Recent Developments in Corporate and White Collar Crime

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I. RICO: REFORM ON THE HORIZON?

A. Defining a “Pattern”: *H.J. Inc. v. Northwestern Bell Telephone
   Co.*

In *H.J. Inc. v. Northwestern Bell Telephone Co.*,¹ the Supreme Court
continued its attempt² to meaningfully define the “pattern of racketeering
activity” requirement of the Racketeer Influenced and Corrupt
Organization Act (RICO).³ The Court provided some clarification, holding

¹ Gail Vasterling, Project Editor. Special thanks to Professor Kathleen F. Brickey, George
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² The Court made an earlier attempt to define “pattern of racketeering activity” in Sedima,

that a "pattern" does not require separate schemes.\textsuperscript{4} Nonetheless, its efforts should do little to appease those critics\textsuperscript{5} advocating a congressional amendment of RICO to remedy the vagueness inherent in the current statutory formulation. In a scathing concurrence, Justice Scalia openly denounced the statute’s ambiguity and suggested that RICO’s pattern requirement might be vulnerable to a constitutional challenge.\textsuperscript{6}

RICO imposes criminal and civil liability on persons who engage in certain “prohibited activities,”\textsuperscript{7} which involve some connection with a “pattern of racketeering activity.”\textsuperscript{8} RICO defines “racketeering activity” as “any act or threat involving” specified state-law crimes,\textsuperscript{9} any “act” indictable under specified federal statutes,\textsuperscript{10} and certain federal “offenses.”\textsuperscript{11} RICO’s “definitions” section,\textsuperscript{12} however, does not explain


4. For an analysis of the “separate schemes” approach rejected by the Court, see \textit{infra} notes 24-26 and accompanying text. A “pattern” by definition, however, does require multiple predicate acts. \textit{See infra} note 13 and accompanying text for a discussion of RICO's pattern requirement.


6. \textit{See infra} note 51 and accompanying text.

7. The activities prohibited include: investing income derived from a pattern of racketeering in any business which engages in or affects interstate or foreign commerce; acquiring, through racketeering activity, an interest in any business which engages in or affects interstate or foreign commerce; or conducting the affairs of any business which engages in or affects interstate or foreign commerce through a pattern of racketeering activity. 18 U.S.C. § 1962 (1988).

8. \textit{Id.} The statute also proscribes activities involving "the collection of an unlawful debt." \textit{See supra} note 3.

9. 18 U.S.C. § 1961(1)(A) (1988) (includes state crimes punishable by more than one year of imprisonment that involve murder, kidnapping, gambling, arson, robbery, bribery, extortion, dealing in obscene matter, or dealing in dangerous drugs).


11. 18 U.S.C. § 1961 (1)(D) (includes any offense involving fraud connected with a title 11 (bankruptcy) case, fraud in the sale of securities, or felonious acts involving narcotics or other dangerous drugs).

clearly what constitutes a "pattern of racketeering activity," defining a pattern as "at least two acts of racketeering activity" (predicate acts) within a 10-year period.13

Given RICO's rather ambiguous definition of "pattern," the Supreme Court has attempted to guide the lower federal courts' efforts to develop a more meaningful standard. In Sedima, S.P.R.L. v. Imrex Co.,14 the Supreme Court provided four clues regarding the meaning of RICO's "pattern" requirement.15 First, the statutory definition of "pattern of racketeering activity" implies that while two predicate acts are necessary, two acts alone may not be sufficient.16 Second, the Court found that "two isolated acts of racketeering activity," "sporadic activity," and "proof of two acts of racketeering activity without more" are insufficient to constitute a pattern.17 Third, RICO's legislative history indicates a pattern results from the combination of continuity and relationship.18 Finally, the Sedima Court indicated that the definition of "pattern of criminal activity" in Title X of the Organized Crime Control Act (OCCA)19—a different title under the same Act creating RICO—may help in interpreting RICO's pattern requirement.20

Sedima's "clues" however, did not prove very enlightening to the lower courts struggling with the concept of "pattern." Following Sedima, the federal district courts and circuit courts of appeals produced numerous and widely conflicting interpretations of RICO's "pattern" requirement.21 Congress, meanwhile, did nothing to clarify the term "pat-

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19. 18 U.S.C. § 3575(e) (repealed 1987) ("[C]riminal conduct forms a pattern if it embraces criminal acts that have the same or similar purposes, results, participants, victims, or methods of commission, or otherwise are interrelated by distinguishing characteristics and are not isolated events.").
tern" through legislation. Thus, in an attempt to reconcile the continuing widespread divergence in circuit positions, the Supreme Court granted certiorari in *H.J. Inc. v. Northwestern Bell Telephone Co.*

In *H.J. Inc.*, the Court reviewed an action by the Eighth Circuit Court of Appeals dismissing a RICO complaint because the acts comprising the alleged violation were not in furtherance of multiple schemes and therefore were insufficient to establish a pattern of racketeering activity.

(1st Cir. 1987) (rejecting multiple scheme requirement; sufficient that predicates relate to one another and threaten to be more than an isolated occurrence); United States v. Indelicato, 865 F.2d 1370, 1381-84 (2d Cir. 1989) (en banc) (rejecting multiple scheme requirement; two or more interrelated acts with showing of continuity or threat of continuity sufficient); Bartichak v. Fidelity Union Bank/First National State, 832 F.2d 36, 39-40 (3d Cir. 1987) (rejecting multiple scheme requirement; adopting case-by-case multifactor test); International Data Bank, Ltd. v. Zepkin, 812 F.2d 149, 154-55 (4th Cir. 1987) (rejecting any mechanical test; single limited scheme insufficient, but a large continuous scheme should not escape RICO's enhanced penalties); R.A.G.S. Couture, Inc. v. Hyatt, 774 F.2d 1350, 1355 (5th Cir. 1985) (two related predicate acts may be sufficient); United States v. Jennings, 842 F.2d 159, 163 (6th Cir. 1988) (two predicate acts potentially enough); Morgan v. Bank of Waukegan, 804 F.2d 970, 975-76 (7th Cir. 1986) (refusing to accept multiple scheme requirement as general rule; adopting multifactor test, but requiring that predicates constitute "separate transactions"); Sun Savings and Loan Ass'n v. Dierdorff, 825 F.2d 187, 193 (9th Cir. 1987) (rejecting multiple scheme test; requiring two predicates separated in time that are not isolated events); Torwest DBC, Inc. v. Dick, 810 F.2d 925, 928-29 (10th Cir. 1987) (holding single scheme from which no threat of continuing criminal activity may be inferred insufficient); Bank of America National Trust & Savings Ass'n v. Touche Ross & Co., 782 F.2d 966, 971 (11th Cir. 1986) (rejecting multiple scheme test; requiring that predicates be interrelated and not isolated events); Yellow Bus Lines, Inc. v. Drivers, Chauffeurs & Helpers Local Union 639, 839 F.2d 782, 789 (D.C. Cir. 1988) (requiring related acts that are not isolated events)). See also Superior Oil Co. v. Fulmer, 785 F.2d 252 (8th Cir. 1986) (requiring proof of multiple illegal schemes).

Justice Scalia referred to this divergence of opinion as "the widest and most persistent circuit split on an issue of federal law in recent memory." 109 S. Ct. at 2907. Two commentators remarked that after the inconsistency and confusion following *Sedima*, "pattern" had joined the class of legal abstractions where one could only say "I know it when I see it." Chepiga and LaMother, *The Continuing Evolution of the "Pattern" Concept in RICO Litigation: H.J. Inc. and Its Inevitable Progeny*, 153 *Civ. RICO* (PLI) 87, 110 (1989).


24. "Scheme" as used in Eighth Circuit opinions refers to a single goal or single fraudulent effort as in "influencing MPUC Commissioners" in *H.J. Inc. v. Northwestern Bell Telephone Co.*, 829 F.2d 648, 650 (8th Cir. 1987) or "conversion of petroleum gas" in *Superior Oil Co. v. Fulmer*, 785 F.2d 252, 258 (8th Cir. 1986).

25. *Id.* at 2898. In *H.J. Inc.*, Northwestern Bell Telephone Company customers brought a class action under RICO, alleging that the company gave members of the Minnesota Public Utilities Commission numerous bribes in return for the commissioners' approval of unfair and unreasonable rates, in violation of 18 U.S.C. §§ 1962(a)-(d). *Id.* at 2897. The plaintiffs sought an injunction and treble damages under RICO's civil liability provisions, §§ 1964(a) and (e). *Id.* The United States District Court for the District of Minnesota granted the telephone company's motion to dismiss for failure to state a claim upon which relief could be granted, 648 F. Supp. 419, 425 (D.Minn. 1986). The district court found the plaintiffs' failure to allege multiple illegal schemes mandated dismissal.
The Supreme Court reversed, holding that multiple schemes are not a prerequisite to finding a pattern. The Court then presented an analysis for determining what constitutes a "pattern of racketeering activity." The Court first concluded that Congress' failure to provide a precise definition of a "pattern of racketeering activity" indicated that the pattern concept was broad and to be applied flexibly. The Court then turned to RICO's legislative history for more specific guidance, and found a congressional intent to require proof of (1) related predicates (2) that amount to, or pose a threat of, continued criminal activity.

To guide the lower courts in formulating a definition of "relatedness" under RICO, the Court advised looking to the definition of a pattern of criminal conduct in Title X of OCCA. That title provides that criminal conduct forms a pattern if it includes acts with the same or similar purposes, results, participants, victims, methods of commission, or that are otherwise interrelated.

under the Eighth Circuit's decision in Superior Oil Co. v. Fulmer, 785 F.2d 252 (8th Cir. 1986). The Court of Appeals for the Eighth Circuit affirmed, H.J. Inc. v. Northwestern Bell Telephone Co., 829 F.2d 648 (8th Cir. 1987), stating that under Eighth Circuit precedent a single fraudulent scheme is insufficient to establish a pattern of racketeering activity. 109 S. Ct. at 2898. The Supreme Court granted certiorari to resolve the conflict between the Eighth Circuit's "multiple scheme" interpretation and the interpretation of circuits that had rejected the multiple scheme requirement. 485 U.S. 958 (1988).

26. 109 S. Ct. at 2899. The Court also held that RICO's pattern requirement does not require proof of an organized crime nexus, id. at 2905, and cannot be established merely by proving two predicate acts. Id. at 2899.

