federal Trade Commission

[https://www.ftc.gov/system/files/documents/reports/consumer-sentinel-network-data-book-january-december-2016/csn\\_cy-2016\\_data\\_book.pdf](https://www.ftc.gov/system/files/documents/reports/consumer-sentinel-network-data-book-january-december-2016/csn_cy-2016_data_book.pdf)

This is another sign of our declining morality

## Justice Injustice

Having been of a conservative bent all my life, I have always favored strong law enforcement and strong law and order policies. I have tended to believe that our law enforcement agencies always played by the book. And then along came DNA which proved that a goodly number of innocent people had been wrongly convicted and incarcerated for many years. I wanted to write that off as “oops, mistakes happen”. But it did introduce in my mind the possibility that something was wrong with our justice system, but never considering the possibility of willful “mistakes”. I assumed that defense attorneys might try to confuse and obviate the truth, but certainly not law enforcement people and prosecutors.

But now I have become aware of some very frightening revelations. I have just read a book by Sidney Powell, a lady lawyer from Texas, entitled “Licensed to Lie”. In this book, she exposes, in great detail, ethical violations by prosecutors in some high-profile trial cases. Most of them involved the Enron debacle.

### Enron

Enron, as most readers will recall, was a high-flying energy company, based in Houston, Texas. Enron grew rapidly, as did its earnings. But it eventually became known that much of their earnings growth was based on improper accounting practices, and their house of cards suddenly crumbled. The nation was angry and especially so in Houston, when they learned their baby was a fraud.

The federal department of justice formed an Enron task force to find and prosecute the sinners. Interestingly, the first prosecution was of Arthur Anderson, Enron’s public auditors. They chose to prosecute the firm rather than those Anderson employees who might have been guilty of wrong doing. They got a conviction on obstruction of justice as the Houston juries were anxious to punish, as were some of the local federal district judges. The conviction was ultimately overturned by the US supreme court, unanimously. There were two problems that lead to the reversal.

1. Anderson was faulted for having obstructed justice in the shredding of documents. The truth was that documents destroyed were consistent with Anderson’s document retention policy, and none had been destroyed after their records were subpoenaed. Therefore, all shredding was legal.
2. The judge, at the prosecutions’ urging, omitted the proviso in the jury instructions that the prosecution needed to prove that Anderson knowingly broke a law. The omission, in itself, was a clear violation of law.

The supreme court’s reversal because of these two faults was remarkable in that the decision was unanimous.

But the damage was done. As soon as the firm was indicted, it was finished. Nobody could afford to have an accounting firm under indictment function as their public auditors. Forty thousand people lost their jobs. A good friend of mine who had been the managing partner of Arthur Anderson told me that his pension was reduced by 40%.

After Anderson, the task force turned its attention to Merrill Lynch. Four senior executives were indicted. Charges included perjury, obstruction of justice, depriving Enron of the honest services of one of the Enron executives, and collusion.

The charges centered on a \$7,000,000 transaction, a drop in the bucket in the Enron activities. Enron owned and operated four barges on which electric generators provided power to the Nigerian grid, which had suffered an emergency. Enron was anxious to sell these barges so that they could declare a profit. They persuaded Merrill Lynch to take a minority ownership. While it was not the sort of thing Merrill would normally do, they were anxious to please Enron who had the potential to become a major client. Since Merrill was reluctant, Enron promised to give their best efforts to find a third party who would purchase the Merrill share within six months. The prosecution contended that, in fact, Enron had guaranteed to repurchase the Merrill interest with a guaranteed return. Neither a “best efforts” nor a “guarantee” clause were put in writing. The importance of this distinction lies in the fact that if it were a guarantee, the transaction was essentially a loan rather than a purchase, in which case Enron would not be entitled to report a profit on the sale. While there was no evidence that it was a guarantee, one Enron employee testified that it was. Years after the trial, it was discovered that this same employee, when first interviewed by the FBI stated that it was simply a “best efforts” offer, not a guarantee. This tidbit of information was withheld from the defense, a clear violation of law.

All four Merrill executives served time in high security prisons, until their convictions were overturned, some at the US Supreme Court level. Imagine, if you will, the suffering and anguish inflicted on these people and their families as a result of wrongful convictions.

