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TOWARD A MULTILEVEL SOCIOLOGY OF FRAUD

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ABSTRACT—This Essay applies a distinctively sociological multilevel analysis to fraud to provide novel insights and recommendations on an old problem. Rather than treating fraud as a problem of "criminogenic environments" or of individual psychologies and motivations, this multilevel analysis investigates the ways in which individuals (the micro level) interact with organizations (the meso level) and institutional systems (the macro level) to produce fraud. We illustrate these interactions and the insight that an interactive analysis can provide by using ethnographic data from an in-depth case study of the R. Allen Stanford offshore financial fraud. The case, which occurred in the Caribbean island nation of Antigua and Barbuda in the 1990s and early 2000s, is not just the story of a bad actor. It is one that illustrates the ways that regulatory agencies, legislatures, and the offshore system can facilitate—or impede—fraud at various levels of analysis. We conclude with the practical insights that can be derived from this multilevel perspective.

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INTRODUCTION

We take as our starting point the generally accepted definition of fraud: the misappropriation of some good or benefit through deceit. From a sociological perspective, fraud is a collective social production involving interactions at multiple levels of analysis. Fraud could even be termed, in the words of French social theorist Marcel Mauss, *un fait total social*: a "total social fact," meaning a phenomenon involving all major social institutions, including law, the economy, and culture.[1] Our Essay will assess the sociological analysis of fraud at the *macro* institutional level, the *meso* level of groups and organizations, and the *micro* level of individual actors.

Each level has been examined separately or in pairs by other disciplines, such as in legal scholars' research on the governance of fraud,[2] criminologists' work on organizations that create "criminogenic environments,"[3] or psychologists' analyses of individuals' vulnerability to being taken in by fraud.[4] The sociological perspective is distinctive in that it permits analysis of the three levels in interaction with one another (see Figure 1). This will be examined below using theories from economic and organizational sociology, the sociological study of elites and professionals, and empirical examples from one author's research on a noted Ponzi scheme, the Stanford Financial Group fraud.

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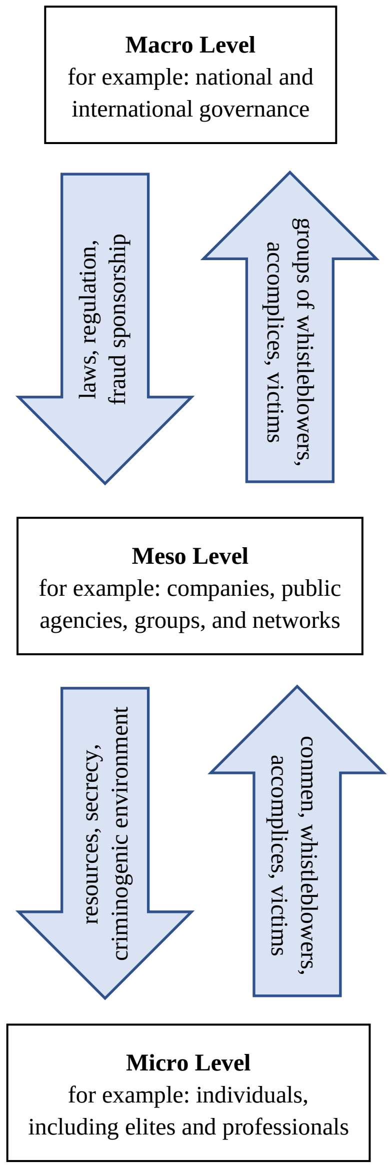
1 Marcel Mauss, *Essai Sur le Don: Forme et Raison de L'échange Dans les Sociétés Archaïques*, 1 L'ANNÉE SOCIOLOGIQUE 30 (1923).

2 *See, e.g.*, Amanda M. Rose, *The Multienforcer Approach to Securities Fraud Deterrence: A Critical Analysis*, 158 U. PA. L. REV. 2173, 2175–76 (2010) (analyzing the sharing of securities fraud enforcement responsibilities among federal and state regulators and class action lawyers); Richard H. Walker & David M. Levine, *"You've Got Jail": Current Trends in Civil and Criminal Enforcement of Internet Securities Fraud*, 38 AM. CRIM. L. REV. 405, 406–09 (2001) (discussing the applicability of federal securities laws to securities fraud occurring over the internet and the SEC's approach to policing such fraud).

3 *See, e.g.*, Martin L. Needleman & Carolyn Needleman, *Organizational Crime: Two Models of Criminogenesis*, 20 SOCIO. Q. 517, 517–18 (1979) (describing the crime-coercive and crime-facilitative models of criminogenesis in organizations that influence member participation in illegal acts); EDWIN H. SUTHERLAND, WHITE COLLAR CRIME: THE UNCUT VERSION 227–39 (1983) (discussing the often deliberate and organized nature of violations of law by corporations); *cf.* Diane Vaughan, *Beyond Macro- and Micro-Levels of Analysis, Organizations, and the Cultural Fix*, *in* INTERNATIONAL HANDBOOK OF WHITE-COLLAR AND CORPORATE CRIME 3, 4 (Henry N. Pontell & Gilbert Geis eds., 2007) (arguing for theory elaboration of the origins of white-collar crime "across macro- and micro-levels of analysis").

4 *See, e.g.*, Jeff Langenderfer & Terence A. Shimp, *Consumer Vulnerability to Scams, Swindles, and Fraud: A New Theory of Visceral Influences on Persuasion*, 18 PSYCH. & MKTG. 763, 766 (2001) (proposing a scamming vulnerability model that considers individuals' motivations to receive rewards and visceral influences on potential victims); *cf.* DONALD R. CRESSEY, OTHER PEOPLE'S MONEY: A STUDY IN THE SOCIAL PSYCHOLOGY OF EMBEZZLEMENT (3d ed. 1973).

FIGURE 1: THREE LEVELS OF ANALYSIS IN THE SOCIOLOGY OF FRAUD



I. THEORETICAL FRAMEWORK

The following Sections will detail each of the three levels of analysis and their interactions in the production of fraud. To provide some illustrative examples, Table 1 shows how entities at each level can be positioned differently in relationship to fraud, and with what observable consequences. At the macro, meso, and micro levels, actors can be linked to fraud as perpetrators, victims, or protectors. While the first two positions are familiar, the third—preventing others from being victimized by fraud, either by preventing or punishing it—also deserves consideration. This conceptual framework creates a 3 × 3 matrix illustrating the social complexity of fraud, and suggesting why a sociological analysis can be analytically fruitful. Table 1 offers familiar historical examples as well as cases from news stories over the past two decades.

TABLE 1: POSITIONS IN THE SOCIAL PRODUCTION OF FRAUD

	Perpetrator	Victim	Protector
Macro Level	**Examples:** The U.K. South Sea Bubble & the French Banque Royale, state-sponsored stock frauds of 1720	**Examples:** Welfare and Medicare fraud; use of offshore finance by firms and individuals to escape legal judgements, tax obligations, and loan repayment	**Examples:** This is the classic role of the state, from Hammurabi's Code through the eighteenth century
	Accountability: Rare to never	**Restitution:** Rare, especially if the fraud was committed by elites (for example, Brett Favre in Mississippi, Rick Scott in Florida, heads of state named in the Panama Papers, etc.)	**Limitations:** This function of governance is no longer considered an essential institutional duty in caveat emptor cultures
Meso Level	**Examples:** Enron and WorldCom accounting frauds of 2002	**Examples:** U.S. Department of Defense by defense contractors; EU treasuries by Cum-Ex tax fraud	**Examples:** Regulatory agencies; media (for example, consumer protection segments on nightly news, NPR's "Bill of the Month" series)
	Accountability: Sometimes; depends on government in power, economic conditions, exogenous shocks on the historical and technological fronts (for example, war, new communication modes)	**Restitution:** Sometimes; depends on the resources of the perpetrator (elites, professionals, and other organizations tend to get away either scot-free or with a slap on the wrist)	**Limitations:** Agencies can be starved of funding and staffed by opponents (for example, Consumer Financial Protection Bureau); conflicts of interest in media
Micro Level	**Examples:** Madoff; Ponzi; Kevin Trudeau; Jim Bakker; Hanno Berger (Cum-Ex)	**Examples:** Investors conned by other individuals, such as Madoff and Ponzi; students defrauded by Trump University	**Examples:** Whistleblowers, who often have marginalized social identities in the fraud context, such as the women in finance who brought down Enron and WorldCom
	Accountability: More often than governments and organizations, but—for elites and professionals—less frequently than one might expect	**Restitution:** Rarely, depends on the relative resources of perpetrator and victim; non-elites may be "cooled out" and never report the fraud at all	**Limitations:** Often persecuted, even prosecuted (Herve Falciani at HSBC); rarely protected (but John Doe and Panama Papers were game changers)

A. *Macro Level*

At the macro level of analysis, fraud depends most significantly on national and transnational governance institutions. They create the opportunity structures, regulatory environments, and sanctions regimes in which certain types of fraud can arise and appear profitable for some. Governance institutions establish the environment for fraud and can be aided or impeded in this project by other macro-level institutions such as religion, education, and markets. Theories of political economy hold that a key role of governance is to protect societies and citizens against swindlers,[5] but as centuries of history attest, such institutions can also be perpetrators and victims of fraud. Two of the first documented financial frauds in history—the U.K.'s South Sea Bubble and France's Banque Royale scandal, both of 1720—were state sponsored and foisted upon unsuspecting citizens by their own governments.[6] In the three centuries since then, the role of governance institutions has repeatedly cycled between facilitating and combatting fraud, as Edward Balleisen has documented in the U.S. context.[7]

More broadly, tension between governance institutions facilitating and combating fraud has profoundly affected the global political economy. This is vividly illustrated by the offshore financial system, in which some states (known informally as "tax havens") compete to legalize what other states deem fraudulent, while transnational organizations such as the Organisation for Economic Co-operation and Development (OECD) and the European Union vie to resolve these conflicts.[8] The offshore system itself, while often labeled and sanctioned as a source of fraud, is also the product and postcolonial project of other transnational organizations, such as the British, French, and Dutch empires.[9]

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5 Brooke Harrington, *States and Financial Crises*, *in* INTRODUCTION TO POLITICAL SOCIOLOGY 267, 267 (Benedikte Brincker ed., 2013).