27. Id. at 2899. Unlike other provisions in RICO's definitional section—which describe what various concepts "mean"—the definition of a "pattern of racketeering activity" merely states a minimum necessary condition for the existence of a pattern. Id. Section 1961(5) describes the phrase "pattern of racketeering activity" only as "requir[ing] at least two acts of racketeering activity, one of which occurred after [October 15, 1970] and the last of which occurred within ten years (excluding any period of imprisonment) after the commission of the prior act of racketeering activity." 18 U.S.C. 1961(5) (1988). "This definition provides an extremely low threshold for satisfying the pattern" requirement, indicative of Congress' broad approach to the pattern concept.

28. Id. at 2900 (from the relaxed limits to the pattern concept as defined in § 1961(5) and the absence of any textual identification of what sorts of patterns would satisfy § 1962, it is reasonable to infer that Congress intended a flexible approach).


30. 109 S. Ct. at 2900. The Court merely reiterated Sedima's requirement of continuity plus relationship. See supra note 18 and accompanying text.

31. 109 S. Ct. at 2900-01. See supra note 19 and accompanying text.

32. Id. at 2901, 18 U.S.C. § 3575(e) (repealed 1987). After quoting OCCA's pattern requirement, the Court stated, "[w]e have no reason to suppose that Congress had in mind for RICO's
In defining "continuity," the Court rejected a multiple scheme requirement, stating that the concept of "scheme" was not included in the text or legislative history of RICO, and that it brought a rigidity to the available methods of proving a pattern not present in the idea of "continuity" itself.

The Court proposed a more flexible approach, under which a plaintiff or prosecutor need only prove continuity of racketeering or the threat of such continuity in order to show a "threat of continuing racketeering activity." Acknowledging the difficulty in formulating a general test for continuity, the Court announced that the requirement could be proven in a variety of ways under either a "closed-ended" or "open-ended" theory. If the plaintiff or prosecutor could demonstrate continuity over a closed period by proving a series of related predicates extending over a substantial period of time, such proof would satisfy the requirement. If the racketeering activity extended over only a brief time period, RICO liability would then depend upon the plaintiff or prosecutor establishing a threat of future continuing activity—or open-ended continuity. The Court conceded that its approach to open-ended continuity necessitated a fact-specific inquiry, but offered two examples: predicate acts that involve a threat of repetition extending indefinitely into the future, and predicates that are part of an ongoing entity's regular way of doing business.

33. 109 S. Ct. at 2901 ("[i]t is implausible to suppose that Congress thought continuity might be shown only by proof of multiple schemes") (emphasis in original).
34. Id. The Court stated its distaste for "introducing a new and perhaps more amorphous concept into the analysis that has no basis in text or legislative history" (quoting Bartichek v. Fidelity Union Bank/First National State, 832 F.2d 36, 39 (3d Cir. 1987)).
35. 109 S. Ct. at 2901.
36. Id.
37. Id. at 2902.
38. Id. ("Predicate acts extending over a few weeks or months and threatening no future criminal conduct do not satisfy this requirement. . . ."). The Court believed this "over a substantial period of time" test reinforced Congress' concern with long-term criminal conduct. Id. But cf. infra note 45 (Scalia's criticism of Court's closed-ended concept).
39. Id.
40. Id. (providing example of hoodlum selling "insurance" to storekeepers to cover window breakage, where hood tells proprietors he will visit each month to collect "premium").
41. Id. (providing the following examples: predicates attributed to the operation of a long-term association that exists for criminal purposes—the proverbial "organized crime;" predicates that are a
The opinion hinted at the vagueness problems inherent in its “pattern” analysis, noting that the Court could not fix in advance the concepts of continuity and relationship with such a clarity that it would always be apparent whether a “pattern” exists in a particular case.42 The Court also expressed its desire for more congressional guidance: the development of its continuity and relationship concepts “must await future cases, absent a decision by Congress to revisit RICO to provide clearer guidance as to the Act’s intended scope.”43

In a separate concurrence,44 Justice Scalia criticized the Court’s pattern analysis,45 but ultimately decided that the problem lay not in the Court’s efforts46 to define a pattern, but in RICO’s failure to provide

regular way of conducting a legitimate business that does not exist for criminal purposes; predicates that are a regular way of conducting or participating in an ongoing and legitimate RICO “enterprise”).

42. Id. Applying its analysis to the facts of H.J. Inc., the Court held the relationship requirement could be satisfied because the acts of bribery were alleged to be related by a common purpose to influence the commissioners’ approval of unfair rates. Id. at 2906. The Court also concluded the continuity requirement could be satisfied by the plaintiffs’ claim of frequent predicate acts over a six-year period (closed-ended), or by the threat of continued activity if the alleged bribes constituted the defendant’s regular way of doing business, or the regular way of conducting or participating in the conduct of an alleged and ongoing RICO enterprise—the Minnesota Public Utilities Commission itself (open-ended). Id. Therefore, the Court held the Court of Appeals erred in affirming the District Court’s dismissal of the claim for failure to plead “a pattern of racketeering activity,” and reversed and remanded the case for further proceedings. Id.

43. Id. at 2902.

44. 109 S. Ct. at 2906-09 (Scalia, J., concurring in the judgment). Scalia was joined by Justices Rehnquist, O’Connor, and Kennedy.

45. Scalia believed that the Court did little more than re-offer Sedima’s four clues with only the additional caveat that Congress intended a “flexible approach.” Id. at 2907. He also criticized the Court’s continuity and relationship requirements for being garnered from merely a “snippet from the legislative history” and for proving valueless in defining a “pattern.” Id. at 2907.

Regarding the Court’s concept of relatedness, Scalia noted that instead of looking to 18 U.S.C. § 3575(e) for guidance, normal rules of statutory construction dictate that if Congress included a definition of pattern in OCCA but not in RICO, the Court should presume Congress intended to exclude the application of OCCA’s definition to RICO. Id. at 2907. Scalia added that § 3575(e)’s vague text provided no help in clarifying the relatedness requirement. Id.

Turning to the Court’s continuity analysis, Justice Scalia lambasted the Court’s closed-ended concept. After complaining that he did not understand the idea, the Justice stated that—contrary to the Court’s test—a RICO pattern should cover just a few months of racketeering activity. Otherwise, criminals receive a free period from RICO prosecution. Id. at 2908. As for the concept of open-ended continuity and its requirement of a “threat of continuity,” Scalia stated that the Court’s rejection of a multiple-scheme requirement made it more difficult for potential defendants to know whether they are covered by RICO; the “threat of continuity” test will prove difficult both to follow and to apply. Id. Scalia agreed, however, with the Court’s holding that a RICO “pattern” does not require proof of multiple schemes. Id. at 2909.

46. Id. at 2908 (“It is, however, unfair to be so critical of the Court’s efforts, because I would be
clear guidance on what activity is sufficient to constitute a "pattern of racketeering activity." 47 Justice Scalia charged that H.J. Inc. added nothing to prior Court attempts to define "pattern," but rather increased RICO's vagueness by adding the "threat of continuity" requirement. 48 Scalia, therefore, predicted that after H.J. Inc., the split in the circuits over what constitutes a RICO pattern would continue. 49 Deeming this vagueness intolerable given the severity of RICO's penalties, 50 the Justice forecast RICO's vulnerability to a constitutional challenge for vagueness: 51 "That the highest Court in the land has been unable to derive from this statute anything more than today's meager guidance bodes ill for the day when that challenge is presented." 52

The Court's decision in H.J. Inc. is significant for several reasons, and should add to the current pressure on Congress to clarify RICO's defini-

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47. Id. (Although clear from prologue of RICO that Congress intended the word "pattern" in the phrase "pattern of racketeering activity" to require something more than the mere existence of multiple predicate acts, "[W]hat that something more is, is beyond me.").

48. See supra note 45 for Scalia's criticism of the Court's "threat of continuity" requirement.

49. 109 S. Ct. at 2908.

50. RICO's criminal penalties include fines and/or imprisonment of up to 20 years (or for life if the violation is based on a predicate act for which the maximum penalty includes life imprisonment), and forfeiture of any interest in property acquired through racketeering activity. 18 U.S.C. § 1963 (1988).

51. The federal constitutional doctrine of vagueness requires a penal statute to define clearly its prohibitions or risk violations of the fifth amendment guaranty against deprivations of life, liberty, or property without due process of law. See Grayned v. City of Rockford, 408 U.S. 104, 108 (1972) (vague laws fail to give fair warning and open the door for arbitrary and discriminatory enforcement). A statute that fails to give such fair warning is deemed "void for vagueness." Id. In the absence of first amendment considerations, vagueness challenges cannot be decided generally but must be determined as applied to the facts of a particular case. See United States v. Mazurie, 419 U.S. 544, 550 (1975) ("It is well established that vagueness challenges to statutes which do not involve First Amendment freedoms must be examined in the light of the facts at hand."). See also New York v. Ferber, 458 U.S. 747, 767 (1982) (person to whom statute constitutionally can be applied is prohibited from "challenging that statute on ground it may conceivably be applied unconstitutionally to others in situations not before the Court"). The applicable standard requires that a statute be found unconstitutionally vague if it "fails to give a person of ordinary intelligence fair notice that his contemplated conduct is forbidden by the statute." United States v. Harris, 347 U.S. 612, 617 (1954). This vagueness standard is based on the principle that "no man shall be held criminally responsible for conduct which he could not reasonably understand to be proscribed." Id.

Applied to RICO's "pattern" requirement, the vagueness doctrine might invalidate RICO for failure to give persons of ordinary intelligence fair notice that their conduct constituted a "pattern of racketeering."

52. Id. at 2909.
tion of a “pattern of racketeering activity.”53 First, the Court’s rejection of a multiple scheme requirement should make it easier for plaintiffs to plead and prove private RICO actions, resulting in the filing of more civil RICO cases and increased exposure for legitimate businesses.54 This result could lead Congress to reconsider whether it really wants an increased use of RICO for private actions.55

Second, the Court in H.J. Inc. once again56 openly expressed its desire that Congress rewrite the statute, citing its own difficulty in determining Congress’ intended meaning of RICO’s “pattern of racketeering activity” requirement.57

53. See supra note 5 and accompanying text.

54. See, e.g., RICO Attorneys Respond to Court’s Opinion in H.J. Inc., 5 Civ. RICO Rep. (BNA) No. 6, at 3 (July 4, 1989) [hereinafter Attorneys Respond] (comments of Philip Lacovara, Chairman of the Coalition for RICO Reform) (Court’s definition of “pattern” will rule out only one narrow category of cases in which a pattern is based on several nearly simultaneous predicate acts). But see 109 S. Ct. at 2899 (Court also rejects a broad interpretation of pattern whereby pattern could be established merely by proving two predicate acts).

