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In an era of widening corporate scandal, a similar challenge might be posed to today's business leaders: If you won't play by the rules because it's the right thing to do; then do it because it's good for business and good for the nation's economy. This is a point that champions of free markets should appreciate, but often don't. Even The Wall Street Journal's editorial page has stumbled over this concept. When scandal arises, the Journal often criticizes prosecutors, not wrongdoers. This was true with investigations into tainted stock research issued by investment banks, illegal trading practices by mutual funds and now with the ongoing insurance industry investigation. It was also true when pharmaceutical companies were shown to be concealing the true results from clinical trials of new drugs. The Journal defended this egregious practice by the drug companies, saying "the process is working exactly as it should."

But no process is working as it should when pervasive fraud goes unaddressed. No process is working when CEOs making millions of dollars fail to uphold basic ethical standards. And no process is working when boards of directors ignore fiduciary duties imposed by law.

Certain business lobby organizations, such as the U.S. Chamber of Commerce, have criticized my office's insurance industry investigation, suggesting that we are targeting executives for "honest mistakes." Most recently, Tom Donohue, president of the Chamber, has said that the problems in the industry are mere "differences of opinion" on accounting methods and that prosecutors are "out of bounds."

But these "honest mistakes" and "differences of opinion" involve bid rigging and other anticompetitive practices that inflate premiums for insurance customers. This conduct has resulted in 10 insurance executives pleading guilty to criminal charges. In addition, the nation's two largest insurance brokers admitted wrongdoing and agreed to settlements that implement sweeping reforms and provide restitution totaling more than $1 billion, with all of this money going back to businesses and individuals who are the victims of fraud. And the nation's largest insurance carrier has removed its renowned CEO and made a series of shocking admissions regarding actions that deliberately misled authorities and investors.

Part of the reason is a mistaken belief that enforcement is bad for the economy. This is a major misconception rooted in an outdated ideology that fixates on examples of intrusive government regulation in the distant past. Today's situation is qualitatively different. We are now combating a series of problems arising almost exclusively from the abandonment of basic concepts in business ethics -- concepts like fiduciary duty, transparency, accountability, and fair play. This conduct betrays the core principle of our economic system: full, fair competition. Prosecutors

are compelled to respond, and they have done so in ways that are targeted and measured. In this regard, here are some simple truths about recent enforcement actions:

• First, rather than "killing the goose that laid the golden egg," Rules has helped level the playing field for honest corporations and has encouraged competition based on performance and value, not impropriety. The evidence is clear that the companies involved in these scandals were well aware of their wrongdoing. In fact, they had consciously decided to descend to the lowest common denominator based on the belief that competitors would violate the rules even if they didn't. It was only when government stepped in to enforce legal and ethical boundaries that this downward spiral was stopped and true competition was restored.

• Second, enforcement of the rules has helped prevent continued misallocation of capital. One of the less obvious effects of the investment banking scandal was the harm done to large, well-established corporations. The stocks of these companies languished in the face of competition from unfairly hyped dot-com stocks. These companies were reporting honest numbers and playing fairly, but they just couldn't attract the capital they needed to grow and create jobs. That wasn't good for them or for the economy overall. Today, however, thanks to the investment banking settlement and the independent research it funded, stock valuations seem to be more closely tied to objective criteria and there is much less misallocation of capital.

• Third, enforcement of the rules has helped maintain investor confidence. If people think the market is rigged, if they feel victimized by fraud and anticompetitive behavior, they simply won't invest. They'll pull out of the markets as quickly as they can. This has happened before and it caused tremendous upheaval. Today, however, it's undeniable that investors indeed have returned to the markets. The investment bank and mutual fund industries have overcome scandals and have seen significant inflows of capital. Confidence has been restored and at least part of that positive response is due to prosecutors' efforts.

• Fourth, balanced enforcement has strengthened individual companies as well as the markets. This may seem counterintuitive, but many of the companies that were the targets of enforcement actions by my office in the last several years have emerged stronger after reforms were implemented. As noted, investors did not abandon investment banks or mutual funds. In fact, many of these financial service companies recently have seen record profits and soaring stock prices -- a testament to the fact that we did not overreach. Of course, a painful period of adjustment often follows investigations that expose corruption. This is unavoidable. Some insurance companies are confronting this reality now, and others may experience it later. The goal, however, is to right the wrong without harming a company and so far prosecutors have been successful.