Ways & Means Transcripts—S2E6—Flimflams, Scams, and Ripoffs

Emily Hanford (EH): From Duke University Sanford School of Public Policy, this is Ways and Means. I'm Emily Hanford.

John Rusnak (JR): My job was to take a small percentage of all the bank's money, and to vastly increase it.

EH: This is John Rusnak. In the late 90's, he was a currency trader. The way he made money was to be on the right side of currency fluctuations. For example, back in 1998, when the Russian ruble was collapsing, he sat in his seat trading for several days, even missed a family vacation.

JR: I had a vicious run and probably made as much money in 3 days than I would make all year.

EH: But big wins are often followed by big losses, and in the 90's, when he was working for a Maryland bank, John had a bad stretch, a monumentally bad stretch. He just kept losing more than he was winning, and the losses piled up. Thousands of dollars, hundreds of thousands, millions, tens of millions, hundreds of millions. In the end-

JR: I think it was something around $630 million dollars. There's some other reports the bank put out; I think it was about $630 million dollars, it was pretty significant.

EH: Actually, the grand total was $691 million dollars.

JR: Most of what I did wasn't illegal. It was acceptable for me to lose money as a currency trader. It was illegal for me not to report it to bank authorities and government authorities and be clear and transparent about my transactions.

EH: And that's what got John Rusnak in trouble. It wasn't that he lost money, but that he lied about it and tried to cover it up. In 2002, John was convicted of fraud. Coming up on this episode of Ways and Means, we look at the case of John Rusnak through a historical lens. It turns out fraud has been a key feature of American business from the beginning. We'll explore why, and why it's more urgent than ever that we pay attention to the rules and regulations our policy-makers are creating and taking away. At the time of John Rusnak's money-losing escapade, the bank he worked for, Allfirst, was the second-largest bank in Maryland. It had 250 branches. John's losing streak lasted about 5 years. Over and over, he kept being wrong, amassing losses that would typically get someone like him fired. But he didn't get fired, because he covered up his losses. One thing he did was create fake trades. If he needed paperwork to back up the trades, he just made it. John neatly collected all these fake documents in a file on his own computer called "Fake Docs". No one at the bank was keeping tabs on him. John was actually using money from the bank to cover his shenanigans.

JR: I was having to borrow that money, pretty much daily from our funding desk in order to, in order to hide the losses. It was a pretty big number in the bank, I had to go out and borrow it every single morning.

EH: Why didn't anyone from the bank catch on? Partly, it was the management controls that were at the bank clearly failed. Like, the bank often didn't confirm the details, even when John was trading such huge amounts of money. Another part of it was John's own self-confidence. He was blustery and aggressive, particularly with the employees in the back office who were supposed to be following his work closely.

JR: Well, as a trader you're given a certain status, you know. People don't often question you. You do what you want, you speak forcefully, and tell people to do stuff and they do it.

EH: And, all the while, he kept thinking that somehow he'd hit the big one again. And then everything would be okay.

JR: Well, yeah, I mean, you convince yourself. I don't know if you've ever been to casinos, but you see the drunk guy standing in front of the roulette wheel constantly. He's betting twice as much on black every time he loses, thinking that eventually black has to hit before I run out of money and I'll make everything back. And that's where he's similar to what I was trying to do.

EH: And, again, the bank thought John was making money. Exactly how was he making that money? They weren't all that interested. The bottom line? The cash seemed to be flowing in. People who make big money by taking big risks, even if they cheat a bit, are often celebrated in the U.S. They've always been part of the American story.

Edward Balleisen (EB): The rascal, the scoundrel, especially the sort who pulls a fast one on the high-and-mighty, this is a figure who has always had some purchase in the American imagination.

EH: This is historian Edward Balleisen. He's meticulously researched 200 years' worth of flim-flams, scams, and rip-offs for his new book, "Fraud: An American History from Barnum to Madoff.”

EB: Well, the United States has always proved quite celebratory to any individual who can rise in some way or another, often from modest circumstances. And our business culture has embraced those on the make who are willing to scrap and willing to ingratiate themselves in ways that create opportunity.

EH: Perhaps that's why bank management turned a blind eye when John Rusnak seemed to be so extraordinarily good at his job. We love the idea of "get rich quick". It's deep in the American psyche. It's what has nudged some respectable firms to embrace deception, says Ed Balleisen, and it's why Americans fall for hucksters and outright swindlers again and again. A simple example is someone who gets caught up in the Nigerian e-mail scheme. You know the one. It goes something like this, "I'm the daughter of an African king and I need to transfer money to your account because you're a reliable and trustworthy person. If you help me and cover the fees, I'll give you a share of my fortune."

Reporter 1: On Tuesday, Spanish police announced the arrest of 84 people accused of running a criminal ring to launder money form the so-called Nigerian scam.

EH: The scam has hung around because it works. And Ed says the idea for such a scam was born long ago right here in the United States.