Notwithstanding the concern over an increase in RICO cases filed, such an increase does not necessarily lead to an increase in successful RICO claims. See e.g., Attorneys Respond, supra, at 4 (comments of Andrew Weissman) (since Sedima, only one of every three RICO complaints survives a motion to dismiss, and H.J. Inc. will decrease that number further).

55. See Attorneys Respond, supra note 54, at 3 (comments of Irvin Nathan). See also Rehnquist Urges Congress to Curtail Federal Civil Suits, 4 Civ. RICO Rep. (BNA) No. 36, at 3 (Feb. 14, 1989) (Chief Justice Rehnquist, in a speech to American Bar Association’s House of Delegates, suggests Congress should curtail sharply certain civil actions under RICO to relieve serious overloading of federal court system). But c.f. Bill to Limit Civil RICO Scope Introduced in House, Senate, 4 Civ. RICO Rep. (BNA) No. 38, at 2 (Feb. 28, 1989) (in response to proposed RICO Reform Act of 1989, which would eliminate treble damages where state or federal securities law provided a remedy, consumer advocate Ralph Nader stated, “[t]his legislation weakening RICO comes at the worst possible time—in the middle of an unprecedented corporate crime wave.” Nader cited recent episodes of savings and loan fraud, commodities fraud, and Pentagon procurement scandals, and concluded, “[t]his is no time for members of Congress to be soft on corporate crime”).

56. See, e.g., Sedima, 473 U.S. at 499 (Court’s opinion that only congressional reform can mitigate RICO’s breadth).

57. 109 S. Ct. at 2899. The Court’s attempt at clarification has itself met with much criticism from the bar. See Attorneys Respond, supra note 54, at 3 (comments of Quentin Riegel) (four years after the Court in Sedima placed the responsibility for clarification of RICO firmly on Congress, the situation has gotten worse—in Scalia’s opinion, “intolerable”); id. (comments of Mike Hunter) (legislative action needed to clarify congressional intent because H.J. Inc. makes a confusing situation even worse); id. (H.J. Inc. decision shows Court lacks sufficient guidance from Congress); id. at 4 (comments of Tom Thomas) (H.J. Inc. a “shovel case” in which Court said to Congress, “We’re not going to change it. You wrote it, you change it”).

The vagueness of the Court’s decision is demonstrated further by the disagreement in the legal community over whether H.J. Inc. is good or bad for legitimate business and the defense bar. Compare Attorneys Response, supra note 54, at 3-4 (comments of Andrew Weissman) (noting belief of RICO amendment’s proponents that H.J. Inc. broadened RICO’s pattern requirement and will lead to more suits and greater exposure for business) with id. (comments of Andrew Weissman) (belief
Third, Justice Scalia in his concurrence threw down the gauntlet to the defense bar to challenge RICO complaints on constitutional grounds.58 This development should lead to inevitable attack on RICO's pattern requirement as unconstitutionally vague in violation of due process.59 Given that RICO has thus far been able to withstand constitutional challenges,60 and that Scalia's vagueness concerns were not adopted by a majority of the Court, however, those anticipating RICO's invalidation on vagueness grounds should not become too optimistic. Nonetheless, this combination of the above three ramifications, each highlighting the shortcomings inherent in the current definition of a pattern of racketeering activity, may lead Congress to grant the Court's wish and to clarify at last RICO's key "pattern of racketeering activity" requirement.

B. Forfeiting Attorney's Fees

Under the Racketeer Influenced and Corrupt Organizations Act

that H.J. Inc. will limit the use of RICO because, in addition to invalidating the restrictive multiple scheme requirement, it also cut back on the broader definitions of "pattern" prevalent in circuits where any two related predicate acts were sufficient to establish a pattern and id. at 4 (belief that the examples the Court provided of sufficient "continuity," each of which involved either open-ended conduct or a showing that the offenses constituted the entity's ongoing business, are more restrictive than the existing approaches in a number of jurisdictions, including the Second, Third, Fifth, Ninth and D.C. Circuits). See supra note 21 for the various circuit's current "pattern" requirements.

58. See supra notes 51-52 and accompanying text. See, e.g., Attorneys Respond, supra note 54, at 3 (comments of John C. Friscano) (predicting that the defense bar will "pick up this gauntlet with a vengeance," leading to a flurry of amended complaints and delays in settlements).

59. See supra note 51 and accompanying text. See also Attorneys Respond, supra note 54, at 3 (comments of Mark Reinhart) (H.J. Inc. attorney's belief that in light of Scalia's opinion, defense counsel would be committing malpractice if they did not challenge RICO's constitutionality).


Several vagueness challenges to RICO's pattern requirement have met defeat even after H.J. Inc. See United States v. Angiulo, Nos. 86-1331, 89-1212, 89-1800 (1st Cir. March 8, 1990) (LEXIS, Genfed library, Usapp. file) (RICO "pattern" element not void for vagueness; persons of ordinary intelligence would realize that murder conspiracies and gambling and loansharking operations of an organized crime family constituted a pattern of racketeering activity); Minpeco, S.A. v. Hunt, 724 F. Supp. 259, 260 (S.D.N.Y. 1989) (refusing to follow Scalia's concurrence in H.J. Inc., noting that it spoke only for three other Justices and did not constitute a formal development of the law).
(RICO)\(^61\) and the Continuing Criminal Enterprise Statute (CCE),\(^62\) a convicted criminal defendant forfeits to the United States any property derived from the criminal violation.\(^63\) The Department of Justice maintains that “property” includes property used or intended to be used to pay attorney’s fees.\(^64\) Accordingly, prosecutors often seek restraining orders preventing transfer of such property to attorneys as payment for legal services.\(^65\) Alternatively, prosecutors seek post-conviction forfei-


Any person convicted of a violation of this subchapter . . . punishable by imprisonment for more than one year shall forfeit to the United States, irrespective of any provision of State law—

1. any property constituting, or derived from, any proceeds the person obtained, directly or indirectly, as the result of such violation;

2. any of the person’s property used, or intended to be used, in any manner or part, to commit, or to facilitate the commission of, such violation.


\(65\) See Note, supra note 64, at 536. Under 18 U.S.C. § 1963(c) (1988), all right, title, and interest in property subject to forfeiture under 18 U.S.C. § 1963(a) vests in the United States at the time the act giving rise to the forfeiture occurs. This provision also allows the prosecution to attack property transferred to third parties unless they are bona fide purchasers for value without reasonable cause to believe the property was subject to forfeiture at the time of purchase. \(Id.\)

The statute allows for an injunction or restraining order to be issued in order to preserve the availability of the property for forfeiture and prevents the transfer of funds to an attorney, even to pay for the legal services. This restraining order can be issued after an indictment or information has been filed which charges a RICO violation and alleges that the property will be subject to forfeiture upon conviction. Alternatively, a restraining order can be issued prior to the filing of an indictment if, after notice to the defendant and an opportunity for a hearing, the prosecutor can show (i) a substantial probability the U.S. will prevail on the issue of forfeiture and a failure to issue the order will result in the destruction of the property or that the property will somehow be made unavailable for forfeiture; and (ii) the need to preserve the availability through the order outweighs the hardship to the defendant. 18 U.S.C § 1963(d)(1) (1988).

The prosecutor can also seek a temporary restraining order, issued without notice or opportunity for hearing, if the prosecutor can show probable cause the property would be subject to forfeiture upon conviction and that notice will jeopardize the availability of the property for forfeiture. 18 U.S.C. § 1963(d)(2) (1988).
ture of attorney’s fees already transferred to counsel.66

The defense bar has raised a number of responses to such action. De-
defense attorneys argue: (1) Congress impliedly intended these statutes to
exempt attorney’s fees from forfeiture;67 (2) these statutes, interpreted to
include attorney’s fees, violate a defendant’s sixth amendment right to
counsel of choice,68 because no attorney will represent a RICO or CCE
defendant knowing that the fee is potentially forfeitable;69 and (3) forfei-
ture of attorney’s fees violates a defendant’s right to a fair trial under the
due process clause of the fifth amendment.70

Monsanto

Under the CCE, a court legitimately may issue a pretrial restraining
order to preserve a defendant’s assets for forfeiture. The lower courts
were in disagreement71 over whether the statute72 should be interpreted
to allow a defendant to use these restrained assets73 to pay legitimate
attorney’s fees.74 The Supreme Court recently resolved the dispute in
United States v. Monsanto.75 The Court held that the forfeiture provisions
of CCE contains no exemption, express or implied, for assets with

66. Note, supra note 64, at 536.
67. Wade, Feds in Your Pocket: Attorney’s Fee Forfeiture and Attorney Disqualification Under
68. Id.
69. Brickey, supra note 64, at 769.
70. Wade, supra note 67, at 221-22.
71. Compare United States v. Nichols, 841 F.2d 1485 (10th Cir. 1988) (no statutory exemption
for attorney’s fees) with United States v. Thier, 801 F.2d 1463, 1474 (5th Cir. 1986) (exemption for
attorney’s fees authorized by statute).
72. The Comprehensive Forfeiture Act of 1984 (CFA) added or amended forfeiture provisions
for two classes of violations under federal law, RICO offenses and CCE offenses. Comprehensive
§ 853 (1988)). The CFA is a criminal forfeiture statute; civil forfeitures are covered under 21 U.S.C
73. The property is seized or frozen (restrained) prior to trial and before any judicial determina-
tion of the defendant’s guilt or innocence. See supra notes 63 (language of the CCE’s forfeiture
provision) and 65.
74. All courts agree the restrained assets cannot be used to pay “sham” attorney’s fees. See,
e.g., United States v. Rogers, 602 F. Supp. 1332, 1348 (D. Colo. 1985) (“An attorney who receives
funds in return for services legitimately rendered operates at arm’s length and not as part of an
artifice or sham to avoid forfeiture . . . . This does not, however, mean that assets transferred to a
lawyer as part of a sham will not be subject to forfeiture”).
which a defendant wishes to retain an attorney.\textsuperscript{76}