6 *See* JOHN KENNETH GALBRAITH, A SHORT HISTORY OF FINANCIAL EUPHORIA 28–31, 34–39 (1994); Brooke Harrington, *Social Structure, Power, and Financial Fraud*, *in* THE GLOBAL FINANCIAL CRISIS AND ITS AFTERMATH: HIDDEN FACTORS IN THE MELTDOWN 340, 347 (A.G. Malliaris, Leslie Shaw & Hersh Shefrin eds., 2016).

7 *See generally* EDWARD J. BALLEISEN, FRAUD: AN AMERICAN HISTORY FROM BARNUM TO MADOFF (2018) (documenting the struggles of the American legal and regulatory actors to balance "the impulse to foster entrepreneurial innovation against the felt need to attack the most damaging commercial and financial dissembling").

8 BROOKE HARRINGTON, CAPITAL WITHOUT BORDERS: WEALTH MANAGERS AND THE ONE PERCENT 12–13, 158, 299 (2016).

9 Vanessa Ogle, *Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s–1970s*, 122 AM. HIST. REV. 1431, 1438, 1451 (2017); Ronen Palan, *Tax Havens and the Commercialization of State Sovereignty*, 56 INT'L ORG. 151, 151 (2002).

B. Meso Level

At the meso level of analysis, the key actors are firms, government agencies, and networks—groups of organizations or individuals—some of whom may coordinate outside the auspices of any formal organization. The corporation as a locus of fraud has received extensive scholarly attention.[10] In organizational sociology, the analytical focus is on corporations' relationship to the other levels of analysis: this includes analysis of the "bad apples"—individuals within firms who instigate or perpetuate frauds—as well as how firms respond to the structures of incentives, monitoring, and sanctioning created by governance institutions. Cases such as those of the U.S. savings and loan industry are particularly well-known for creating a criminogenic environment in which fraud is rewarded more often than punished.[11]

Less studied, but just as important, is the role of public agencies in permitting—or even committing—fraud. Every few years, an investigative report reveals the frauds perpetrated on U.S. taxpayers by defense contractors colluding with the Pentagon or with individual branches of the armed forces, as in the U.S. Navy's "Fat Leonard" scandal.[12] In Europe, a fraudulent corporate tax refund scheme robbed state treasuries of billions, sometimes with the knowledge and acceptance of financial regulatory agencies.[13] This fraud, known popularly as the "Cum-Ex scandal," was scandalous precisely because of the collaboration or acquiescence of some government agencies. The fraud itself was masterminded by an international group of attorneys and bankers, led by a former tax auditor for the German government.[14] Now that the fraud has been exposed, members of the group have leveraged their institutional knowledge to repel legal accountability and

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[10] Robert Tillman & Henry Pontell, *Organizations and Fraud in the Savings and Loan Industry*, 73 SOC. FORCES 1439, 1439 (1995); DIANE VAUGHAN, CONTROLLING UNLAWFUL ORGANIZATIONAL BEHAVIOR: SOCIAL STRUCTURE AND CORPORATE MISCONDUCT, at xiii–xiv (1983).

[11] *See* K. Calavita, R. Tillman & H. N. Pontell, *The Savings and Loan Debacle, Financial Crime, and the State*, 23 ANN. REV. SOCIO. 19, 32–33 (1997).

[12] Rebecca Ratcliffe, *'Fat Leonard', Contractor in US Navy's Worst Corruption Scandal, Flees House Arrest*, GUARDIAN (Sept. 6, 2022, 12:15 AM), https://www.theguardian.com/us-news/2022/sep/06/fat-leonard-contractor-in-us-navys-worst-corruption-scandal-flees-house-arrest [https://perma.cc/2F6R-ZZC6].

[13] David Segal, *It May Be the Biggest Tax Heist Ever. And Europe Wants Justice.*, N.Y. TIMES (Jan. 24, 2020), https://www.nytimes.com/2020/01/23/business/cum-ex.html#:~:text=Tax%20Heist%20Ever.,And%20Europe%20Wants%20Justice.,to%20get%20its%20money%20back. [https://perma.cc/6WBU-7U36]. *See generally* JESPER TYNELL, AF HENSYN TIL ERHVERVSLIVET: HVORDAN ERHVERVSINTERESSER FORHINDREDE EMBEDSMÆND I AT AFVÆRGE UDBYTTESKANDALEN (2022).

[14] Karin Matussek, *Mastermind of Tax Scam Gets 8 Years in Prison*, BLOOMBERG (Dec. 13, 2022, 7:18 AM), https://www.bloomberg.com/news/articles/2022-12-13/-mastermind-of-german-cum-ex-tax-scam-gets-8-years-in-prison#xj4y7vzkg?leadSource=uverify%20wall [https://perma.cc/U97Z-RDJ8].

to find safe havens in states that will not extradite them to face European justice.[15] This network of fraudsters exemplifies the problem posed by the "secret societies" identified in a seminal article by sociologist Georg Simmel, who pointed to loose associations of aristocrats, or criminals, or religious charlatans, as threats to both democracy and capitalism.[16]

C. Micro Level

Fraud most often appears in the popular imagination as embodied in individuals, from real-world figures such as Bernard Madoff and Charles Ponzi, to fictional characters such as the mysterious stranger in Herman Melville's *Confidence Man*[17] and the lucky waiter in Thomas Mann's *Felix Krull*.[18] While anyone can be linked to fraud, sociological theory points to specific positions in the social structure associated with roles such as conman, victim, facilitator, or whistleblower. These roles are often analyzed in terms of social identity: the selection of group memberships that can make an individual more or less likely to be a perpetrator or victim of fraud. For example, the vulnerability of particular ethnic and religious groups to "affinity fraud."[19]

Analysis of identity and the interaction dynamics among social roles in fraud has produced what is likely the best-known sociological contribution to this area of study: Erving Goffman's classic *On Cooling the Mark Out*.[20] In that 1952 article, Goffman theorizes fraud as a common interpersonal event that damages the social identity of the victim, as well as her pocketbook; thus, just as perpetrating a fraud requires social coordination (such as between a conman and accomplices), so does the "cooling out" phase, when a victim becomes aware of the crime.[21] Such victims, Goffman argues, are usually assisted by the conman's accomplices in accepting the stigma of having been defrauded; this "help" tends to prevent the victim from

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[15] *See* TYNELL, *supra* note 13.

[16] *Id.*; Georg Simmel, *The Sociology of Secrecy and of Secret Societies*, 11 AM. J. SOCIO. 441, 470–71, 487 (1906).

[17] *See generally* HERMAN MELVILLE, THE CONFIDENCE-MAN: HIS MASQUERADE (New York, Dix, Edwards & Co. 1857).

[18] *See generally* THOMAS MANN, CONFESSIONS OF FELIX KRULL, CONFIDENCE MAN: THE EARLY YEARS (Denver Lindley trans., 1955).

[19] BALLEISEN, *supra* note 7, at 30.

[20] Erving Goffman, *On Cooling the Mark Out: Some Aspects of Adaptation to Failure*, 15 PSYCHIATRY 451, 451, 453–58 (1952) (analyzing the role of a mark—a victim of fraud—and how that role and the mark's self-image contribute to fraud).

[21] *Id.* at 456–58.

reporting the crime to friends or to the authorities, allowing the fraud to continue.[22]

More recent research has illustrated the ways in which specific positions within the social structure offer resources, including status and expertise, that are conducive to perpetuating profitable frauds on others.[23] This is mainly—but not exclusively—an elite phenomenon, since the combination of resources and respectability can provide the means to perpetrate highly profitable, large-scale frauds while shielded from suspicion by social status.[24] Of particular interest are elite professionals, whose resources include not just social and cultural capital, but human capital: the expertise to identify opportunities for fraud and to disguise it cleverly so as to elude detection and punishment.[25] Exemplary cases include the elaborate utilities scam executed by Samuel Insull in the 1930s,[26] Bernard Madoff's era-defining securities fraud,[27] and the case from which we will draw most of our examples in the next Part: the Stanford Financial Group Ponzi scheme.

II. CASE DISCUSSION: THE STANFORD FINANCIAL GROUP

A. A Brief Case History

In 1986, a bankrupt Texan fitness-club mogul named R. Allen Stanford conjured a rare second act, founding an offshore bank in the British Overseas Territory of Montserrat. A few years later, caught up in a regulatory sweep that made it impossible for him to remain in business there, Stanford decamped to Antigua and Barbuda (Antigua).[28] By then, the firm—renamed Stanford International Bank, Ltd. (SIBL)—was peddling its signature product, a high-yield certificate of deposit (CD), and amassing a clientele of Latin Americans (mainly Colombians, Mexicans, and Venezuelans) eager to

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22 *Id.* at 452.

23 Harrington, *supra* note 6, at 340, 347.

24 Mary Kreiner Ramirez, *Criminal Affirmance: Going Beyond the Deterrence Paradigm to Examine the Social Meaning of Declining Prosecution of Elite Crime*, 45 CONN. L. REV. 865, 872–73, 890–91 (2013).

25 *See* Brooke Harrington, *Turning Vice into Virtue: Institutional Work and Professional Misconduct*, 72 HUM. RELS. 1464, 1489–91 (2018); Ramirez, *supra* note 24, at 872–73, 890–91.