EB: In the late 19th- mid 19th- century, it was known quite commonly as the "Spanish Prisoner Letter". So, the basic dynamic was the same; you get a letter from someone who said he was in a Spanish jail who new Mr. Smith who knew Mr. Jones who knew you and, here's the situation, his terrible misfortune and how he could get out of it if only you could help.

EH: Businesses perpetrated this kind of outright fraud too. Take the Holland Furnace Company. In the 1930's, the company had offices throughout the U.S., installing and fixing home-heating units.

EB: This company developed a pretty abusive business practice. So, they would send repairmen to people's homes, posing sometimes as government inspectors, ask to see the furnace, they would take it apart and then they would explain that they wouldn't put it back together again because it would be dangerous, because it might explode, it might create noxious fumes that would be incredibly injurious to health. And the only thing they could really offer was to replace the furnace because it was not really fixable and they were not gonna be responsible for putting it back together again and then they would do the hard sell to sell one of their new furnaces.

EH: Customers complained. So many complaints that the federal trade commission issued a cease-and-desist against the company in 1936, but the sales force just ignored it. It was business as usual at the Holland Furnace Company for decades, even though the consumer complaints kept coming in. Finally, in 1965- remember, this all started in the 1930's- a federal judge sentenced the former company president to prison and levied a fine of 100,000 dollars. Only then did the firm take meaningful steps to root out abusive practices. 20th-century business frauds like this cost consumers hundreds of millions in today's dollars; but now, with massive, multinational corporations, the worse scandals are even bigger. Think Enron: fraud that ended up destroying $74 billion dollars in stock market value. Or the Volkswagen emissions scandal. The price-tag for that one has risen to more than $20 billion dollars. Business fraud can now even threaten global financial stability.

EB: What's been different in the last few decades is not just the scale of fraud, but the fact that the allegations are emerging in conjunction with the activities of some of the most important businesses in the economy.

EH: In the case of John Rusnak, the currency trader, he was able to commit what was, at the time, the fourth-largest fraud in U.S. banking history.

JR: When things started to go bad I simply could not admit that I wasn't a good trader and that I wasn't profitable. I felt the need to, um, hide it and assume that I would make it back. I mean, that was completely unrealistic and, in the end, an incredibly failed plan.

EH: Being a successful trader was John Rusnak's entire identity. He'd trade all day and stay out all night. He'd been covering his losses for about 5 years, drinking and doing drugs, trying to forget what he was doing, still hoping he'd suddenly make a lot of money. But the pressure was building, and then, an announcement that the bank where he worked was going to be sold. He'd been able to trick the state regulators and the internal auditors, but John knew he wouldn't be able to fake it through the close scrutiny that would come with the sale of the bank.

JR: My wife and I were in New York at our favorite restaurant, Il Mulino, and it was sowing, it was just after Christmas and it just should've been a great night. It was a beautiful night in New York, the snow was coming down, food was excellent, there was good wine, I was with my wife- but I just, I couldn't. It's just- I knew I was going to have to face up to this problem very soon, and I was just completely distraught. So, I just decided the jig was up. Excuse me, I just decided it was just pointless to try to carry on any longer.

EH: He was going to quit, come clean, but then he didn't. He continued his deception until one Friday at the end of January. Something about his fake trade paperwork made the back office supervisor suspicious. The supervisor confronted John. But rather than coming clean like he'd planned, John got mad, defensive- he packed his stuff in a box and stormed out. Bank management finally started looking closely at his work, and it was clear there was a huge problem, not just for Allfirst Financial, but for its Irish parent company too.

Reporter 2: Allied Irish Bank, Ireland's largest bank, says a foreign-exchange trader working at its U.S. subsidiary is suspected of defrauding it of $750 million dollars. The employee, John Rusnak-

Reporter 3: Today the federal grand jury returned a seven-count indictment, charging John Rusnak with bank fraud and false entries. Count one charges the defendant with bank fraud, the maximum penalty for this offense is 30 years of imprisonment.

EH: John Rusnak served 5 and a half years in prison. Others at the bank lost jobs, but no one else was indicted for fraud. John takes responsibility for his "rogue trader actions", but he also says the banking system itself bears some responsibility for what happened.

JR: I mean I did this, it was my fault, it was my error, it was my sin for sure, but there were things done at the bank level to facilitate a freedom in trading and they set up bonus systems for young men that are directly related to their payouts and don't have great consequences when they lose money other than getting fired. And then, they set those bonus plans up for supervisors and overseers and layers of management so everyone has a vested interest in hotshot traders making tons of money.

EH: If every layer of management wins when a trader wins, then the bank management is not incentivized to look closely at just how a trader is winning. And John argues, not matter how much regulation is on the books, it's hard for regulators to keep up with really smart people getting paid a lot of money to practice risky behavior. That's in part what brought the entire U.S. economy down back in 2008.