In \textit{Monsanto}, the defendant was indicted under various RICO, CCE, narcotics,\textsuperscript{77} and firearm charges.\textsuperscript{78} The indictment sought forfeiture of assets amassed through illegal activity.\textsuperscript{79} The district court entered an \textit{ex parte} restraining order prohibiting Monsanto from transferring or encumbering these assets.\textsuperscript{80} Monsanto moved to vacate the order, but the district court refused.\textsuperscript{81} Monsanto appealed and a panel of the Second Circuit held that the attorney’s fees were not exempt from forfeiture.\textsuperscript{82}

\begin{footnotesize}
\begin{enumerate}
\item \textit{Monsanto}, — U.S.—, 109 S. Ct. at 2665.
\item Monsanto was indicted on four counts of illegal possession of firearms under 18 U.S.C. Appendix \textsection{}12022(a)(1982). This provision was later repealed. \textit{Monsanto}, 836 F.2d at 76 & n.1. See Pub. L. No. 99-308, \textsection{}104(b), 100 Stat. 449, 459 (1986).
\item The assets included real property valued at $365,000 and $35,000 in cash. The $35,000 in cash were not included in the restraining order. The record does not disclose whether Monsanto had the $35,000 in his possession, or what impact it might have had on his ability to retain counsel of choice. \textit{Monsanto}, 836 F.2d at 76 n.2.
\item This order was made pursuant to the CFA. 21 U.S.C \textsection{}853(e)(1)(A) (1988) provides:
\begin{itemize}
\item \(1\) Upon application of the United States, the court may enter a restraining order or injunction, require the execution of a satisfactory performance bond, or take any other action to preserve the availability of property described in subsection (a) of [\textsection{}853] for forfeiture under this section—
\item \(A\) Upon the filing of an indictment or information charging a violation . . . for which criminal forfeiture may be ordered under [\textsection{}853] and alleging that the property with respect to which the order is sought would, in the event of conviction, be subject to forfeiture under this section[.]
\end{itemize}
\item \textit{Monsanto}, 836 F.2d at 76. Monsanto argued that Congress did not intend the CFA provisions to apply to assets needed to pay legitimate attorney’s fees and, even if the statute did apply to those assets, it would violate his sixth amendment right to counsel of choice. \textit{Id.}

Nevertheless, the district court acknowledged the result of the order was to render Monsanto indigent. \textit{Id.} at 76, n.2. The court refused to hold the forfeiture provisions unconstitutional as applied to attorney’s fees or to hold Congress intended attorney’s fees to be exempt from the provision; it did allow Monsanto to use the restrained assets to pay counsel of choice pursuant to “allowance” rates established by the Criminal Justice Act. \textit{Id.} at 76.

That Act provides:
\begin{itemize}
\item Any attorney appointed pursuant to this section . . . shall, at the conclusion of the representation or any segment thereof, be compensated at a rate not exceeding $60 per hour for time expended in court or before a United States Magistrate and $40 per hour for time reasonably expended out of court. . . . 18 U.S.C 3006A(d)(1) (1988).
\end{itemize}
\item \textit{Monsanto}, 836 F.2d at 80. The court found that the plain language of the statute contains no exemption for attorney’s fees; the plain language must prevail because the legislative history is ambiguous. \textit{Id.} at 78-80. The panel held, however, that notice and a pretrial hearing are constitutionally required prior to government restraint of assets needed to pay attorney’s fees. \textit{Id.} at 83. The government had the burden of showing probable cause that the assets would be subject to forfeiture. \textit{Id.} The case was remanded to its rehearing en banc, and the district court, after holding the
\end{itemize}
\end{enumerate}
\end{footnotesize}
On rehearing en banc, a sharply divided court vacated its earlier opinion and ordered the district court to permit Monsanto to use the restrained assets to pay legitimate attorney's fees.

The Supreme Court granted certiorari because the Second Circuit's decision created a conflict among the Courts of Appeals over the statutory and constitutional issues. The Court used the Monsanto case to decide the statutory issue, and a companion case, Caplin & Drysdale Chartered v. United States, to answer the constitutional question.

The Court reasoned that the language of section 853(a) is plain and unambiguous. The section provides that a person subject to the provi-
sion "shall forfeit . . . any property" derived from the criminal activity, and that upon conviction, the court shall order forfeiture of this property.\textsuperscript{90} The statute provides a broad definition of property when describing those assets subject to forfeiture.\textsuperscript{91} The Court concluded that there was no basis from which to exempt assets intended for use as attorney's fees from the mandatory nature of the statute and its broad definition of property.\textsuperscript{92} It confirmed this understanding with legislative history and comparisons with other sections of the statute.\textsuperscript{93}

Although section 853(a) contains no express exemption for attorney's fees, the defendant contended that the restraining provision, section 853(e)(1)(A),\textsuperscript{94} should be interpreted to include this exemption. The de-

\textsuperscript{90} The court, in imposing sentence on such person, "shall order . . . that the person forfeit to the United States all property described in this subsection." 21 U.S.C. § 853(a) (1988) (emphasis added). The Court relied on the mandatory language used by Congress. \textit{Monsanto}, — U.S. —, 109 S. Ct. at 2662.

\textsuperscript{91} \textit{Id.} The statute defines the assets subject to forfeiture as: "real property . . . tangible and intangible personal property, including rights, privileges, interests claims, and securities." 21 U.S.C § 853(b) (1988).

\textsuperscript{92} \textit{Monsanto}, — U.S. —, 109 S. Ct. at 2662. Even the \textit{amicus curiae} brief for the American Bar Association, arguing against forfeiture, conceded the statute broadly covers all property acquired through illegal activity and could find no specific exemption for attorney's fees. \textit{Id.}

In spite of this plain language, the defendant urged the Court to create an exemption for attorney's fees because the statute does not include them expressly in the forfeiture provision. See supra note 63, 90. For the definition of property, see supra note 91. The Court quickly dismissed this argument by analogy. The statute and the legislative history do not expressly include money to pay stockholder's fees, laundry bills, or country club dues as subject to forfeiture; yet none seriously could argue for these fees' exemption. \textit{Id.} at 2663.


Additionally, in the same law which adopted § 853, Congress expressly exempted attorney's fees from forfeiture in the provisions concerning collateral profits (e.g., from books, movies or television productions about the crime). See 18 U.S.C. §§ 3681(C)(1)(b)(ii) (1988). This inclusion clearly indicated to the Court that Congress understood what it was doing when it failed to include a similar exemption in § 853; Congress intended attorney's fees to be subject to forfeiture. \textit{Monsanto}, — U.S. —, 109 S. Ct. at 2664.

Finally, Monsanto urged the Court to invoke a general cannon of statutory construction which admonishes courts to construe statutes to avoid constitutional questions and problems. See, e.g., NLRB v. Catholic Bishop of Chicago, 440 U.S. 490, 500 (1979). The Court pointed out that these cannons only apply in close cases or when the statutory language is ambiguous. In the case at bar, the statute is clear, comprehensive, and unambiguous; these cannons of statutory construction, therefore, have no application. \textit{Monsanto}, — U.S. —, 109 S. Ct. at 2664.

\textsuperscript{94} Upon application of the United States, the court \textit{may} enter a restraining order or injunc-
fendant argued that the permissive language of this section\textsuperscript{95} allows the district court to employ traditional principles of equity—balancing of hardships—before actually restraining the defendant’s assets.\textsuperscript{96} This balancing test would tip the scales in favor of the defendant’s use of his assets for attorney’s fees.\textsuperscript{97} The Court rejected this argument because it failed to consider the categorical nature of section 853(a) and how the entire statute works as a unit.\textsuperscript{98}

Any discretion given district courts in section 853(e) relates only to how they preserve the availability of the property for forfeiture.\textsuperscript{99} There is no exemption from section 853’s forfeiture or pre-trial restraining order provisions for assets that a defendant wishes to use to pay attorney’s fees. The purpose of the statute was to enforce the adage “crime does not pay.”\textsuperscript{100} Congress did not intend to modify this saying to read “crime

does not pay, except for attorney's fees.”

2. **Constitutionality of Forfeiture Provisions:** Caplin & Drysdale, Chartered v. United States

The lower courts have also disagreed over whether either the sixth or fifth amendment prohibits Congress from subjecting attorney’s fees to forfeiture. The Supreme Court recently answered these questions in *Caplin & Drysdale, Chartered v. United States.* There the Court held that the failure of the CCE’s forfeiture provision to exempt attorney’s fees from forfeiture did not render the statute unconstitutional under

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102. The sixth amendment provides in relevant part that “[i]n all criminal prosecutions, the accused shall have the right to . . . have the Assistance of Counsel for his defense.” The right to counsel includes the right to a fair opportunity to secure counsel of defendant’s choice. Powell v. Alabama, 287 U.S. 45, 53 (1932).


either the sixth or fifth amendment.\textsuperscript{105}

In \textit{Caplin & Drysdale}, Christopher Reckmeyer was charged with running a massive drug importation and distribution scheme in violation of the CCE.\textsuperscript{106} The district court entered a restraining order\textsuperscript{107} forbidding Reckmeyer from transferring any of the potentially forfeitable assets.\textsuperscript{108} Notwithstanding the restraining order, the defendant paid the law firm Caplin & Drysdale for pre-indictment legal services.\textsuperscript{109} The defendant subsequently entered a plea agreement.\textsuperscript{110} In accordance with the plea agreement, the district court entered an order forfeiting virtually all of the defendant’s assets, including those used to pay attorney’s fees.\textsuperscript{111} Caplin & Drysdale filed a petition seeking an adjudication of its third-party interest in the assets.\textsuperscript{112} The firm argued that the statute’s failure to provide an exemption from forfeiture for assets used to pay an attorney rendered the legislation unconstitutional.\textsuperscript{113} The district court agreed and granted the relief sought.\textsuperscript{114} The Court of Appeals reversed, finding the statute constitutional.\textsuperscript{115}

Before the Supreme Court, Caplin & Drysdale claimed that the statute placed an impermissible burden on the defendant’s sixth amendment rights because the burden on the defendant’s right to counsel of his

\textsuperscript{105} \textit{Id.} at 2656, 2657.


\textsuperscript{107} \textit{Id.} The District Court actred pursuant to the pretrial restraining order provision 21 U.S.C. § 853(e)(1)(A) (1986). \textit{See supra note} 80.

\textsuperscript{108} \textit{Caplin & Drysdale}, 109 S. Ct. at 2649.

\textsuperscript{109} \textit{Id.} at 2650.

\textsuperscript{110} \textit{Id.}

\textsuperscript{111} \textit{Id.}

\textsuperscript{112} \textit{Id.} Caplin and Drysdale filed the petition pursuant to 21 U.S.C. § 853(n)(6)(B)(i), under which third parties may petition for a hearing to adjudicate their interest in the forfeited assets.


\textsuperscript{114} \textit{Id.} at 1195. After finding that the statute’s forfeiture provisions did not encompass attorney’s fees, the district court stated in dictum that the statute violated the sixth amendment by depriving defendant of his right to obtain counsel of his choice, and by creating conflicts of interest between defendants and his counsel. \textit{Id.} at 1196. The court also asserted that the statute would violate the fifth amendment under the government’s reading, by upsetting the balance of powers between defendant and the government. \textit{Id.} at 1197-98.

