



Search

TCS Sections

Friday, August 05, 2005 00:02:53

TCS > TECH > STOCK MARKET



Hilary Kramer
President, A&G
Capital Group

Email Author

Biographical

Accounting for a Better Economy

By Hilary Kramer

11/19/2002

E-Mail
 Bookmark
 Print
 Save

The fall of Harvey Pitt has dragged down the SEC and turned the reputation of the once venerable institution into an organization bedraggled with controversy, rumor, and, worst of all, disrespect.



TCS

What happened in the final chapter of this steamy SEC soap opera? On the afternoon of November 12th, William Webster resigned as chairman of the SEC's new accounting oversight board. But as this turbulent period comes to a close, there's some hope for a fresh start.

Anatomy of a Disaster

The background of this controversial appointment is the following: Webster, 78 years old, is a former federal judge who also headed the Federal Bureau of Investigation and Central Intelligence Agency. He was appointed to run the accounting board after a contentious and divided 3-2 vote put him into a position for which he was clearly less qualified than dozens of other possible candidates. But Webster's lack of accounting experience and unsuitability for such a position quickly became overshadowed by a much bigger problem.

What was the controversial matter that led to the toppling of Pitt and to Webster's resignation? Pitt hadn't informed the other four SEC commissioners and the White House before the confirmation vote that Webster once led the audit committee of a company the SEC has been informally investigating and whose chief executive has been accused of accounting improprieties and shareholder fraud. Webster was a director and head of the audit committee of U.S. Technologies Inc., a Washington-based Internet "incubator" and holding company. The firm is now insolvent, and its chairman has been accused in civil suits by investors of accounting improprieties and shareholder fraud. These allegations are also the subject of a federal criminal investigation by the U.S. Attorney in New York. Now, the SEC, Congress, and the General Accounting Office are examining why Pitt failed to reveal this part of Webster's past.

In defense of Webster, he did ask both Pitt and the chief SEC accountant, Robert Herdman, if his role at U.S. Technologies would affect his appointment to the new accounting panel. Herdman reviewed the matter and told Pitt and Webster that the U.S. Technologies situation wasn't a disqualifying factor. Thus we saw the resignation of Herdman on November 8th - in part, as a result of his poor judgment call in determining the U.S. Technologies investigation as inconsequential.

The existence of an open investigation would be considered a *material matter* that should have been disclosed to the commissioners. The accounting firm that was terminated maintains it was dismissed after it brought accounting irregularities to the company's attention. Webster says the firm was fired because it was too expensive. Regardless, there was too much smoke and Herdman and Pitt kept the door closed on the truth and now it has caused all three of the players in this tragedy to lose their jobs and walk away with tarnished reputations.

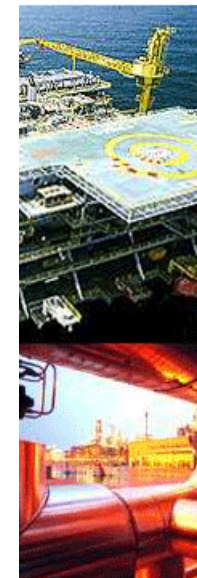
A Clean Slate

Now for the good news! President Bush and his economic team have the opportunity to make the following changes:

public opinion

Will [importing prescription drugs](#) from Canada help American consumers?

- Yes
 No
 Not Sure



NEWEST ARTICLES

- ▶ 'Regime Decapitation'
- ▶ Greenpeace and Nanotechnology
- ▶ The Virtues of Being Virtual

ARTICLES BY AUTHOR

- ▶ Webfare Warfare
- ▶ Where Change is Bad

ARTICLES BY ISSUE

- ▶ Tipping Toward Google
- ▶ Early Birds Get Returns
- ▶ Dubble Bubble?

- A new SEC chairman will come in and take over who, it is hoped, has political savvy and pure intentions - one who will not be mired down in controversy ranging from accusations that he is more interested in defending the accounting firms than shareholders to withholding information so that his own agenda can be moved forward. This new appointee who will head the SEC will be ready to fight for corporate oversight and for the protection of shareholders.
- The new SEC chairman will appoint a new chief accountant. The chief accountant is a key figure in the SEC and one who must be seen as a true advocate of following current accounting guidelines and proposing new guidelines to bring corporate America more into the forefront of accounting transparency.
- The new SEC chairman will ensure that an effective candidate is nominated to the post of heading the accounting oversight board. There is work that needs to be done. Investor confidence still has to be won and, with this saga over, there is now an opportunity to herald in new leadership.

Most importantly, this controversy has created an overhang of distrust and distraction that will now pass. With his victory in the 2002 elections, Bush is unfettered from this political mess and can turn to the real domestic work that needs to be done: improving our economy.

How will he do this? President Bush has talked in the past about the need to focus on tax cuts to stimulate the economy. In addition to repealing the marriage tax and to making the income and estate tax cuts permanent, President Bush needs to focus on smaller and targeted tax cuts. These include cutting taxes on corporate dividends and the profits of overseas multinational corporations as well as accelerating an increase the amount of money individuals can put into a 401(k) and other retirement programs.

Of course, the most important tax reform of all needs to be the abolition of the double taxation on dividends. Once dividends are seen as a tax efficient vehicle for investors, then we will see a mass exodus from money market funds and certificates of deposit into dividend yielding stocks. This will help us get out of the bear market by creating an incentive for all companies to provide their shareholders with dividends. And, the real key to fighting malfeasance is for companies to provide dividends. After all, there must be real profits to issue real dividends. And if the only way to bring in investors is to tempt them with the reality of a dividend - then real profits - real cash - must be generated.

It is a new day in Washington. *Post-Harvey Pitt, post-William Webster and post-Tom Daschle as Majority Leader.* The SEC is now in a position to start fresh, but more importantly, President Bush can now let the SEC and its new team - whoever that may be - take care of the oversight and enforcement. President Bush can now turn to executing real changes and policies that will focus on getting our economy healthy and vibrant - once again.

[BACK](#)

[E-Mail](#) [Bookmark](#) [Print](#) [Save](#)

feedback >>

[Post Feedback](#) [TCS Live Chat](#)

[\[tech \]](#) [\[defense \]](#) [\[enviro-sci \]](#)

© 2005 Tech Central Station : [About Us](#) : [Privacy](#) : [Disclaimer](#) : [Toolbox](#) : [Links](#)

[Home](#) [↑ Top](#)