26 *See, e.g.*, Georg Rilinger, *Corporate Conspiracies and Complex Secrets: Structure and Perception of the Insull Scheme in 1930s Chicago*, 124 AM. J. SOCIO. 1043, 1051–55 (2019) (detailing the contours and collapse of Insull's utilities scam). Insull's scheme was so complex that it eluded multiple investigations by the Federal Trade Commission over several years. *See id.* at 1045.

27 *See generally* Lionel S. Lewis, CON GAME: BERNARD MADOFF AND HIS VICTIMS (2012); ERIN ARVEDLUND, TOO GOOD TO BE TRUE: THE RISE AND FALL OF BERNIE MADOFF (2009).

28 *See* Tony Hetherington, *I Told You So on Sir Allen Stanford . . . in 1991*, THIS IS MONEY (July 22, 2009, 9:22 AM), https://www.thisismoney.co.uk/money/midasextra/article-1668464/I-told-you-so-on-Sir-Allen-Stanford-in-1991.html [https://perma.cc/5M2X-ZWWV].

park their savings in dollar-denominated, seemingly U.S.-linked accounts. In the mid-1990s, Stanford opened a U.S. firm named Stanford Group Company (SGC), a full-service broker-dealer and investment advisory whose true aim was to funnel U.S. investors into the offshore CD. Fueled by its ongoing expansion in Latin America and an aggressive growth campaign in the United States, the fraud ballooned from around $1 billion in the early 2000s to just over $7 billion at its early 2009 implosion.[29]

From its start, the firm drew leery looks from law enforcement, regulators, and the press in several countries, if only intermittently.[30] Once the stateside brokerage was up and running, U.S. securities regulators took notice. From 1997 to 2008, frontline examiners at the Securities and Exchange Commission (SEC) and at the private Financial Industry Regulatory Authority (FINRA) would scrutinize the firm four times each.[31] Nevertheless, their suspicions would not graduate up their respective procedural chains and ripen into full-blown investigations until very late.[32] At its collapse, the firm left more than 20,000 depositors, mostly in the Americas, stripped of roughly $5 billion in principal.[33] Stanford's fraud is

[29] *See* OFF. OF INSPECTOR GEN., SEC, INVESTIGATION OF THE SEC'S RESPONSE TO CONCERNS REGARDING ROBERT ALLEN STANFORD'S ALLEGED PONZI SCHEME 19 (Mar. 31, 2010), https://www.sec.gov/about/offices/oig/reports/investigations/2010/oig-526.pdf [https://perma.cc/QYG4-FV73]; Press Release, DOJ, Allen Stanford Sentenced to 110 Years in Prison for Orchestrating $7 Billion Investment Fraud Scheme (June 14, 2012), https://www.justice.gov/opa/pr/allen-stanford-sentenced-110-years-prison-orchestrating-7-billion-investment-fraud-scheme [https://perma.cc/E93P-8PYG].

[30] *See, e.g.*, Michael Allen, *U.S. Freezes Accounts of Suspected Mexican Money Launderers: Four Firms Affected in Drug Inquiry*, WALL ST. J., July 22, 1998, at A10 ("In seizure warrants executed in April, the U.S. sought to freeze . . . accounts at an Antigua affiliate of Stanford Group Co., a Houston stockbroker . . . ."); Mark Fineman, *Hand-Over of Laundered $3 Million Sets Precedent in Drug Wars*, L.A. TIMES, May 9, 1999, at A3 (noting that Stanford's decision to turn over $3 million to the U.S. Drug Enforcement Agency "marked the first time that a Caribbean offshore bank voluntarily surrendered drug money to a U.S. government agency"); Tony Hetherington, *Monster Rat in Montserrat (Antigua, Houston, Piccadilly . . . or Bust!)*, OFFSHORE FIN. REV. (FIN. TIMES), Oct. 1991 (describing the unusual aspects of Guardian International Bank's advertising practices and withdrawal of its banking licenses by regulators in Montserrat). Guardian International Bank was subsequently renamed Stanford International Bank; *see infra* note 39.

[31] *See* OFF. OF INSPECTOR GEN., *supra* note 29, at 16; CHARLES A. BOWSHER, ELLYN L. BROWN, HARVEY J. GOLDSCHMID & JOEL SELIGMAN, FIN. INDUS. REGUL. ASS'N, REPORT OF THE 2009 SPECIAL REVIEW COMMITTEE ON FINRA'S EXAMINATION PROGRAM IN LIGHT OF THE STANFORD AND MADOFF SCHEMES 12–45 (2009), https://www.finra.org/sites/default/files/Corporate/p120078.pdf [https://perma.cc/P7WT-T732]. These two reports are indispensable for understanding regulatory failures in this case.

[32] OFF. OF INSPECTOR GEN., *supra* note 29, at 80; BOWSHER ET AL., *supra* note 31, at 2.

[33] Ed Stoddard, *Stanford Receiver May Sue Investors: Judge*, REUTERS (Aug. 2, 2009, 1:48 PM), https://www.reuters.com/article/us-stanford-clawbacks/stanford-receiver-may-sue-investors-judge-idUSTRE5711O520090802 [https://perma.cc/3M78-P63A]; Andrew Harris & Laurel Brubaker Calkins, *Stanford Investors Endure 'Living Hell' on Eve of Trial*, BLOOMBERG (Jan. 20, 2012, 9:35 AM), https://www.bloomberg.com/news/articles/2012-01-20/stanford-s-investors-endure-living-hell-waiting-to-receive-their-money?leadSource=uverify%20wall [https://perma.cc/77YF-AYVK].

noteworthy not just for its duration or the scale of its harms, but for its hemispheric sprawl and jurisdiction-spanning structure. In the remainder of Part II, we will use that fraud to illustrate the concepts introduced in Part I.

We begin by considering the sorts of national and transnational governance institutions that make up the macro scale of social interaction. In the Stanford fraud, three merit particular focus. The first is the Anglophone Caribbean sphere of territories and microstates where Stanford first set roots. The second and third, respectively, are Venezuela and the United States, Stanford's largest and arguably most crucial markets. Together, these furnished the basic opportunity structure and institutional scaffold that enabled that fraud's birth and metastasis.

B. Fraud at the Macro Scale

The Stanford case is ideal for illustrating how macro-level institutions both facilitate the growth of trust and mask wrongdoing. Chief among these is the nation-state itself. Consider the early core of Stanford's business model, a three-legged stool for exploiting the features of very different types of states. Stanford founded his empire in the 1980s Leeward Islands: the eastern Caribbean archipelago that functioned as a late-twentieth-century Wild West for actors drawn to tax avoidance, offshore banking, and general secrecy.[34] From the start, though, Stanford sought customers in Latin

[34] When Allen Stanford incorporated Guardian International Bank (later Stanford International Bank) in Montserrat, the tiny island was already a known swindler's haven, home to scores of dubious offshore banks. *See, e.g.*, Plaintiffs' Original Complaint - Class Action at 23, Janvey v. Greenberg Traurig, LLP, No. 3:12-cv-04641-N (N.D. Tex. Nov. 15, 2012) ("Throughout the 1980s Montserrat was well known . . . as an 'outlaw' banking jurisdiction utilized primarily by fraudsters, con artists and money launderers, where anyone could buy a banking license for a couple thousand dollars, no questions asked."); Bryan Burrough, *Pirate of the Caribbean*, VANITY FAIR (July 2009), https://archive.vanityfair.com/article/2009/7/pirate-of-the-caribbean [https://perma.cc/6EUL-C9Q7] ("The only reason you opened a bank in Montserrat was to commit fraud."). In an international state system where countries enjoy sovereignty within their borders, and norms of mutual forbearance obtain *among* states, there is great temptation for smaller countries with otherwise dire economic prospects to monetize sovereignty itself. Dozens of mostly postcolonial microstates around the globe have gone down this road. *See, e.g.*, Harrington, *supra* note 6, at 254–55 ("[T]oday's leading offshore financial centers . . . are current or former British territories, including Singapore, Hong Kong, the Channel Islands, Bermuda, the Cayman Islands, and the British Virgin Islands."); Bill Maurer, *Islands in the Net: Rewiring Technological and Financial Circuits in the "Offshore" Caribbean*, 43 COMPAR. STUD. SOC'Y & HIST. 467, 469 (2001) (laying out common characteristics of tax havens, such as being small, resource-poor states); RONEN PALAN, RICHARD MURPHY & CHRISTIAN CHAVAGNEUX, TAX HAVENS: HOW GLOBALIZATION REALLY WORKS 40–44 (2010) (identifying jurisdictions, including many postcolonial states, as tax havens). Unluckily for Allen Stanford, Montserrat was a British Oversees Territory then under the gaze of U.K. banking regulators, and Guardian International would get caught in a broader trawl of that island's toxic banking sector. Hetherington, *supra* note 30. He soon found welcoming hosts in nearby Antigua, whose dynastic family, the Birds, were seasoned peddlers of sovereignty.