\textsuperscript{115} \textit{Caplin & Drysdale}, 109 S. Ct. at 2650. The Court of Appeals for the Fourth Circuit first heard the case as United States v. Harvey, 814 F.2d 905 (4th Cir. 1987), in which it affirmed the trial court. The Fourth Circuit then agreed to hear the case en banc, and reversed its previous panel decision. \textit{In re Forfeiture Hearing as to Caplin & Drysdale, Chartered, 837 F.2d 637 (4th Cir. 1988)} (en banc), \textit{aff’d sub. nom., Caplin & Drysdale v. United States}, 109 S. Ct. 2646 (1989).
choice outweighed the government's interest in the forfeitable assets.\textsuperscript{116} The Supreme Court disagreed, holding that the forfeiture statute does not impermissibly burden a defendant's sixth amendment right to retain counsel of his choice.\textsuperscript{117}

The Court reasoned that no sixth amendment violation results if the possibility of forfeiture prevents the defendant's preferred attorney from taking the defendant's case.\textsuperscript{118} The holding is grounded on the assertion that an impecunious defendant has no right to counsel of choice.\textsuperscript{119} From this principle, the Court noted first that a defendant has no right to use assets that do not belong to him.\textsuperscript{120} Under the forfeiture statute, title to the forfeitable assets vests in the government as of the date of the criminal act.\textsuperscript{121} Second, the Court reasoned that even if forfeiture of assets impairs a defendant's ability to hire counsel, it does not render the action unconstitutional. The full exercise of many constitutional rights


\textsuperscript{117} Caplin \& Drysdale, 109 S. Ct. at 2655-56.

\textsuperscript{118} \textit{Id.} at 2652-53. The Court argued that defendant possessing sufficient non-forfeitable assets can still hire the attorney of his choice. \textit{Id.} at 2652. Even a defendant with only forfeitable assets may be able to hire the attorney of his choice on the hope of recovering potentially forfeitable assets. \textit{Id.}

\textsuperscript{119} \textit{Id.} at 2651-52.

\textsuperscript{120} By analogy, the Court reasoned that the government does not violate the sixth amendment if it seizes the proceeds of a bank robbery and refuses to permit the defendant to use them to pay for his defense. \textit{Id.} at 2653. Petitioner sought to distinguish this situation by arguing that the bank's claim to the robbery proceeds rests on "pre-existing property rights," while the Government's claim rests on a "penal statute," which is merely a mechanism for preventing fraudulent conveyances. \textit{Id.} The Court rejected this argument, finding the government's property rights under the relation-back provision substantial. Under that provision, "[a]ll right, title and interest in property [described in \S\ 853(a)] vests in the United States upon the commission of the act giving rise to forfeiture ... ." 21 U.S.C \S\ 853(c) (1988).

often depends on a defendant's financial wherewithal;\textsuperscript{122} likewise, forfeiture only impairs a defendant's ability to exercise fully his right to counsel.\textsuperscript{123} A defendant may no more use someone else's assets to protect his sixth amendment rights than use them to protect any other constitutional right.\textsuperscript{124}

Caplin & Drysdale also sought to minimize the government's interest in forfeiture. Recognizing that the purpose of forfeiture is to dispossess from drug dealers the proceeds of their wrong-doing, the defendant proposed that this purpose has been achieved once the proceeds have been paid to an attorney, diminishing the government's continued interest in forfeiture.\textsuperscript{125} The Court, however, found other substantial government interests in the proceeds: forfeited proceeds may be used to support law enforcement\textsuperscript{126} or returned to those wrongfully deprived of them.\textsuperscript{127} The government also has a substantial interest in lessening the economic power of organized crime and drug enterprises—an interest furthered by the deprivation of expensive legal counsel.\textsuperscript{128}

The Supreme Court also refused to find fee forfeiture a facial violation of the due process clause of the fifth amendment.\textsuperscript{129} Caplin & Drysdale argued that fee forfeiture was a facial violation because prosecutors wrongfully may attempt to impose forfeiture on persons who should not be subjected to that punishment.\textsuperscript{130} The Court rejected this argument,

\textsuperscript{122} The Court noted the exercise of the right to speak, practice one's religion, or travel, depend on one's financial resources. \textit{Caplin & Drysdale}, 109 S. Ct. at 2654.
\textsuperscript{123} Id.
\textsuperscript{124} Id.
\textsuperscript{125} Id.
\textsuperscript{128} \textit{Id.} at 2654-55. A major purpose of the RICO and CCE forfeiture provisions was to lessen the economic power of organized crime and drug enterprises. \textit{Id.} at 2654 (citing, Russello v. United States, 464 U.S. 16, 27-28 (1983)). \textit{See supra} note 100. The Court posited that part of organized crime's economic power manifests itself in the ability to retain high-priced legal services. \textit{Id.} at 2655.
\textsuperscript{129} \textit{Id.} at 2656-57. The \textit{Caplin & Drysdale} court noted that, in the context of this case, it was unsure whether the fifth amendment added any protection other than that provided by sixth amendment. "[W]hile '[t]he Constitution guarantees a fair trial through the Due Process Clauses . . . it defines the basic elements of a fair trial largely through the several provisions of the Sixth Amendment.'" \textit{Id.} (quoting Strickland v. Washington, 466 U.S. 668, 684-85 (1984)).
\textsuperscript{130} \textit{Id.} at 2657. According to this argument, a prosecutor might wrongfully append a charge of forfeiture to a RICO indictment, and thereby exclude any defense counsel that would be skilled adversaries. Caplin & Drysdale argued that this would upset the balance of power between the government and the accused in violation of the fifth amendment. Caplin & Drysdale further argued
reasoning that the Constitution does not forbid the imposition of an otherwise permissible criminal sanction—such as forfeiture—merely because in some cases it may be abused. 131 Although the Court refused to find the statute a per se violation of due process, it left open the possibility that a defendant may prevail on a claim that the statute, as applied, violates his due process rights. 132

3. Conclusion

What effect will the Monsanto and Caplin & Drysdale decisions have on the law? 133 The Monsanto opinion effectively puts to rest the question whether the forfeiture provisions include assets that the defendant intends to use to pay attorney’s fees. 134 The Caplin & Drysdale opinion forecloses challenges to these provisions on the grounds that they per se violate the sixth amendment 135 or due process clause. 136 Other legal challenges to these provisions, however, loom on the horizon. For instance, the provisions may be open to a challenge based on the first amendment. The defendant’s association with counsel to communicate ideas in the courtroom should require courts to subject the provisions to the rigors of strict scrutiny under the first amendment. 137 A fourth amendment challenge based on process due for seizure of property has

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131. "The fact that the ... Act might operate unconstitutionally under some conceivable set of circumstances is insufficient to render it ... invalid." 109 S. Ct. at 2657 (quoting United States v. Salerno, 481 U.S. 739, 745 (1987).

132. Due process claims of prosecutorial misconduct remain cognizable in specific cases. Id. at 2657. In this case, petitioner made no such allegation. Id.

133. The decisions have already invoked a reaction from the defense bar. The National Association of Criminal Defense Lawyers (NACDL) has unveiled a program to counteract the impact of these decisions on the law. The NACDL is calling for the appointment of a National Task Force on the Preservation of the Adversary System, composed of criminal-defense lawyers and constitutional scholars, to lessen the impact of attorney-fee decisions. A second task force will lobby Congress to amend the provisions. The NACDL has requested a conference with the Department of Justice to develop clearer forfeiture guidelines. Additionally, the NACDL is calling for a massive public education program on how Monsanto and Caplin & Drysdale abridge individual rights. Fricker, Dirty Money 75 A.B.A. J. 60, 66 (Nov. 1989).

134. See supra notes 65-101 and accompanying text.

135. See supra notes 116-128 and accompanying text.

136. See supra notes 129-131 and accompanying text.

also been suggested. The desirability of including attorney's fees in the forfeiture provisions as a matter of social policy will continue to be the subject of debate. The Justice Department maintains that fairness dictates there is no reason to place the drug dealer in a better position than an indigent defendant simply because he has economic power resulting from his ill-gotten gains. The defense bar, however, contends that the decisions will have "devastating consequences on the Bill of Rights and the legal system as a whole." It believes that the provisions, so construed, "represent a further milestone on the road to the complete stripping away of a citizen's rights in America." Whether or not the decisions represent a setback to the presumption of innocence, any further action on the question will likely rest with Congress alone.

C. The RICO Reform Act of 1989

Pending legislation known as the Racketeer Influenced and Corrupt Organizations Reform Act of 1989 (RICO Reform Act) marks the third time in the last four years that Congress has attempted to amend

138. See Note, supra note 64, at 555 ("probable cause requirement of the fourth amendment defines the procedure or process due for seizure of persons or property in a criminal case.").

139. United States v. Monsanto, — U.S. —, 109 S. Ct. 2657, 2665 (1989); Fricker, supra note 133, at 64 (statement of Michael Olmsted, special counsel to the Assistant Attorney General for Criminal Cases) ("[T]he drug dealer [should be put] in the same position as the person who has stolen a pocketbook."). See also United States v. Meinsen, No. 79-105-CR-JKL (S.D. Fla. 1988) (after the defendant paid his attorney, only $16,000 of $775,000 remains for forfeiture when convicted).

140. Fricker, supra note 133, at 66 (quoting Neil Sonnett, president of the NACDL). The complex questions presented by CCE and RICO cases demand quality counsel; the threat of not being paid will drive these attorneys from the defense bar. Id. at 64.

141. Id. at 63 (quoting Anthony R. Cueto, Executive Director of the New York State Association of Criminal Defense Lawyers). See also Id. (quoting defense attorney Jack T. Lipman) (the decisions wreak "havoc on the attorney-client relationship"); Id. at 64 (quoting Neil Sonnet) ("[S]tripping defendants of their lawyers while they are still presumed innocent is a whole different matter from stripping convicted drug defendants of profits. . . . [P]re-indictment or pre-conviction forfeitures . . . will not only drive attorneys out of the practice but prevent defendant from obtaining proper counsel."); Id. at 66 (quoting criminal-defense lawyer Stephen Komin) (The Monsanto decision is "the scourge of the Supreme Court").