#### Alaskan Senator

Then there was the Ted Stevens case. Stevens, a long-time senator from Alaska was charged with the crime of failing to disclose gifts. He had some remodeling work done at his home, for which he paid a certain price. At trial, one of the contractor’s people testified that the true value of the work was far greater than the price paid. On that basis, the jury convicted Stevens. The trial had taken place just a few months before a primary election and, of course, Stevens lost to Lisa Murkowski. Stevens would have served time in prison had not an FBI agent blown the whistle, disclosing that this same contractor’s employee had claimed, in his initial questioning by the FBI, that the value of the work done was, in fact, less than the Senator had paid. After this information came to light, Eric Holder, brand new Attorney General, dismissed the charges. But too late, of course, as the damage had already been done.

Judge Emmet G. Sullivan of the United States District Court for the District of Columbia, who had presided at the trial, was hopping mad as the exculpatory evidence, which the prosecution is legally obligated to make available to the defense, had willfully been hidden by the prosecution. He appointed a special investigator who, after a couple of years, issued a report which exposed in detail the violations committed by the prosecution. Not too surprisingly, the two department of justice prosecutors who controlled the Stevens prosecution had been key players in the Enron related cases discussed above.

What were the prosecutorial sins?



### 1. Hiding Exculpatory Evidence.

As any law student knows, prosecutors must disclose any potentially exculpatory evidence to the defendant in a case. The so-called Brady Rule stems from the U.S. Supreme Court's 1963 decision in *Brady v. Maryland*. Prosecutors purposely kept such evidence hidden from the defense in all of the cases discussed above. One wonders how many other convictions have been obtained in this fraudulent manner.

The problem, of course, is that prosecutors achieve advancement through obtaining convictions. Therefore, there is a lot of pressure to convict, and as relates to Brady material, the prosecution is given the right to decide what exculpatory information would be material to the defense's case. In the Enron related cases the defense teams repeatedly requested Brady information and the prosecution, after much delay, provided summaries of the info they had, mainly reports and notes of FBI agent interviews. In doing so, they went to explicit efforts to exclude and exculpatory information. Many years after the trials, the complete content of FBI interview reports and notes became available. The sins of the prosecutors became completely visible.

There is currently a bill in congress, Senate Bill 2197, The Fairness of Disclosure Act, which would take away the prosecutors right to determine which evidence would be material to the defense's case. It was introduced in 2012 and, to my knowledge, has not been passed. I understand that it is opposed by the DOJ. No surprise there.

### 2. Witness Intimidation

Prosecutors have a powerful weapon in the control of witnesses and potential witnesses. They simply hold over their heads the threat of indictment. As a result of this tactic, the Merrill Lynch defense teams were unable to get potentially helpful witnesses to testify on their behalf. In fact, other Merrill Lynch employees refused to testify for fear of becoming under indictment themselves.

### 3. False Testimony

I don't think it could be proven that the prosecutors suborned perjury, but it sure looks that way. For instance, the witness in the Stevens case who testified opposite to what he had told the FBI agent. He either lied to the agent or he lied under oath at the trial. In either case he committed a crime. But, not surprisingly, he was not charged with either crime. The threat of indictment can be a great motivator for a witness to say what the prosecution wants, regardless of its veracity.

### The consequences

So, what happened to the sinful prosecutors? Well after all of these trials and overturned convictions, the violations as well as the prosecutors who violated the law, became matters of public record. But, with one minor exception, none of the people have been punished in any way. In fact, they have received high profile promotions. Some members of the Enron Task force had meteoric career advancements. Eric Holder looked like the knight in shining armor when he exonerated Senator Stevens. At the time he promised to correct such behavior in the DOJ. But



nothing has changed. Holder either chose not to make the necessary changes or he was unable to do so. I personally suspect it was the latter. The “swamp” is well entrenched.

Ms. Powell, the author of the book, was justifiably incensed at the failure of the justice system. When all appeals were finished, and the prosecutors had enjoyed the fruits of the violations, she took it upon herself to see if some element of justice could be brought to bear. She and a colleague prepared extensive complaints about the conduct of each of the offending prosecutors, submitting them to appropriate bar association and to the office of internal justice at the DOJ, expecting that some sort of disciplinary action would be taken. Alas, all complaints were met with denials and no punishment was forthcoming. The swamp protects the swamp.