America, a region then rocked by a debt crisis. Venezuela, from where much of Stanford's early investment flowed, was already several years into a painful slump marked by high inflation and steep currency devaluations.[35] If state legal and economic institutions serve as "hope-generating machines"[36] when they work well, Stanford grasped the profitable converse of this truth. When states breed instability and anxiety among their denizens, the latter's hopes are easily displaced onto foreign, sometimes fraudulent, financial products.[37]

But what kind of foreign? From the time it started placing ads in Latin American dailies[38] and hiring on-the-ground brokers to sell its wares,[39] Stanford also installed "representative offices" in Texas and Florida, and used other flourishes[40] to create an illusion that, despite its offshore origins, it was fundamentally a U.S.-based firm. Leveraging the United States' reputation among middle-class Latin Americans for stability and

See, e.g., ROBERT CORAM, CARIBBEAN TIME BOMB: THE UNITED STATES' COMPLICITY IN THE CORRUPTION OF ANTIGUA 3 (1993) ("[A]ll of th[e] malfeasance [in Antigua] radiates from one of the great heroes of the Caribbean—Prime Minister Vere Cornwall Bird . . . ."); ARTHUR HERZOG, VESCO: FROM WALL STREET TO CASTRO'S CUBA: THE RISE, FALL, AND EXILE OF THE KING OF WHITE COLLAR CRIME 305–06 (1987) (reporting that fugitive Robert Vesco's refuge in Antigua was secured by an agreement to invest in an Antiguan housing project). Allen Stanford, the Birds, and the Birds' political machine, the Antiguan Labor Party (ALP), would enjoy a cozy symbiosis until the ALP's 2004 ouster from power. *See* Katie Benner, *Stanford Scandal Sets Antigua on Edge*, CNN MONEY (Feb. 25, 2009, 9:34 AM), https://money.cnn.com/2009/02/24/news/Allen_Stanford_Antigua_elections.fortune/index.htm [https://perma.cc/83K9-WSTY].

35 *See* Camilo Arturo Leslie, *Hope Amid Crisis: Normative Ambiguity, the Middle Class, and Investment Fraud in 2000s Venezuela*, 64 LAT. AM. POL. & SOC'Y 70, 72, 82 (2022).

36 Matías Dewey & Kedron Thomas, *Futurity Beyond the State: Illegal Markets and Imagined Futures in Latin America*, 64 LAT. AM. POL. & SOC'Y 1, 15 (2022).

37 *See, e.g.*, Leslie, *supra* note 35, at 71–72 ("Stanford's rise and fall transpired within a longer arc of Venezuelan economic and institutional crises. . . . It was in this mire—dubious of key institutions and unsure of their own status—that middle-class Venezuelans saw in Stanford and its high-yield CDs a path toward desired futures.").

38 Hetherington, *supra* note 30.

39 In fact, available evidence suggests that in key Latin American markets (notably Venezuela and Mexico), Stanford carried out its CD sales and other brokerage business for years without licenses, only incorporating and registering with regulators well into the 1990s. *See* Camilo Arturo Leslie, Trustworthiness and Jurisdiction in the Stanford Financial Group Fraud 129–30 (2015) (Ph.D. dissertation, University of Michigan), https://deepblue.lib.umich.edu/bitstream/handle/2027.42/116784/caleslie_1.pdf?sequence=1&isAllowed=y [https://perma.cc/9NLK-4U9B]; GABRIEL BAUDUCCO, IMPERIO DE PAPEL. EL CASO STANFORD DESDE ADENTRO 40 (2009).

40 For instance, Allen Stanford spun a story regarding the firm's supposed Great Depression-era roots and the role of his plucky grandfather's insurance firm in establishing its foundation. *See, e.g.*, Burrough, *supra* note 34 ("He began telling customers the company had been founded by his grandfather Lodis B. Stanford (a barber turned insurance agent) in Mexia in 1932 and, once he renamed the bank Stanford International, he hung a photo of the gray-haired old man in the lobby."); Leslie, *supra* note 39, xii, 58, 63 (discussing the use of Lodis B. Stanford's image and the firm's U.S. roots in Stanford's materials).

lawfulness,[41] the firm gave its products a gloss of trustworthiness. In short, the United States' good name helped Allen Stanford lure clients turned desperate by their home countries' crises, while SIBL's offshore domicile allowed him to siphon those Latin Americans' wealth, unimpeded, into his personal coffers. Once he secured Antiguan regulators' cooperation, SIBL's offshore base would also give Stanford the freedom to make grand but unfalsifiable claims regarding the bank's investment strategy and asset holdings.

C. Fraud at the Meso Scale

If the macro scale of social life marks the terrain of, and lends the structural supports for, fraud's flourishing, the meso scale is where most of the sociological action occurs.[42] It is at this level of analysis that we locate firms, organizations of all stripes, government agencies, and networks. The key, again, is to trace how these either prop up a fraudster's image of probity or help obscure their misdeeds. At a deeper level, though, such groupings not only help malfeasant actors meet their goals but also help *constitute* those actors as agents in the world. Some examples will make this point less abstract.

As the Stanford Financial Group expanded from SIBL and its U.S.-based feeder offices into a conglomerate comprised of scores of corporations spanning the Americas and beyond, so too did its links with third-party firms mushroom. But from the start, Stanford would rely on a vast network of law firms, accountancies, clearing houses, primary and correspondent banks, third-party money managers, insurers, insurance brokers, lobbying firms, and more.[43] Some of these ties were international in scope, as with Stanford's

[41] Leslie, *supra* note 35, at 82–83; Camilo Arturo Leslie, *Recovering "Lay Ignorance" in the Stanford Financial Group Ponzi Scheme*, 100 SOC. FORCES 1752, 1763 (2022).

[42] Brooke Harrington & Gary Alan Fine, *Where the Action Is: Small Groups and Recent Developments in Sociological Theory*, 37 SMALL GRP. RSCH. 4 (2006); *see also* ERVING GOFFMAN, *Where the Action Is*, *in* INTERACTION RITUAL 149 (1967).

[43] *See, e.g.*, Plaintiffs' Third Amended Class Action Complaint at 24–30, Troice v. Willis of Colo. Inc., No. 3:09-cv-01274-N (N.D. Tex. Apr. 1, 2011) [hereinafter Plaintiffs' Complaint, Troice v. Willis of Colo. Inc.] (describing insurance brokerage company Willis's involvement with Stanford); Plaintiff's Original Complaint at 30–40, Off. Stanford Invs. Comm. v. BDO USA, LLP, No. 3:12-cv-01447-N-BL (N.D. Tex. May 9, 2012) [hereinafter Plaintiff's Complaint, Off. Stanford Invs. Comm. v. BDO USA, LLP] (describing accounting firm BDO's involvement with Stanford and alleged knowing participation in its Ponzi scheme); Amended Complaint at 3–9, Grant Thornton v. Toronto Dominion Bank, No. CV-12-9780-00CL (Super. Ct. of Just., Ont., Canada Aug. 22, 2011) [hereinafter Amended Complaint, Grant Thornton v. Toronto Dominion Bank] (describing TD Bank's alleged role in facilitating Stanford's fraud, including its failure to conduct "know your client" and anti-money laundering due diligence while acting as a correspondent bank for Stanford International Bank); Plaintiffs' Original Class Action Complaint at 19–22, Troice v. Proskauer Rose, LLP, No. 3:09-cv-01600 (N.D. Tex. Aug. 27, 2009) (describing the

long-time correspondent banks, HSBC and Toronto Dominion, which facilitated ongoing, massive, cross-border transfers of currency.[44] Some were provincial, such as the Louisiana law firms Stanford cozied up to in advance of purchasing a local trust company that would permit Stanford to sell CDs to U.S. investors via their individual retirement accounts.[45] What such firms held in common, however, was that they were sources of practical *capacity* for Stanford, filling out the organization's extended body, as it were, helping it execute its designs.

Through both commission and omission, they also served to burnish Stanford's image. Some firms took an active part, such as a pair of insurance brokers that circulated highly misleading endorsement letters to prospective Latin American clients attesting to Stanford's solvency, its insurance coverages, and its founders' integrity.[46] Most played a more passive role. Just by doing business with Stanford out in the open, world-renowned firms[47] bathed it in a kind of rectitude-by-association, each added household name making it more unthinkable to observers, or potential customers, that the firm was mere facade. Notably, this dynamic was not limited to private organizations. Indeed, even government watchdogs stumbled into this role. In 2005, for example, the SEC's Fort Worth office sent questionnaires to a sample of SGC clients seeking to determine if they had been subjected to improper sales or marketing tactics.[48] When nothing came of the inquiry, some SGC brokers took this to mean, and likely portrayed to clients, that their employer had been given a regulatory "clean bill of health."[49]

Stanford also gained mightily from tapping into various networks in its environment. Most of these could be described as networks of "affinity" or

involvement of the law firm Proskauer Rose with Stanford, including alleged misstatements to the SEC regarding Stanford's financials).

44 Amended Complaint, Grant Thorton v. Toronto Dominion Bank, *supra* note 43; Leslie, *supra* note 39, at 63–64, 85.

45 Plaintiffs' First Amended Class Action Complaint at 22–24, Off. Stanford Invs. Comm. v. Adams & Reese, LLP, No. 3:11-cv-00329-N (N.D. Tex. July 7, 2011).

46 *See, e.g.*, Plaintiff's Complaint, Troice v. Willis of Colo. Inc., *supra* note 43, at 20 (claiming that BMB and Willis provided Stanford Financial in Houston with insurance endorsement letters for marketing purposes); Leslie, *supra* note 39, at 90–91 (discussing endorsement letters received by defrauded individuals). Coauthor Leslie first learned of this practice not from post-fraud court filings but from some of the dozens of defrauded interviewees he spoke with in Venezuela, two of whom provided him with copies of these letters.

47 A partial list includes the above-mentioned firms as well as Chase Manhattan, Bank of America, Credit Suisse, Société Générale, BDO, Willis Group, Lloyds of London, Bear Stearns, and Pershing. *See* Leslie, *supra* note 39, at 63–64, 85–86.

48 *See* OFF. OF INSPECTOR GEN., *supra* note 29, at 119.

49 *Id.* at 120.