143. See L.A. Daily J., May 4, 1989, at 24, col. 2 ("Despite strong support, however, RICO
the civil action provisions under the Racketeer Influenced and Corrupt Organizations Act (RICO).\textsuperscript{144} Although Congress enacted RICO as a tool for use against organized crime,\textsuperscript{145} the statute recently has gained notoriety for its use in ordinary commercial litigation.\textsuperscript{146} Under RICO's present civil provisions, a private right of action is available in federal court for any person "injured in his business or property"\textsuperscript{147} as a result of a RICO violation.\textsuperscript{148} A prevailing plaintiff can automatically recover treble damages, court costs, and attorney's fees.\textsuperscript{149} The proposed reform legislation would not bar RICO's use in civil suits, but instead would attempt to limit the scope of civil RICO in response to what critics view as an overabundance of "abusive" litigation.\textsuperscript{150}

\textsuperscript{145} See also 135 CONG. REC. S1655 (daily ed. Feb. 23, 1989) (statement of Sen. Hatch) ("The avowed purpose of RICO was to decrease the incidence of, and act as a deterrent to, organized crime").
\textsuperscript{146} Senator Hatch, introducing the RICO Reform Act of 1989 in a speech before the Senate stated:

\begin{quote}
The civil provisions of the RICO statute, available to private plaintiffs, like the rest of RICO, were intended to combat the infiltration of legitimate businesses by organized crime. . . . Nowhere do the purposes of the legislation outlined by Congress mention private business litigation. The only reason RICO contained civil provisions at all was that some of its authors were concerned about limited enforcement capability on the part of the Government in the fight against organized crime. . . . Congress intended the private civil action to be linked to 'racketeering activity' in order to enhance law enforcement against organized crime. [Section 1964(c)] was not intended to create a vehicle for treble damage recoveries in ordinary commercial and business litigation.
\end{quote}

\textsuperscript{147} 18 U.S.C. § 1964(c) (1988).
\textsuperscript{148} See 135 CONG. REC. S1652 (daily ed. Feb. 23, 1989) (statement of Sen. DeConcini) ("The legislation's purpose is to restore the usefulness and effectiveness of the RICO statute that existed prior to the explosion of abusive and harassing lawsuits filed in the 1980's . . . . RICO has been undercut and thwarted by the misuse of RICO by plaintiffs and their attorneys who have employed RICO to extort and blackmail defendants by bringing a RICO action every time they are involved in a commercial dispute."); 135 CONG. REC. E460 (daily ed. Feb. 22, 1989) (statement of Rep. Boucher) ("The availability of civil RICO treble damages has dramatically upped the ante in commercial litigation and leveraged substantial settlements on less than substantial allegations.").
\textsuperscript{149} See also N.Y. Times, Mar. 12, 1989, § 3, at 2, col. 3 (city ed.)

The law's broad civil suit provisions cast a net so wide that virtually any commercial dispute becomes a candidate for civil RICO jurisdiction. Practically every kind of contro-
Congress enacted RICO as part of the Organized Crime Control Act of 1970\textsuperscript{151} to help federal prosecutors combat organized crime.\textsuperscript{152} RICO contains approximately forty offenses defined as “racketeering activity,” which may serve as predicates to a RICO violation.\textsuperscript{153} RICO’s criminal sanctions\textsuperscript{154} apply if the prosecution proves that the defendant was involved in an “enterprise”\textsuperscript{155} that engaged in a “pattern”\textsuperscript{156} of criminal conduct involving the predicate offenses. RICO also provides civil remedies for private racketeering suits.\textsuperscript{157} As a result of the broad definition of RICO's pattern requirements,\textsuperscript{158} lax pleading rules,\textsuperscript{159} and the wide

\footnotesize{versy, from the common to the bizarre, has been the basis for civil RICO litigation. While the statute has been used in divorce, inheritance, and landlord-tenant disputes, and in controversies among church members, the vast majority of its applications are neither comical nor of limited economic consequence.}

\textit{But see} Blakey, Study of Allegations of Litigation Abuse, 5 Civ. RICO Rep. (BNA) No. 4, at 4-14 (June 20, 1989) (analyzing the Business/Labor Coalition for Civil RICO Reform’s list of 53 “abusive” cases, and concluding that the existing law adequately “weeds out” the truly abusive cases).


The racketeer influenced and corrupt organizations statute was enacted in 1970 at a time when Congress was increasingly worried about the power and influence of organized crime. Congress had devoted much time and attention to studying the activities of organized crime syndicates and their efforts to infiltrate legitimate businesses and unions. The result of these studies was the Organized Crime Control Act of 1970. Title IX of that act was RICO.


154. 18 U.S.C. § 1963 (1988). Criminal sanctions include fines, imprisonment for not more than 20 years (or for life if violation includes predicate offense with a maximum penalty of life) and forfeiture of property acquired through racketeering activity.


157. \textit{See supra} notes 146-49 and accompanying text. \textit{See also} Wisotsky, \textit{supra} note 155, at 49 (“[RICO] is a hybrid statute in which the same misconduct gives rise to both civil and criminal liability.”); 135 Cong. Rec. S1655 (daily ed. Feb. 23, 1989) (statement of Sen. Hatch) (“[T]he provisions for private civil suit were included in RICO to provide economic victims of organized crime adequate redress for their injuries.”).

158. \textit{See supra} note 156. \textit{See also} 135 Cong. Rec. S1655, S1666 (daily ed. Feb. 23, 1989) (statement of Sen. Hatch) (For example, “alleging that a business has breached the Federal mail fraud
variety of possible predicate offenses, the amount of ordinary business and commercial civil RICO litigation at the federal level has exploded. Plaintiffs may institute civil RICO suits to take advantage of the possibility of obtaining treble damages, or for the "potential use of the term 'racketeer' as a club in obtaining settlements." The RICO Reform Act of 1989, currently pending in Congress, attempts to amend RICO to clarify and limit its application in civil suits resulting from alleged "racketeering" activity. The most significant reforms in the proposal include the addition of new predicate offenses, the limitation of remedies in the majority of commercial disputes to actual damages and attorney's fees, with the retention of automatic treble damages in only a few specifically defined cases, and the creation of a special class of plaintiffs who may recover discretionary punitive dam-

and wire fraud statutes made it easy for plaintiffs, including business plaintiffs, to bring their litigation within the ambit of the civil RICO provisions. ... [T]wo fraudulent mailings or uses of the wires occurring within 10 years of each other might lead to civil RICO liability.


The pleading requirements are so minimal that virtually any contract dispute becomes a candidate for civil RICO jurisdiction. If the plaintiff alleges the existence of a contract dispute and can demonstrate that the mails or the telephone were used on several occasions either in forming or breaching the contract and if the plaintiff is willing to allege fraud, as is often the case in commercial disputes, the pleading requirements for a civil RICO case are met.

160. See supra note 153 and accompanying text.

161. See Wisotsky, supra note 155, at 49, 52 n.6. See also infra note 196.

162. See supra note 149 and accompanying text.


164. See supra note 142. As of October 30, 1989, H.R. 1046 had been referred to the House Subcommittee on Crime and S. 438 had been referred to the Senate Committee on the Judiciary.


166. S.438, 101st Cong., 1st Sess., § 2 (1989). The Reform Act adds one state law predicate offense (prostitution involving minors) to 18 U.S.C § 1961(a)(A). The Reform Act deletes six federal law predicate offenses, but adds thirty-two new federal predicate offenses. The wide variety of additions include: acts indictable under § 32 (relating to destruction of aircraft or aircraft facilities); section 81 (relating to arson); section 2277 (relating to vessels); section 2331 (relating to terrorist acts abroad); any offense under § 134 of the Truth in Lending Act; and any offense under § 586(b)-(k) of the Internal Revenue Code (relating to firearms control).

167. S.438, 101st Cong., 1st Sess., §§ 4(c)(1A),(5)(A) (1989) (limiting treble damage awards to government entities and persons whose business or property is destroyed by a defendant convicted of a predicate act).

168. The special class of plaintiffs is limited to 1) certain units of local government; 2) certain tax-exempt persons and organizations, certain indenture trustees, certain pension funds, and certain investment companies if injured by conduct proscribed by section 21(d)(2)(A) of the Securities Ex-
ages up to double the amount of actual damages.\textsuperscript{169} The legislation's proponents deleted a controversial retroactivity clause which would have applied the reform measures—subject to certain limitations—to all pending RICO litigation.\textsuperscript{170}

Supporters of the proposed reform\textsuperscript{171} claim that civil RICO in its present form has produced a proliferation of "abusive" litigation of a type that RICO's drafters never intended.\textsuperscript{172} They allege that the appeal of treble damages and the lax pleading requirements\textsuperscript{173} are the most significant contributors to the explosion of civil RICO litigation.\textsuperscript{174} In addition, supporters of the bill assert that both the threat of treble damages and the potential stigma of being labelled a "racketeer" have caused many businesses to settle unwarranted suits.\textsuperscript{175} Supporters also argue that the unbridled use of civil RICO has threatened the exercise of funda-

\footnotesize{\textsuperscript{169} change Act of 1934 (15 U.S.C. § 78 u(d)(2)(A)); and 3) natural persons if the injury occurred in connection with the purchase or lease for personal or noncommercial use or investment of a product, investment, service or contract for personal or noncommercial use or investment and neither state or federal securities or commodities laws supply a remedy for the claim. \textit{Id.} (emphasis added).


\textsuperscript{171} Supporters of the proposed reform include the securities and commodities industries, accounting profession, the Business/Labor Coalition, AFL-CIO, ACLU, American Bankers Association, and the ABA. \textit{Supporters of RICO Bill Deny Opposition Charges of 'Special Interest' Legislation, supra} note 163, at 1. Note that not all of these groups support the legislation as it now exists in its entirety, but all agree that substantial reform is necessary. \textit{Id.}

\textsuperscript{172} \textit{See supra} note 150. \textit{See also RICO Termed Essential Tool to Combat 'Plague of Fraud', 4 Civ. RICO Rep. (BNA) No. 47, at 5 (May 2, 1989)} ("[T]he RICO reforms are needed because civil RICO claims are being used in suits against businesses in ways Congress did not intend when it enacted the statute. Threats of RICO claims, with treble damages, are being used to force businesses to settle civil claims they otherwise would not settle"). \textit{But see Blakey, supra} note 150 (author's study refutes allegations of abuse in the use of civil RICO).

\textsuperscript{173} \textit{See Supporters of RICO Bill Deny Opposition Charges of 'Special Interest' Legislation, supra} note 163, at 1 ("innocent organizations and individuals can be brought into a RICO suit on the criminal acts of another due to the liberal pleading requirements and the loose definition of 'enterprise' and 'pattern of racketeering'").

\textsuperscript{174} \textit{See supra} note 161.