Reporter 4: On the broadcast tonight- meltdown, the American financial system is rocked to its foundations as top Wall Street institutions topple under a mountain of debt. Coming up tonight, how did it happen?

EH: Economists are still arguing about all the causes of the financial crisis, but this much is clear; banks were doing really risky things, and no one was stopping them. The financial giant Leeman Brothers declared bankruptcy, AIB took a huge government bailout, Merrill Lynch had to be sold. In response, lawmakers passed the Wall Street Reform and Consumer Protection Act, also known as Dodd-Frank. The idea was to beef up the regulatory practices and not let the foxes, the financial system managers, guard the hen-house. But now, the Trump administration wants to roll back Dodd-Frank. Trump says the regulations are hurting businesses, people can't borrow money. "Getting rid of the regulations," the President says, "would jump-start the economy." Americans have always debated and fought about how much regulation is the right amount. Here's historian Edward Balleisen again.

EB: There has been a powerful argument in American politics and American law that caveat emptor- let the buyer beware- is really the way to go.

EH: "There's no need for big government regulation," the argument goes, "because we can all pick and choose which businesses to patronize. The free market will sort things out." And, in some kinds of business, it's true. Companies do police themselves.

EB: So, take something like online auction fraud-

Reporter 5: But shoppers should be on the lookout for sellers who don't deliver on their promises.

Reporter 6: The Craigslist post ads offering deals that seem too good to be true, but also, too good to pass up.

EH: Frauds like this were bad for big online auction houses. Word gets out that people are falling victim to this kind of fraud, and no one's going to use your auction site. Online auction houses weren't going to wait for the government to come in and regulate them, they took action themselves. Take eBay.

EB: They have invested quite a lot of resources in developing algorithms that spot fraudulent sellers, they've invested in platforms for feedback from purchasers that provides early-warning systems for other buyers on their site and also to their internal investigators.

EH: In the end, internal policing helped online auction companies make more money, but, in the financial industry, there's not much of an incentive; there's even a disincentive to police yourself. And so, what happens again and again in American history is this: bad apples pop up, they cost people lots of money, and they can even bring down entire economies before they get caught. "So," Ed argues, "We need regulation to make sure big banks will police themselves." The question is, how tight will those regulations be? In this country, regulation is cyclical. There's a loosening of regulations, followed my misdeeds, then a tightening of regulations, followed by protests that regulations have gone too far. Ed says, "Loosening Dodd-Frank might help boost the economy in the short term, but, in the long term-"

EB: My guess is it will come at the cost of larger number of incidents of outright fraud and, eventually, a build-up of widespread lack of confidence in economic institutions, but we'll see.

JR: You know, when I was in jail, I had met so many volunteers that had come in to the jails to minister to us while we were in, and there was an unconditional acceptance and love and support despite the fact that we'd done something wrong. It really was redemptive and just beautiful- it changed my expectations and my life view.

EH: After prison, John ran a chain of dry-cleaners and he hired other ex-cons to work there. Now he leads a non-profit in Baltimore called "unCUFFED". It's a faith-based ministry that helps young people in the criminal justice system map out their futures.

JR: What's gonna be different when you get home? You know, how are you as a son? How will you be as a father? How are you as a friend? And, what does forgiveness look like?

EH: John says preventing the kind of fraud he engaged in is tricky. Regulations alone might not nip it in the bud. In his mind, curbing fraud should start in the personnel office.

JR: I mean, I think it's similar to what you do now; hiring the right people, knowing what's going on in their minds, seeing what really drives them, and steering away from people that are broken and trying to prove their value. It's not like that at all, no one really wants to know what you're thinking. And they wanna encourage you to trade but no one wants to hold anyone accountable. And I don't think you can generally hold people accountable without relationship, because you can devise any protection scheme that you want and the auditors would have to be smarter than the traders in order for that to work, and that's not usually the case.

EH: Ways and Means is produced by Carol Jackson, Alison Jones, and Karen Kemp. Thanks to John Rusnak for sharing his story. Edward Balleisen is an associate-professor of history and associate professor in the Sanford School of Public Policy at Duke University, where he also serves as vice provost of interdisciplinary studies. His new book is called "Fraud: An American History from Barnum to Madoff." We're very grateful to the journalist who wrong "Panic at the Bank: How John Rusnak Lost AIB 700 Million Dollars." It's a fascinating book that reads like a thriller. We'll have a link at our website, waysandmeansshow.org. Also, thanks to Lorraine Mirabella at the Baltimore Sun for her help with this episode. Our assistant producer is Joel Luther. Katherine Zhou creates our episode art. Until next time, I'm Emily Hanford.

Clip from a song: There is a sucker born every minute. Each time the second-hand sweeps to the top. Like dandelions up they pop, Their ears so big, their eyes so wide. And though I feed ‘em bonafide baloney, with no truth in it, why you can bet I’ll find some rube to buy my corn. ‘Cause there’s a sure-as-shooting sucker born a minute. And I’m referrin’ to the minute you was born.