"homophily,"[50]—constellations of people linked by ascriptive traits or shared trajectories. In Caracas and Mexico City, for instance, Stanford employed Jewish brokers to penetrate those capitals' tight-knit Jewish communities, riding the ensuing cascade of references to ruinous heights.[51] In the U.S. South, especially Louisiana, Stanford had close ties to Evangelical megachurches, and the firm's corporate culture was well-known for its Southern Baptist flavor.[52] Professional networks also greatly benefited the firm. Both in the United States and Venezuela, oil company workers turned one another onto Stanford, their retirement accounts and clannish cultures of mutual trust a huge boon to the firm.[53] Time and again, preexisting networks acted as force multipliers for Stanford, allowing it to appear credible to *entire groups* once it had won over a subset of their members.

D. Fraud at the Micro Scale

At the micro scale of social life, we find dyadic relationships and institutionalized roles. Close personal relationships are fraud's favored medium. The vast majority of those who wade into business arrangements that later prove to be fraudulent do so not as self-conscious members of this or that network, but *as individuals*—ones who, moreover, entrust themselves to *other individuals*.[54] Every stage of building out a commercial enterprise, malfeasant or upstanding, is likely to nurture dyadic, often affectively-charged bonds: enlisting partners, hiring employees, dealing with suppliers, attracting and retaining clients, and neutralizing threats. Even coldly transactional arrangements can warm up over time—via the iterative, reciprocal logic of gift exchange—into trust-laden friendships.[55] Every chain in the Stanford fraud—Allen Stanford's friendship with his CFO, and former college roommate, Jim Davis; Davis's romantic affair with the firm's CIO, Laura Pendergest-Holt; horizontal ties among brokers; and relationships

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50 For a discussion of "homophily," see generally Miller McPherson, Lynn Smith-Lovin & James M. Cook, *Birds of a Feather: Homophily in Social Networks*, 27 ANN. REV. SOCIO. 415, 416 (2001), which defines homophily as "the principle that a contact between similar people occurs at a higher rate than among dissimilar people" and surveying its application in different social relationships.

51 Leslie, *supra* note 39, at 167–68 & n.170; BAUDUCCO, *supra* note 39, at 39.

52 Leslie, *supra* note 39, at 224–27; Leslie, *supra* note 41, at 1760–61.

53 Leslie, *supra* note 39, at 219–24.

54 Brooke Harrington, *Going Global: Professionals and the Micro-Foundations of Institutional Change*, 2 J. PROS. & ORG. 103, 114–15 (2015).

55 *See, e.g.*, Mark Granovetter, *Economic Action and Social Structure: The Problem of Embeddedness*, 91 AM. J. SOCIO. 481, 496, 504 (1985) (assessing the importance of social relations in economic decisions). *See generally* MARCEL MAUSS, THE GIFT: THE FORM AND REASON FOR EXCHANGE IN ARCHAIC SOCIETIES (Routledge 2d ed. 2001) (1950).

between brokers and clients—drew strength from the cultivation of personal bonds of loyalty and indebtedness.[56]

While essential to much fraud, dyadic relationships tend to be idiosyncratic. Social roles, by contrast, are institutionalized over the long run and boast more discernible structure.[57] It is here that the question of culture, until now marginal to our discussion, intrudes. We will focus on two culturally imbued roles that were crucial to Stanford's success: those of investor and stockbroker. Their cultural backdrop, though, is key. As historians of finance and capitalism have detailed, the aura of prestige and scientificity that attaches today to investing is the outcome of decades of painstaking cultural work to scrub Wall Street's reputation in the public's mind.[58] What once was scorned as a den of gamblers and gilded crooks is today seen as the surest, most actuarially sound path toward a dignified retirement. A vital piece of that cultural work has been the role institutionalization of the middle-class investor and the financial professional.

To save carefully over a lifetime and then trust one's nest egg to a stockbroker or investment advisor is viewed as not just prudent but as the solemn fulfillment of a middle-class duty. These roles, moreover, are intimately linked, but also deeply unequal. If the ability to navigate, and also cheerfully submit to, expertise is part of a middle-class habitus,[59] rarely are the information asymmetries between layperson and expert as stark and weighty as between an investing novice and a financial professional. Naturally, what is a role vulnerability for the investor is a role resource for her counterpart. As interviews with Stanford customers and stockbrokers

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[56] *See generally* BROOKE HARRINGTON, POP FINANCE: INVESTMENT CLUBS AND THE NEW INVESTOR POPULISM (2008); Brooke Harrington & Gary Alan Fine, *Opening the "Black Box": Small Groups and Twenty-First-Century Sociology*, 63 SOC. PSYCH. Q. 312 (2000); Leslie, *supra* note 39, at 142, 235–36, 250.

[57] Gary Alan Fine & Brooke Harrington, *Tiny Publics: Small Groups and Civil Society*, 22 SOCIO. THEORY 341, 344 (2004).

[58] *See, e.g.*, STUART BANNER, SPECULATION: A HISTORY OF THE FINE LINE BETWEEN GAMBLING AND INVESTING 5 (2017) (distinguishing "good" speculation from "bad" speculation); MARIEKE DE GOEDE, VIRTUE, FORTUNE, AND FAITH: A GENEALOGY OF FINANCE, at xvi (2005) (arguing that financial instruments, such as investment, are rooted in cultural, moral, political, and religious history); HARRINGTON, *supra* note 56, at 11–36 (describing the history and populism of the stock market in American society); JULIA C. OTT, WHEN WALL STREET MET MAIN STREET: THE QUEST FOR AN INVESTORS' DEMOCRACY 4–8 (2011) (tracking the history of the American financial market and the rise of mass investment, which was presented as a democratizing force in society); *see also* Brooke Harrington, *Organizational Performance and Social Capital: A Contingency Model*, 18 SOC. CAP. ORGS. 83, 89–90 (2001) (describing how cultural perceptions of group identity and status impact investment decisions).

[59] *See generally* ANNETTE LAREAU, UNEQUAL CHILDHOODS: CLASS, RACE, AND FAMILY LIFE (2d ed. 2011).

revealed, investors often shopped among brokers and firms before committing to one.[60] But that they *had* to commit eventually was not up for debate. Thus, brokers not only enjoyed the epistemic upper hand, but also worked within a subtly coercive cultural frame that channeled investors, resigned in advance to the genre of exchange, into their arms.

E. How Fraud Cuts Across the Scales

So far, we have shown how fraud operates at distinct scales of social life. But to fully grasp its dynamism—and the challenges facing social scientists and watchdogs alike—let us consider how frauds traverse and combine these levels of activity. We start by describing how fraudulent actors bridge macro and meso phenomena to minimize the legal impediments to their plans. The Stanford case provides useful examples of how firms can draw on, or even constitute, meso-level networks with an eye toward enervating country-level legal frameworks.

In the late 1990s, a rash of stories decrying Antigua's links to Russian mafia banks[61] gave Allen Stanford and his firm's Antiguan hosts reason to worry. In response, Prime Minister Lester Bird convened an advisory board to rejigger the island's offshore sector. That board then assembled a "planning committee" to craft concrete reforms to the country's banking laws and its policies regarding Antigua's cooperation with foreign partners.[62] By that stage in its growth, Stanford's firm could marshal formidable legal muscle and networks of expertise, and its hosts found it convenient to let Allen Stanford draw on those networks and handpick the members of that planning committee.[63] And he did, appointing to it partners from the powerful law firm Greenberg Traurig, partners from the accounting giant BDO, members of the corporate intelligence firm Kroll Associates (among

[60] *See* Leslie, *supra* note 41, at 1762.

[61] *See, e.g.*, Phil Davison, *Russian 'Mafia' Marches on Paradise*, INDEPENDENT (Oct. 8, 1996, 11:02 PM), https://www.independent.co.uk/news/world/russian-mafia-marches-on-paradise-1357502.html [https://perma.cc/J6V9-RMYK] (highlighting increased U.S. law enforcement concern over narcotics smuggling and money laundering operations in Antigua due to increased "Russian tourists, businessmen and investors" moving to the Caribbean island); Douglas Farah, *Antigua Internet Bank Vanishes into Cyberspace*, WASH. POST (Aug. 31, 1997), https://www.washingtonpost.com/archive/politics/1997/08/31/antigua-internet-bank-vanishes-into-cyberspace/4329b1c1-490a-4d59-9258-cec7d11b751f/ [https://perma.cc/9WM4-KKVP] (explaining how Russian owners of the European Union Bank located in Antigua and Barbuda, touted as the "world's first full-service Internet bank," laundered illicit proceeds from criminal activities and then disappeared, leaving "an unknown number of depositors bilked out of millions of dollars and with no way of recover their losses").

[62] Plaintiffs' Original Complaint, *supra* note 34, at 53.

[63] *Id.*

them an ex-DEA agent), and others in Stanford's employ.[64] The ensuing "reforms" triggered their own journalistic blowback and a scathing report from the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN), warning "[b]anks and other financial institutions . . . to give enhanced scrutiny to all financial transactions routed into or out of Antigua and Barbuda."[65] Still, Stanford managed to change that country's laws to his firm's benefit, increasing its sway over the island's economy and governance.[66]

Swindlers likely get their best mileage at the crossroads of meso and micro. There, networks are converted into actual lucrative trust arrangements. Above, we discussed the various veins of homophily in Stanford's reach that it mined for gain (e.g., religious groups and professional networks). Networks, though, are only profit *in potentia*. That is, networks connect fraudsters to possible marks, but then someone must do the work of turning mere links into relationships. Even religious U.S. southerners and Venezuelan oil engineers who staked their trust in Stanford partly on their referral networks[67] emphasized that their loyalty to the firm grew out of the uncommonly warm and devoted customer service they had enjoyed from their brokers.[68] If networks get people in the door, the lesson goes, relationship building keeps them from straying back out.