\textsuperscript{175} \textit{See supra} notes 150, 163 and accompanying text. \textit{See also S. 438, 101st Cong., 1st Sess. § 4(c)(10) (1989) (legislation prohibits the use of the term "racketeer" in a civil RICO action unless the plaintiff alleges a crime of violence); 135 Cong. Rec. E460 (daily ed. Feb. 22, 1989) (statement of Rep. Boucher) ("Ordinary and respected businessmen and women, whose reputations are often their principal stock in trade, have been branded as racketeers simply because they have become embroiled in a commercial dispute")}
mental constitutional rights such as freedom of speech.\textsuperscript{176}

Opponents of the proposed reform\textsuperscript{177} argue that the elimination of treble damages in the majority of civil suits would weaken a valuable enforcement mechanism that such suits provide and would lessen the corresponding deterrent effect on those who might engage in racketeering activities.\textsuperscript{178} Critics also view the RICO Reform Act as special interest legislation\textsuperscript{179} that fails to remedy the alleged abuses inherent in certain types of civil RICO litigation.\textsuperscript{180} For example, the bill exempts securities and commodities fraud from punitive damages where state or federal laws provide a remedy for the type of conduct on which the case is based.\textsuperscript{181} Additionally, critics contend the proposed reform excludes the

\textsuperscript{176} See 135 Cong. Rec. § 14010 (daily ed. Oct. 24, 1989) (statement of Sen. Humphrey): Perhaps the most alarming abuse of RICO has been the threat it is presenting to freedom of speech. There has recently been a rash of civil RICO actions being used to suppress demonstrations and public protests which have nothing at all to do with racketeering activity. . . . The mere filing of these multimillion-dollar treble damage suits can have an enormous chilling effect on political protest groups, which simply do not have the financial and legal resources to cope with such suits.

\textsuperscript{177} Opponents of the proposed reforms include insurance and security regulators, consumer advocates and the Department of Justice. Bill to Limit Civil RICO Scope Introduced in House, Senate, 4 Civ. RICO Rep. (BNA) No. 38, at 2 (Feb. 28, 1989); Bill Would Curb Enforcement, Justice, State Registrars Say, 4 Civ. RICO Rep. (BNA) No. 48, at 3 (May 9, 1989).

\textsuperscript{178} See RICO Termed Essential Tool to Combat 'Plague of Fraud', 4 Civ. RICO Rep. (BNA) No. 47, at 5 (May 2, 1989) ("The civil RICO statute, with its treble damages provision, is an essential tool that allows the private bar to help overburdened government enforcement agencies deal with the 'plague of fraud' in industries such as banking, securities, and defense").

\textsuperscript{179} The special interest charge is primarily against the securities and commodities industry, exempted from the Act's damage provision if sued by a natural person and if state or federal securities or commodities laws supply a remedy. See supra note 168 and accompanying text. See N.Y. Times, Oct. 6, 1988, at 19, col. 1 ("It makes no sense to exempt commodities and securities frauds when these seem rampant").

\textsuperscript{180} See Blakey, Possible Amendments to "The RICO Reform Act of 1989" (H.R. 1046), 5 Civ. RICO Rep. (BNA) No. 11, at 1 (Aug. 8, 1989) ("The most telling objection that can be made to the provisions of the proposed legislation is that little or no relation exists between the allegations of abuse (frivolous suits) and the provisions supposedly designed to remedy them. . . . In fact, some allegations of abuse (abortion protest litigation) are hardly touched by the supposed reforms. Time after time, the baby (the basic design of RICO to vindicate the rights of victims of crime) is being thrown out with the bath water (supposed litigation abuses)").

\textsuperscript{181} See S. 438, 101st Cong., 1st Sess., § 4(c)(2)(B)(iii) (1989); Blakey, supra note 180, at 5 ("Even more troubling is the securities and commodities exception to consumer fraud"); See also S. 438 101st Cong., 1st Sess., § 4(c)(7)(A) (1989) (proposed reform also provides insurers and other regulated businesses with an affirmative defense that they relied in good faith on an "action, ap-
most appropriate group of plaintiffs from instituting investment fraud private civil RICO suits. As a result, most critics conclude that the legislation "goes well beyond the rationale of the allegations of misuse." Critics of the bill have offered a substantial number of options either to replace the RICO Reform Act or simply to strengthen some areas of the legislation that they contend the drafters did not address adequately. Although persons on both sides of the reform issue agree that the existing statutory definitions and predicate offenses require further refinement in order to narrow RICO's overly broad scope, the reform bill actually adds new predicate offenses. Other suggestions which ad-

182. See S. 438, 101st Cong., 1st Sess., § 4 (1989). See also Blakey, supra note 180, at 4 ("Under the provisions of the proposed legislation, only the following limited class may sue: units of local government; natural persons; charities; undenied trustees; pension funds; and investment companies . . . . It ought to include individuals and entities that need special protection because of their relative vulnerability or because they represent others who fall into that class"); Bill Would Curb Enforcement, Justice, State Regulators Say, supra note 177, at 3 ("it is 'unconscionable' to limit those who can bring investment fraud private civil RICO actions to 'natural persons' to the exclusion of investment companies, pension funds, banks, savings and loan associations, and other potential plaintiffs. These are the entities most likely to be victims of marketplace fraud and best suited and financed to take action against it").

183. Blakey, supra note 180, at 4 (Aug. 8, 1989) ("Ostensibly, the purpose of the proposed legislation is to curtail general commercial fraud litigation under RICO. As such, it would make more sense directly to limit—subject to carefully drafted exceptions—such legislation between commercial entities").


185. See infra notes 186-90 and accompanying text.

186. See Bill Would Curb Enforcement, Justice, State Regulators Say, supra note 177, at 3 (people have "suggested that the subcommittee take a broader look at both the civil and criminal provisions to determine exactly what conduct the law should cover").

187. See supra note 166; see also Supporters of RICO Bill Deny Opposition Charges of 'Special Interest' Legislation, supra note 5, at 2 ("the addition of new predicate acts, as called for by H.R. 1046, 'just complicates things further'’’); Mathews Says RICO Bill Likely to Pass, Ensuring Continued Civil Litigation, 4 Civ. RICO Rep. (BNA) No. 39, at 6 (Mar. 7, 1989) ("The proposed legislation doesn't provide any clarification of existing statutory definitions of 'pattern of racketeering activity' or 'enterprise' . . . [resulting] in even more RICO litigation"). But see Blakey, supra note 180 (author
dress the concern of "abusive" litigation include: using federal prosecutors to screen private complaints, imposing sanctions for frivolous suits; and assessing attorney's fee against plaintiffs in private racketeering suits if the RICO claim is "not substantially justified."

The proposed legislation includes numerous compromises meant to placate both the business and consumer lobbies. As a result, the bill is presently quite complex and fails to address some of the more serious shortcomings of the original civil RICO. Although some measures may be necessary to limit civil RICO, it is imperative that reform not remove RICO's ultimate deterrent effect on organized and white collar crime. Indeed, one commentator suggested an amendment that "embodies neither the interest of the plaintiff nor the defendant, but of the public."

The ultimate, overall effect of the RICO Reform Act on subsequent civil RICO litigation is difficult to predict. The elimination of treble damages in most private civil RICO suits may result in fewer cases of

calls for the addition of even more crimes, in particular, hazardous waste offenses, as predicate offenses).

188. See New Justice Authority Proposed to Screen Private RICO Claims, 4 Civ. RICO Rep. (BNA) No. 49, at 5 (May 16, 1989) ("Establishing a central authority in the Department of Justice to screen private civil RICO claims and bar those that fail to meet certain minimal standards could curb inappropriate uses of the statute. . . . [T]he standard for private RICO cases should be whether a criminal prosecutor, working 'in a world of unlimited resources,' would have filed charges").

189. See id. at 6 (Professor Blakey claims that Federal Rules of Civil Procedure 11 (sanctions on attorneys for frivolous filings) and 56 (court imposed sanctions when affidavits are made in bad faith) are sufficient to deter frivolous cases).

190. Supporters of RICO Bill Deny Opposition Charges of 'Special Interest' Legislation, supra note 163, at 3 (The ABA, among others, suggested the change of assessing "attorney's fees against plaintiffs who don't prevail on the merits in business-to-business suits").

191. See The L.A. Daily J., May 4, 1989, at 1, col. 5 ("If this bill were to be a straight treble-damages for governmental entities and actual damages for everybody else, it would be a two-page bill. . . . But because the consumer lobby demanded that they be treated differently than everybody else, you have exceptions to their exceptions").

192. See supra note 166 and accompanying text (discussing added predicate offenses); note 168 and accompanying text (discussing special class of plaintiffs for punitive damages). See also The L.A. Daily J., supra note 191 (the bill creates "a byzantine hierarchy of categories for RICO plaintiffs and defendants . . . . Whatever reform may or may not be achieved in the process, the end product will likely provide myriad complexities and uncertainties for practitioners to study and litigate and for courts to ponder and interpret.").

193. See supra notes 158-63 and accompanying text.

194. See N.Y. Times, Oct. 6, 1989, at 19, col. 1 ("Reducing damages would reduce deterrence. It makes no sense to exempt commodities and securities frauds when these seem rampant.") quoted in Blakey, supra note 180, at 2.

195. See Blakey, supra note 180 (the author agrees that some reform is necessary but believes the present legislation inadequate).
private or commercial litigation. Whether this is desirable as a matter of public policy is beyond the scope of this discussion. Significantly, Congress has not actually found substantiation for claims of "abusive" litigation in any hearings thus far.\(^{196}\) Without such a finding, restricting treble damages in civil RICO suits may not be the best way to fine-tune the statute because of the undeniable deterrent value in this remedy.\(^{197}\)

Ironically, the number of civil RICO suits may actually increase under the RICO Reform Act. The bill's sponsors chose to include twenty-seven new predicate offenses that significantly broaden RICO's scope.\(^{198}\) This increase in the number of predicate offenses—coupled with the already lax pleading requirements,\(^{199}\) which the bill's sponsors did not amend—may significantly increase civil RICO litigation.\(^{200}\) Finally, the bill would transform a forty-eight word section creating a civil RICO remedy into a sixteen page monstrosity of complex and undefined legal parameters.\(^{201}\) The bill, if enacted, likely will contribute to increased litigation, because these complex provisions will require extensive litigation to test their application and scope.