The perpetrators went free and innocent people were wrongfully punished, serving time in high security prisons. And these defendants had ample resources to pay for expensive defense teams. All of this makes one wonder how many thousands of innocent people, who can’t afford to pay for their own defense, have had their lives ruined as they sit in prison. Think of the price their families pay. I am now inclined to believe that when the black community contends that the justice system is rigged against them, it just may be so. Prosecutors are officially required to seek justice, not convictions, and certainly not convictions at any cost. I believe that until prosecutors who violate appropriate standards of justice are brought to punishment, nothing will change.

I must confess that my confidence in our justice system has been shaken. Ms. Powell’s confidence in the system was so badly shaken that she questioned whether she could continue to practice law.

**A very sad state of affairs, indeed.**

## Conclusion

I have to conclude that, over my lifetime, moral standards and behavior have been in, and appear to be continuing, a steady state of decline. My expectations for the future of this country are not positive.

I believe that factors contributing to this decline are:

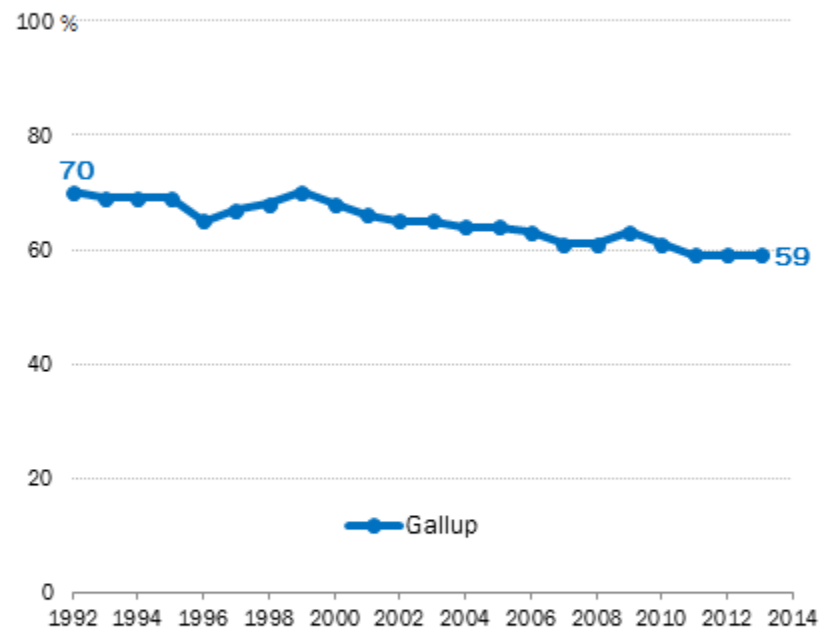
- Decline of the two-parent family. With out male and female role models in their lives it is easy for our young people to adopt the moral standards they encounter through their friends on the street and in schools. As my college president at St. Olaf, Clemons Granskau preached, in matters of morality we tend to gravitate to the lowest common denominator.
- The public schools are no longer permitted to teach religious based morality standards. And it appears they no longer teach any moral standards other than “be kind and don’t cheat”, which are both good virtues. Sex education classes seem to focus on how the adolescent should safely adapt to the free sex culture. No reference to religious based morals is permitted.
- Churches should be a bastion of teaching and preaching good morality. Many do not even do that. But, alas, their influence in the community is declining. Chart 12, below, shows a continuing gradual decline in church membership. I suspect that a picture of active church members would show even lower percentages.

Chart 12

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**Church Membership: Long-Term Trends**

*% of U.S. adults who are members of a church or synagogue*



For details on the data sources cited here, see the discussion at the end of this appendix.

Question wording:

Gallup: "Do you happen to be a member of a church or synagogue?"

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Source: [http://www.pewforum.org/2015/11/03/u-s-public-becoming-less-religious/pf-2015-11-03\\_rls\\_ii-84/](http://www.pewforum.org/2015/11/03/u-s-public-becoming-less-religious/pf-2015-11-03_rls_ii-84/)

I would guess that far less than 50% of our population regularly attends worship services, where they would receive some degree of morality instruction and leadership. So where does the balance of our citizenry learn about moral standards. I suspect nowhere. The churches are failing society. What I believe is that the churches, shrinking as they are, must dig deep into their pockets and build K-8 schools. There they can introduce the young folks to God and teach and instill in them proper moral behavior. That's the last hope I can think of.

Respectfully offered by

Gilmore Tostengard

September 2018