In some contexts, fraud's meso–micro dynamic has a notable "wholesale" dimension. As with many professionals, a good deal of stockbrokers' time is taken up building and strengthening bonds with clients. Seasoned brokers can claim scores of clients whose anniversaries and children's names they seem to memorize and whose loyalty they have gradually secured. A broker's "book" of business thus represents a deep well of trust, as well as access to vast webs of future client references. Rather than hire and train novices, and wait while they build their books up from nothing,

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64 *Id.*; *see also* Plaintiff's Complaint, Off. Stanford Invs. Comm. v. BDO USA, LLP, *supra* note 43, at 17–18 ("Stanford appointed *every* member of the Task Force, and every member was on Stanford Financial Group's payroll. The Task Force's members included three of Stanford Financial Group's outside lawyers; Kroll executives . . . and several partners or associates from Stanford Financial Group's auditor in United States, BDO Seidman . . . .").

65 FIN. CRIME ENF'T NETWORK, U.S. DEP'T OF THE TREASURY, FINCEN ADVISORY: ENHANCED SCRUTINY FOR TRANSACTIONS INVOLVING ANTIGUA AND BARBUDA (Apr. 1, 1999), https://www.fincen.gov/sites/default/files/advisory/advis11.pdf [https://perma.cc/7GFY-7WDB].

66 Plaintiff's Complaint, Off. Stanford Invs. Comm. V. BDO USA, LLP, *supra* note 43, at 18–19, 31–33. Stanford's efforts to influence the macro level with meso-level tools were not limited to Antigua. As Leslie details elsewhere, Allen Stanford's first forays into political lobbying and campaign finance (both heavily networked affairs) were triggered by his desire to combat a late-90s, Clinton administration anti-money-laundering initiative. *See* Leslie, *supra* note 39, at 93–95.

67 Leslie, *supra* note 41, at 1761–62, 1764–65.

68 *See* Leslie, *supra* note 39, at 173–78; Leslie, *supra* note 35, at 87–89.

firms will often poach senior brokers from competitors via both formal and informal networks. Formal approaches include the use of headhunting firms or services such as LinkedIn. Informal approaches can take the form of asking employees to recommend talented ex-colleagues at their former firms. Brokers, in turn, can be wooed to defect by hefty signing bonuses, access to cutting-edge products or amenities, or even equity stakes. During a frenzied mid-2000s expansion of its U.S. operation, Stanford poached so aggressively from competitors that it occasionally laid waste to entire smaller brokerages.[69] Though not frictionless—if their book is to follow them, brokers must convince clients of their new firm's merits—poaching allows firms to buy client trust in bulk by tapping into broker networks.

Firms also transform meso-level networks into micro-level trust by exploiting the so-called "revolving door." This convention, thought corrupt by some and a net societal benefit by others,[70] entails the movement of personnel between firms and the public or semi-public[71] bodies that oversee them. It is eased by the fact that key segments of regulators and regulated (e.g., lawyers, accountants, and technicians of various stripes) hail from similar class and educational backgrounds, constituting a kind of natural network. Opportunities abound for such professionals to iteratively scare up their salaries by crossing the private–public boundary, gaining and smuggling field-specific forms of know-how and prestige valuable to the other side. Beyond this, though, both upright and fraudulent firms encourage the practice, often plucking their in-house counsel and compliance staff from the ranks of former regulators. Indeed, Stanford boasted numerous former SEC and FINRA officials on its payroll,[72] a fact that likely boosted brokers'

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[69] *See, e.g.*, Complaint at 1, U.S. Trust Co., N.A v. Stanford Grp., No. 07CV00498-GCM (W.D.N.C. 2007).

[70] *See, e.g.*, Joshua Jamerson, Brody Mullins & Sabrina Siddiqui, *Warren Vows Lobbying Crackdown, but It Could Hit Roadblocks*, WALL ST. J. (Dec. 21, 2019, 7:00 AM), https://www.wsj.com/articles/warren-vows-lobbying-crackdown-but-it-could-hit-roadblocks-11576929600 [https://perma.cc/J42J-B6QD] (discussing Senator Elizabeth Warren's efforts to crack down on corruption in Washington by banning presidents, vice presidents, members of Congress, federal judges, and cabinet secretaries from ever working as lobbyists); Wentong Zheng, *The Revolving Door*, 90 NOTRE DAME L. REV. 1265, 1268–69 (2015) (discussing studies that show the revolving door may, in fact, incentivize regulators to be more, not less, aggressive and outlining a "market expansion" theory for how the revolving door may provide a net societal positive).

[71] The dynamic is functionally the same in regards to public regulators (e.g., the SEC) and semi-public or even private self-regulatory organizations (such as the Financial Industry Regulatory Authority).

[72] For example, Bernerd Young, SGC's Chief Compliance Officer during the firm's 2006–2009 boom years was a former District Director, and eighteen-year employee, at FINRA. *See In re* Bernerd E. Young, Securities Act Release No. 100060, Exchange Act Release No. 774421, Investment Company Act Release No. 32050 (Mar. 24, 2016), https://www.sec.gov/litigation/opinions/2016/33-10060.pdf [https://perma.cc/Z84H-R4J7]; *Bernerd ("Bernie") Young: Chief Executive Officer*, MGL CONSULTING

trust in the firm and, on at least one occasion, seems to have bought Stanford some regulatory goodwill.[73]

A fourth way that frauds profitably traverse the meso–micro border is by tapping into elite and celebrity networks, and recruiting spokespeople and representatives from among them, to enhance their appeal to customers. The recent Theranos biotechnology fraud and the FTX crypto-exchange debacle show how quickly dubious organizations can raise their public standing by appointing political and commercial luminaries to their boards or hiring sports and entertainment figures as shills.[74] Like countless firms before and after, Stanford worked from that very playbook, hiring professional athletes as pitchmen, and appointing former heads of state, high-profile legislators, and industry figures to its International Advisory Board.[75] The more notables a firm can enlist, the more readily other elites will accept its endorsement fees or an "advisory" sinecure, even if they lack the competence to credibly assess the firm. For actual and prospective clients, the presence of famous figures among a firm's backers can serve to de-exoticize otherwise questionable products or services and make that firm's fraudulence practically unthinkable, until it is too late.

Finally, fraudulent firms can wring substantial benefit by collapsing the distance between the macro and micro levels. In our focal case, Stanford undertook a kind of *micro-ization* of the macro, fostering personal relationships with political figures in order to render the macro scale of law, regulation, and politics more tractable. Given Antigua's size, this was an easier task there than elsewhere. From the start, Allen Stanford seems to have enjoyed a warm working relationship with the Bird clan (the island's ruling family for most of Stanford's time there).[76] In the United States, the firm

LLC (2020), https://mglconsulting.com/bernerd-bernie-young.html [https://perma.cc/8XS5-96MJ]. Stanford attorneys Wayne Secore and Thomas Sjoblom were both long-time SEC officials. *See* OFF. OF INSPECTOR GEN., *supra* note 31, at 8, 108.

[73] *See* OFF. OF INSPECTOR GEN., *supra* note 29, Exhibit 5 at 51–53; Exhibit 16 at 31–34.

[74] *See, e.g.*, Timothy L. O'Brien, *Theranos Directors Pay No Price for Holmes's Fraud*, BLOOMBERG (Jan. 4, 2022, 12:32 PM), https://www.bloomberg.com/opinion/articles/2022-01-04/theranos-directors-pay-no-price-for-elizabeth-holmes-s-fraud [https://perma.cc/X2ZF-JG7R] (listing high-profile Theranos board members, including former Secretary of State Henry Kissinger, former Senators Sam Nunn and William Frist, and former Wells Fargo CEO Richard Kovacevich); Sissi Cao, *Tom Brady, Stephen Curry, Larry David and Other Celebrities Are Being Sued for Pushing FTX*, OBSERVER (Nov. 17, 2022, 5:23 PM), https://observer.com/2022/11/ftx-crypto-endorsement-tom-brady-stephen-curry/ [https://perma.cc/V2K5-XA84] (discussing FTX's network of celebrity ambassadors, including Tom Brady, Gisele Bündchen, Shaquille O'Neal, and Kevin O'Leary).

[75] *See, e.g.*, Cyra Master, *Financier Was Well Connected in D.C., Internationally*, ATLANTIC (Mar. 12, 2009), https://www.theatlantic.com/business/archive/2009/03/financier-was-well-connected-in-dc-internationally/1464/ [https://perma.cc/72FH-YWFJ] (noting many of the high-profile names associated with Stanford).

[76] Leslie, *supra* note 39, at 69–71.

accomplished these goals through aggressive campaign giving, by indirectly supporting the formation of a Congressional caucus, and by regularly flying legislators to various tropical destinations for "policy" junkets.[77] Though it seems to have lacked such close links in Venezuela, the firm's lavish, bicameral, bipartisan political donations *stateside* had spillover effects there. When Allen Stanford sought revenge against an embezzling former protégé at the firm's Caracas brokerage, he sent Congressman Gregory Meeks (D-NY, Fifth District) to Venezuela to meet with then-President Hugo Chavez, in an attempt to secure that man's prosecution.[78] When the firm sought to purchase a commercial bank in Venezuela, it called in favors with a trio of Republican congressmen, who then sent a letter in support of Stanford to Venezuelan regulators that likely secured the subsequent grant of a banking license there.[79] By fostering trust with the human beings who actually comprise "the state," fraudulent firms can defang law and regulation and open up new opportunities for growth.

CONCLUSION

In the preceding pages, we have demonstrated the sort of multilevel analysis that a sociological approach to fraud not only makes possible but, strictly speaking, requires. Its value lies in making visible the multiple points of determination through which many—and, certainly, most large-scale—frauds are accomplished. A micro-level study of the Stanford case, for instance, might have focused only on the blandishments and perks that brokers offered their clients. Such an approach, though, would have missed the various networks of affinity and professional association that made possible the meeting of broker and client in the first place. An exclusively meso-level focus on organizations might uncover vital forms of logistical support that Stanford enjoyed from other firms. Yet, it might fail to grasp how such organizations warped the informational terrain (flooding it with

[77] The Caribbean Caucus—which still exists today—was founded with the support, and possibly at the behest, of Allen Stanford operating indirectly through a nonprofit called the Inter-American Economic Council (IAEC). The IAEC was a front organization of the Stanford Financial Group, whose ostensible aim was the fostering of better economic cooperation in the Americas, but whose true goal seems to have been to extend Allen Stanford's influence among not just U.S. legislators but Western Hemispheric lawmakers generally. *Id.* at 96–99; *see also* Zachary Roth, *Through Obscure Non-Profit, Stanford Wooed Lawmakers*, TALKING POINTS MEMO (Feb. 20, 2009, 6:58 PM), https://web.archive.org/web/20130123012910/http:tpmmuckraker.talkingpointsmemo.com/2009/02/through_obscure_non-profit_stanford_wooed_lawmakers.php [https://perma.cc/4A2Z-9EP4] (discussing Stanford's close personal ties to the IAEC as the organization's "principal backer," as well as Stanford Financial donating the use of its plane to the IAEC for a 2006 trip to Jamaica that four Democratic lawmakers attended).

[78] Leslie, *supra* note 39, at 106–07.

[79] *Id.* at 103–05.

positive depictions of Stanford, while obscuring the negative) in which micro-level decision-making took place. Similarly, a macro-level focus on both national and transnational governance structures and legal architectures is indispensable for unwinding a fraud like Stanford's. However, if we do not leaven that analysis with the meso and micro—e.g., by studying the organizational forms, professional networks, and personal relationships through which the macro is typically exploited—we would have felt only *parts* of the proverbial elephant, left to guess at its true character. In short, a sociological approach to fraud not only urges scholars to consider each level of interaction—the macro, meso, and micro—but, when feasible, to study each in dynamic contrapose with the others.

Having illustrated with concrete examples how fraudulent actors both operate at and cannily traverse all three scales, we now turn to a more pressing and practical matter. We have argued that our framework can improve scholars' understanding of fraud—but might it also help civil and criminal authorities better understand the challenges in addressing fraud? Put another way, might regulatory and law enforcement personnel benefit from thinking more *sociologically* about the frauds they are tasked with spotting and stopping? Though other disciplines offer bountiful insights on fraud's psychological and institutional mechanics,[80] the multilevel analysis that sociology makes possible, we have argued, shows the most promise for grasping fraud in its fullness. And yet, scholarly understanding and practical implementation are worlds apart. That is because the barriers authorities face are both evergreen and ever-shifting in kind.

A. *Evergreen Challenges*

Whatever the value of our theoretical framework, there are real barriers that could keep fraud's watchdogs from changing tack. We limit our comments here to the SEC, both for its centrality in policing U.S. financial markets and its key role in the Stanford debacle, though the following points likely apply more broadly. As the literature on SEC funding and efficacy attests, the Commission is multiply vulnerable.[81] First, it is subject to chronic

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[80] *Supra* notes 2–4.

[81] William E. Bealing Jr., *Actions Speak Louder Than Words: An Institutional Perspective on the Securities and Exchange Commission*, 19 ACCT., ORGS. & SOC'Y 555, 557 (1994); Anne M. Khademian, *The Securities and Exchange Commission: A Small Regulatory Agency with a Gargantuan Challenge*, 62 PUB. ADMIN. REV. 515, 521–22 (2002); Tim Lohse & Christian Thomann, *Are Bad Times Good News for the Securities and Exchange Commission?*, 40 EUR. J.L. & ECON. 33, 35 (2015); Jonathan R. Macey, *The Distorting Incentives Facing the U.S. Securities and Exchange Commission*, 33 HARV. J.L. & PUB. POL'Y 639, 639–40 (2010); Joel Seligman, *Self-Funding for the Securities and Exchange Commission*, 28 NOVA L. REV. 233, 233 (2004).

underfunding (relative to its scope of responsibility) and funding instability.[82] SEC budgets are countercyclical, receding during stock market booms and expanding during downturns.[83] Thus, perversely, it is when macroeconomic conditions are most propitious to fraud that regulators are likely to feel their purse strings tightened. Any calls for enhanced capacity or shifts in orientation must contend with the brute fact of regulators' resource constraints.

Second, the SEC is vulnerable to news cycles, the whims of Congress and political appointees, and exogenous shocks.[84] Indeed, as the Stanford case shows, SEC enforcement staff at regional outposts are well aware of, and may feel hemmed in by, their D.C. superiors' tastes and preferences (e.g., for certain kinds of fraud, or for how to prioritize quantity and quality in cases brought).[85] As suggested in the Commission's post-fraud audit of its failures in the Stanford matter, the Fort Worth enforcement staff who oversaw Stanford's U.S. broker–dealer felt that the SEC's upper rungs, particularly in the wake of Enron and the Sarbanes–Oxley Act, preferred accounting fraud cases and favored volume over novelty.[86] In fact, it was only after the late-2008 collapse of Bernard Madoff Investment Securities LLC, and in light of the political pressure it unleashed, that the Stanford case was given high priority.

Third, like anyone else, regulators work within determinate social and historical contexts. As Balleisen argues, U.S. legal culture has vacillated from its outset between pro-business and pro-regulatory postures. Regulators are not immune to such shifts.[87] At the extreme, regulators can themselves

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82 Lohse & Thomann, *supra* note 81, at 35, 45; Seligman, *supra* note 81, at 233.

83 Lohse & Thomann, *supra* note 81, at 35.

84 Bealing, *supra* note 81, at 556; Seligman, *supra* note 81, at 245–46.

85 Camilo Arturo Leslie, Unraveling Expert Ignorance: Regulatory Failure in the Stanford Financial Group Ponzi Scheme 17–18, 21–22 (2023) (unpublished manuscript) (on file with author).

86 OFF. OF INSPECTOR GEN., *supra* note 29, at 26–27. It could be argued that it is precisely the SEC's chronic resource constraints that justify narrowing the agency's topical focus to the concerns-du-jour of political appointees or legislators. Might such narrowing not, in the aggregate, produce better enforcement outcomes? This, of course, is an empirical question, one for which we lack a proper comparative basis. However, even if we accept that the agency's budget constraints justify, in the abstract, a narrowed focus, it certainly does not follow that that narrowing ought to be dictated from afar by political actors. First, as the Stanford case teaches us, such dynamics impose costs on regulatory personnel, especially on their sense of autonomy and efficacy, which can lead to lower morale. Second, even if we were to accept, speculatively, that political actors' enforcement preferences reflect the *public's* priorities, it does not follow that the public's priorities at any given time adequately reflect the sorts of market activity most in need of curbing. Indeed, it seems more likely that public outrage (e.g., against accounting fraud post-Enron), stoked in response to massive frauds, is a lagging indicator for what is actually taking place in the economy. Regulators on the ground, by contrast, have a more contemporaneous sense for what malfeasant actors are attempting to get away with.

87 BALLEISEN, *supra* note 7, at 6–8.

sometimes adopt a laissez-faire, even consciously anti-regulatory, outlook that saps their urge to claim jurisdiction over novel products and practices.[88] Fourth, and related, regulators play the laggard in a cat-and-mouse game that sees fiendishly clever rodents perpetually seize the initiative. In their reactive role, regulators are tethered to static rules and conceptual schemes, whereas fraudsters can innovate products and services crafted to confound regulators' categories[89] and prerogatives. Finally, the relationship between criminal and civil authorities, seldom straightforward,[90] is likely to affect regulatory cultures. As scholars and journalists alike contend, the post-2008 Department of Justice is notable for its accommodationist stance toward high-profile financial wrongdoing.[91] Though U.S. Attorneys and regulators do not quite work hand in glove, such signals from across the criminal–civil divide as to who deserves the cudgel and who the kid gloves, can hardly go unnoticed by the latter.

B. Shifting Challenges: The Growing Transnationality of Fraud

A key challenge at all levels of analysis is that fraud itself has attained a transnational character, raising questions about the relevance and effectiveness of nation-based governance to address it. As illustrated by the 2008 global financial crisis, frauds perpetrated by multinational firms are increasingly difficult to detect and sanction.[92] Thus, when frauds begin to unravel in one place—such as the housing market in Iceland—the unraveling quickly becomes global. But it is not just meso-level actors like multinational firms creating the problem. As the Panama Papers offshore data leak of 2016

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88 Russell J. Funk & Daniel Hirschman, *Derivatives and Deregulation: Financial Innovation and the Demise of Glass–Steagall*, 59 ADMIN. SCI. Q. 669, 672–73 (2014).

89 *Id.* at 694.

90 For an excellent and methodologically sophisticated dive into the dynamics of cooperation between criminal and civil authorities, see generally Anthony O'Rourke, *Parallel Enforcement and Agency Interdependence*, 77 MD. L. REV. 985 (2018), which explores the pressures and incentives that shape coordination between different criminal and civil enforcement agencies in the United States. Episodes of "parallel enforcement" (a misnomer, O'Rourke argues, since their decisions in such instances are deeply entwined) tend only to arise when agencies determine that interagency cooperation is less costly than either going it alone or choosing a different agency with which to collaborate. *Id.* at 986. The risks of cooperation to a given agency can be significant. Notably, prosecutors are justly wary of cooperating with civil counterparts out of fear that the latter will produce documents or testimony, in the process of investigation, that are exculpatory of defendants. *Id.* at 989. Broadly, differences in agency incentives, forms of expertise, and investigative styles make cooperation a challenge for both sides.

91 *See, e.g.*, Thomas Angeletti, *The Differential Management of Financial Illegalisms: Assigning Responsibilities in the Libor Scandal*, 53 LAW & SOC'Y REV. 1233, 1250 (2019) (discussing the Department of Justice's exercise of discretion in refusing to prosecute UBS); JESSE EISINGER, THE CHICKENSHIT CLUB: WHY THE JUSTICE DEPARTMENT FAILS TO PROSECUTE EXECUTIVES, at xvii (2017) ("Today's Department of Justice has lost the will and indeed the ability to go after the highest-ranking corporate wrongdoers.").

92 Harrington, *supra* note 6, at 342, 347–48.

showed (followed by the 2017 Paradise Papers and 2021 Pandora Papers leaks), the global financial–legal ecosystem known as offshore finance poses a formidable threat to fraud enforcement at the macro level, rivaling the power of any transnational institution to combat or constrain it.[93] At the micro level, fraud in the macro and meso domains is perpetrated by individual professionals who themselves are increasingly transnational. This means that, unlike traditional professionals who are licensed and regulated by states, these new elite can readily practice *across* borders.[94] Their mobility makes them, like multinational firms, very difficult to monitor and sanction for participation in fraudulent activity. Furthermore, deregulation and the rise of new financial technologies have allowed new forms of experimentation to arise in cross-border financial markets, creating risks that are poorly understood by traders and regulators alike. The most recent examples include frauds in cryptocurrency and nonfungible tokens (NFTs) markets that rapidly engaged individuals and organizations worldwide, then dissolved into scandal just as quickly.[95]

Regulatory and law enforcement systems are usually ill-suited to both the scope and speed of such frauds. Some forms of transnational governance have sought to address these problems, but their track records are mixed. For example, institutions such as the OECD and the International Monetary Fund have thus far lacked the necessary expertise and political legitimacy to combat transnational fraud effectively.[96] Transnational regulatory efforts that consumed years of effort and political capital, such as the European Savings Tax Directive or campaigns of blacklisting "tax havens" for facilitating fraud, have repeatedly foundered and failed. They were simply outmaneuvered by the more nimble, evasive transnational perpetrators of

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[93] *See* HARRINGTON, *supra* note 8, at 19; J.C. SHARMAN, HAVENS IN A STORM: THE STRUGGLE FOR GLOBAL TAX REGULATION 8–11 (2006).

[94] *E.g.*, Brooke Harrington & Leonard Seabrooke, *Transnational Professionals*, 46 ANN. REV. SOCIO. 399, 401 (2020) ("[W]hile transnational professionals may be licensed at the state or local level, their ability to practice is not wholly constrained—as the nation-based professions are—by the geographical boundaries or authority of the licensing body.").

[95] *See, e.g.*, David Twomey & Andrew Mann, *Fraud and Manipulation Within Cryptocurrency Markets*, *in* CORRUPTION AND FRAUD IN FINANCIAL MARKETS: MALPRACTICE, MISCONDUCT AND MANIPULATION 205, 217, 219–20, 223–24 (Carol Alexander & Douglas Cumming eds., 2020) (providing case studies on various frauds and manipulations in the cryptocurrency space); David Yaffe-Bellany, *Thefts, Fraud and Lawsuits at the World's Biggest NFT Marketplace*, N.Y. TIMES (June 6, 2022), https://www.nytimes.com/2022/06/06/technology/nft-opensea-theft-fraud.html [https://perma.cc/6F85-Z4VB] (detailing the difficulties facing the NFT platform OpenSea in preventing cryptocurrency scams and plagiarism).

[96] *See* Eduardo Fernández-Arias & Eduardo Levy-Yeyati, *Global Financial Safety Nets: Where Do We Go from Here?*, 15 INT'L FIN. 37, 41–44 (2012); Reza Moghadam, Strengthening the International Monetary System: Taking Stock and Looking Ahead 13, 17 (Mar. 23, 2011) (unpublished manuscript), https://www.imf.org/external/np/pp/eng/2011/032311.pdf [https://perma.cc/Y2RZ-2G5K].

fraud.[97] Some states, such as Israel, have had greater success by co-opting transnational professionals to assist in designing and implementing anti-fraud measures[98]—a cross-level approach that multinational governance regimes may find useful to emulate.

C. Tentative Prescriptions

While taking the foregoing seriously, we nevertheless offer up the following cautious suggestions for how authorities tasked with impeding fraud might benefit from sociology's insights. Most of these prescriptions could fit under the heading "know your limits." That is because for securities regulators and similarly positioned actors, it is precisely by acknowledging the perspectival limits of their meso-level roles that they might consciously reach beyond them. To be clear, our suggestions are offered not as means for arresting and prosecuting frauds but rather as tools that, at the margins, might help watchdogs better monitor and sanction malfeasant firms and individuals.

Consider, again, the experiences of the frontline examiners who oversaw Stanford. At both the SEC and FINRA, examiners first grew aware of the firm through their routine perusals of its filings and financial data. They began nursing doubts about Stanford almost immediately after. Upon noticing Stanford's quick rate of growth, comparing the firm's purported interest rates to typical bank CDs, contrasting its market-beating returns with its claimed conservative investment philosophy, and taking stock of Stanford's unusual onshore–offshore business model, examiners concluded something was very likely amiss. Such data—a blend of qualitative and rough-quantitative measures—are the stock-in-trade of frontline regulators. Like most bureaucrats, these men and women had a tacit sense for what sorts of business practices seem ordinary and which look more worryingly exotic. To them, Stanford fell into the "exotic" column.

However, the regulators faced crucial evidentiary hurdles. Though Ponzi schemes usually collapse under their own weight fairly quickly, the long-lived ones are especially challenging to authorities since their persistence itself can be taken, by clients and regulators alike, as evidence of probity. And, until a Ponzi-style firm fails to make its expected payouts, there are no aggrieved customers to enroll as witnesses. In the Stanford case, moreover, the entity that issued the fraudulent CDs, and which nominally controlled the relevant investment portfolio, was domiciled in Antigua,

[97] *See generally* GABRIEL ZUCMAN, THE HIDDEN WEALTH OF NATIONS: THE SCOURGE OF TAX HAVENS (Teresa Lavender Fagan trans., 2015).

[98] *See* Adam S. Hofri-Winogradow, *Professionals' Contribution to the Legislative Process: Between Self, Client, and the Public*, 39 LAW & SOC. INQUIRY 96, 103 (2014).

beyond U.S. regulators' power to compel. With no defrauded investors to make complaints, and no plausible path towards checking Stanford's actual asset holdings, securities regulators hit up against a wall. Among enforcement personnel at both agencies, these challenges would justify their inaction over many years.

Still, there were flashes of promise along the way. One involved the distribution of questionnaires to Stanford clients in May 2005, a move that did not yield proof of fraud but did cause useful consternation among Stanford's clients, brokers, and high-ups. Thus, our first suggestion is for regulators to seek ways to directly gather human intelligence whenever feasible. As stated above, frontline examiners typically rely on periodic firm filings and disclosures for their data. If we think of this as an intra-meso-level transfer of information, though, its limitations become obvious. The distribution of client questionnaires by Fort Worth SEC staff was such a jolt precisely because it broke out of this meso-level circuit and attempted to access the micro realm of customer experience. In principle, there is no reason why such stock tools as site visits or voluntary requests for information cannot be supplemented by these more creative efforts. One can easily appreciate, for instance, the potential benefit of sending regulators to pose as prospective clients, or to attend a firm's public investment seminars, in order to hear its business pitch unfiltered. Even if such tactics do not result in "smoking guns," the resulting impressions can add useful detail and greater certainty to regulators' judgments.

Our second suggestion is for fraud's watchdogs to be more self-reflexive about the meso-level spaces they inhabit. During its early brushes with regulators, Stanford benefited from having on its legal team a former member of the Fort Worth SEC. The latter even attested to Stanford's rectitude to a then-Fort Worth Enforcement attorney (with whom he was also personal friends). Allegedly, the regulator then used his ex-colleague's testimonial about Stanford to beat back examiners' interest in the firm. There is little indication that anyone in that SEC office was scandalized by this episode. The ubiquity of the "revolving door" phenomenon goes a long way toward explaining why. However, the fact that such behavior passes as normal in some meso-level organizations does not mean we cannot probe it. Indeed, toward defamiliarizing such activity, we suggest the following. Where a firm has otherwise been found to display unusual or concerning traits, a density of former regulatory personnel among its legal staff ought, presumptively, to be treated as a red flag. Though this would undoubtedly yield some false positives, as a corrective heuristic it could help regulators better realize when their own networks are being weaponized against them by bad actors.

Our third and last suggestion concerns a different front for regulatory intelligence gathering: the realm of paid influencers. This, it bears repeating, entails the activation of elite networks (such as celebrities or trusted members of ethno-religious affinity groups) for the purpose of shaping micro-level decision-making. Particularly where large firms are concerned, we deem it valuable to document their bids to win influential backers. Above, we detailed Stanford's efforts to hire famous pitchmen, to place varied notables on its International Advisory Board, and to gain the support of politicians. These took place out in the open. Regulators were either not aware of Stanford's public relations strategies or thought them outside their proper scope to consider. After Stanford's downfall, such activity was rightly described in the press as a plan to have bought the public's trust. But it has never been treated as *regulatorily* relevant. The recent Theranos and FTX debacles—frauds which followed the exact same publicity playbook—call into question the wisdom of ignoring such activity. Especially in cases of novel or esoteric products and services, the presence of influential backers ought to set alarm bells ringing. Such bells should ring all the louder where a firm's backers are baldly ill-suited to grasp its business model. In the future, regulators might devise a method to track and score the composition, topical suitedness, and rate of growth of firms' backers, in order to help differentiate "normal" public relations methods from the dodgier "hard sell" we often see in frauds. Though the preceding suggestions do not solve the daunting challenges discussed above, we offer them in the spirit of helping watchdogs achieve a greater degree of awareness of malfeasance and capacity to combat it.