Perhaps the best avenue of reform would be to clarify the definition of the "pattern" and "enterprise" requirements for private civil suits, liberally impose sanctions for frivolous suits, and reduce the amount of damages that a plaintiff could receive if relying exclusively on mail or wire

\(^{196}\) See Supporters of RICO Bill Deny Opposition Charges of 'Special Interest' Legislation, supra note 163, at 2 ("Rep. John Conyers (D-Mich) flatly stated that the alleged 'wave' of RICO cases 'simply doesn't exist'"); Blakey, supra note 150, at 6 ("Between December 1979 and January 1988, approximately 1,910,520 cases were filed in the federal district courts. Of that number, approximately 2,742 were RICO filings"); RICO Tered Essential Tool to Combat 'Plague of Fraud', 4 Civ. RICO Rep. (BNA) No. 47, at 5 (May 2, 1989) ("Public Citizen, a consumer public interest group that opposes elimination of treble damages, questioned business' claims of RICO abuses in settlements of civil suits. No documentation of the alleged abuses has been presented before Congress or elsewhere").

\(^{197}\) See supra note 188-190 and accompanying text.

\(^{198}\) See supra note 166.

\(^{199}\) See supra note 159.

\(^{200}\) Also, the proposed legislation does not address the recent suits instituted by or against political and other protest groups. See, e.g., Eveland v. Director of Central Intelligence Agency, 843 F.2d 46 (1st Cir. 1988) (plaintiff, challenging conduct of U.S. foreign policy in the Middle East, brought a civil RICO action against the CIA and its director); Northeast Women's Center Inc. v. McMonagle 868 F.2d 1342 (3d Cir. 1988) (plaintiff abortion clinic brought civil RICO action against anti-abortion protesters); Christian Populist Party v. Secretary of State, 650 F. Supp. 1205 (E.D. Ark. 1987) (plaintiffs brought civil RICO action against the State of Arkansans challenging the state election statute).

fraud in commercial litigations. Such a solution would retain the deterrent effect of the private enforcement mechanism and provide a fair remedy for victims, eliminating the threat of meritless suits. In any event, Congress should consider other reform options offered on both sides of the debate before passing the pending legislation.

II. THE MAIL FRAUD STATUTE: EXPANDING ITS SCOPE

Congress and the Supreme Court have recently expanded the scope of the federal Mail Fraud Statute (section 1341), which prohibits use of the mails in connection with undefined schemes to defraud, or schemes to obtain money or property by fraud. First, in 1988, Congress expanded the class of schemes section 1341 prohibits to include schemes to deprive another of the intangible right of honest services. Second, in 1989, the United States Supreme Court in Schmuck v. United States relaxed the standard of relatedness required to satisfy section 1341's mailing requirement to include incidental mailings in ongoing schemes. Both actions should increase the already abundant use of section 1341 by federal prosecutors, who regard the mail fraud statute as "our Stradivarius, our Colt 45, our Louisville Slugger, our Cuisinart—and our true love."

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202. See supra notes 158-60, 188-90 and accompanying text.
204. Section 1341 provides in pertinent part:
   Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, . . . for the purpose of executing such scheme or artifice or attempting to do so [uses the mails or causes them to be used], shall be fined not more than $1,000 or imprisoned not more than five years, or both.

Id.

205. Congress had not previously defined § 1341's phrase "scheme or artifice to defraud." See supra note 204. In 1988, Congress added § 1346 to Title 18 of the United States Code as part of the Anti-Drug Abuse Act of 1988, Pub. L. No. 100-690, 102 Stat. 4508 (codified as amended at 18 U.S.C § 1346 (1988)). Section 1346 provides: "For the purposes of this chapter, the term 'scheme or artifice to defraud' includes a scheme or artifice to deprive another of the intangible right to honest services." 18 U.S.C. § 1346 (1988). For a discussion of this new provision, see infra notes 209-34 and accompanying text.

207. The elements of a mail fraud offense include: "(1) a scheme to defraud, and (2) the mailing of a letter, etc., for the purpose of executing the scheme." Pereira v. United States, 347 U.S. 1, 8 (1954).
208. Rakoff, The Federal Mail Fraud Statute (Part I), 18 Duq. L. Rev. 771 (1980). "We may flirt with RICO, show off with 10b-5, and call the conspiracy law 'darling,' but we always come
A. The Intangible Rights Doctrine: The Law After 18 U.S.C § 1346

In McNally v. United States, the Supreme Court overturned four decades of lower court precedent that established the intangible rights doctrine, holding that section 1341 did not protect citizens' intangible right to honest government. The Supreme Court interpreted section

home to the virtues of 18 U.S.C § 1341, with its simplicity, adaptability, and comfortable familiarity, it understands us and, like many a foolish spouse, we like to think we understand it." Id. at 771.


210. The intangible rights doctrine originated some forty years before the McNally decision. In 1941, the Fifth Circuit suggested in dicta that the corruption of a public fiduciary constituted a scheme to defraud the public under the mail fraud statute. Shushan v. United States, 117 F.2d 110, 115 (5th Cir. 1941), cert. denied, 313 U.S. 574 (1942). Shushan involved the defendant's scheme to obtain a public contract on favorable terms by bribing a public official. Id. In United States v. Proctor & Gamble Co., 47 F. Supp. 676, 678 (D. Mass. 1942), a federal district court held that the corruption of a private fiduciary relationship could likewise constitute a scheme to defraud in violation of the mail fraud statute. In Proctor & Gamble, the defendants bribed a competitor's employees to obtain trade secrets from their employer. The court stated this scheme defrauded the competitor of its lawful right to loyal and honest employees. Many commentators characterize these two decisions as the cornerstones of the mail fraud intangible rights doctrine. See, e.g., Coffee, From Tort to Crime: Some Reflections on the Criminalization of Fiduciary Breaches and the Problematic Line Between Law and Ethics, 19 Am. Crim. L. Rev. 117, 128-30 (1981); Note, McNally v. United States: Intangible Rights Declared a Dead Letter, 37 Cath. U.L. Rev. 851, 853 (1988).

Since these decisions, every appellate court addressing the issue interpreted the disjunctive language of § 1341 to include schemes to defraud individuals, or the government of intangible rights. McNally, 483 U.S. at 358. In one such decision, United States v. States, 488 F.2d 761 (8th Cir. 1973), cert. denied, 417 U.S. 909 (1974), the Eighth Circuit affirmed the mail fraud convictions of two candidates for duty offices. The mail fraud convictions arose out of the candidates' attempts to obtain absentee ballots for fictitious voters. Id. at 762. The indictment charged the defendants with scheming to defraud the public of "certain intangible political and civil rights." Id. at 765. The court focused on the statute's disjunctive phrasing of its prohibitions against "scheme[s] . . . to defraud, or for obtaining money or property." The court concluded that the statute reached two species of schemes: 1) schemes to defraud and 2) schemes to obtain money or property by means of false or fraudulent pretenses. Id. at 764. The Eight Circuit reasoned that defendants' activities constituted a scheme to defraud. Id. at 765.


Prosecutors also successfully attacked election fraud under the intangible rights theory. See, e.g., United States v. Girdner, 754 F.2d 877 (10th Cir. 1985) (candidate for state legislature); United States v. Odom, 736 F.2d 104 (4th Cir. 1984) (candidate for sheriff).

211. 483 U.S. at 360. The defendants in McNally were politically active in the Democratic Party in Kentucky. Id. at 352. Governor Carroll appointed Hunt as chairman of the state Democratic
1341 to protect only property rights.\textsuperscript{212} It considered the language and history of section 1341 as well as Supreme Court precedent\textsuperscript{213} and concluded that section 1341 codified the common understanding of "defraud" as referring exclusively to a deprivation of property through deceit.\textsuperscript{214}

Party with de facto control over selection of the agencies from which the state would purchase its insurance. \textit{Id.} Hunt negotiated with the Wombwell Insurance Company that, in exchange for that company's continued selection as the procuring agent for the state's workmen's compensation insurance, the company would share its commissions with other companies Hunt specified. \textit{Id.} Hunt designated, among others, a company that he and defendants Gray and McNally owned and operated. \textit{Id.} at 353. Hunt pled guilty to mail and tax fraud and the court sentenced him to three years in prison. \textit{Id.} Federal prosecutors charged defendants Gray and McNally with mail fraud "based on the mailing of a commission check to Wombwell by the insurance company from which it had secured coverage for the state." \textit{Id.} The indictment alleged that the defendants had devised a scheme (1) to defraud the citizens and government of Kentucky of their right to have the State's affairs conducted honestly, and (2) to obtain money and property through false pretenses and the concealment of material facts. \textit{Id.} The jury convicted the defendants, and the court of appeals affirmed the conviction based on the intangible right to honest and impartial government. \textit{Id.} at 355.

\textsuperscript{212} 483 U.S. at 360.

\textsuperscript{213} The Court considered the original language of the statute which prohibited only "any scheme or artifice to defraud." 483 U.S. at 356. Examining the "sparse legislative history," the Court concluded § 1341's original purpose was to protect people from schemes to deprive them of their money or property. \textit{Id.} The Court then considered the first Supreme Court interpretation of the statute, Durland v. United States, 161 U.S. 306 (1896), which held that courts should construe the phrase "any scheme or artifice to defraud" broadly "insofar as property rights are concerned, but did not indicate that the statute had a more extensive reach." 483 U.S. at 356 (emphasis added). The Court acknowledged Congress' 1909 amendment to § 1341 which added the disjunctive language "or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises." \textit{Id.} However, the Court believed the addition of this second phrase was not intended to make a distinction between general schemes to defraud and schemes to defraud of property, but to make it "unmistakable that the statute reached false promises . . . as to the future as well as other frauds involving money and property." \textit{Id.} at 359.

\textsuperscript{214} 483 U.S. at 359. The Court applied the doctrine of lenity, which provides, "when there are two rational readings of a criminal statute, one harsher than the other, we are to choose the harsher only when Congress has spoken in clear and definite language." \textit{Id.} at 359-60 (citations omitted). The Court, therefore, read the statute as "limited in scope to the protection of property rights" rather than "constru[f]ing the statute in a manner that leaves its outer boundaries ambiguous and involves the Federal Government in setting standards of disclosure and good government for local and state officials . . . ." \textit{Id.} at 360.

In dissent, Justice Stevens attacked the majority's disregard for § 1341's disjunctive phrasing. 483 U.S. at 364-65 (Stevens, J., dissenting). Justice Stevens asserted that the statute's language, through the use of the term "or," made clear that each prohibition was independent. \textit{Id.} A person could violate the first clause by devising a scheme or artifice to defraud without violating the second clause by seeking to obtain money or property through false pretenses. \textit{Id.} at 365.

After McNally, defendants and convicted parties flooded the federal courts with motions to dismiss active prosecutions or vacate past convictions premised on the intangible rights theory. See, e.g., United States v. Walgren, 885 F.2d 1417 (9th Cir. 1989) (mail fraud and RICO convictions vacated); Callanan v. United States, 881 F.2d 229 (6th Cir. 1989) (mail fraud conviction vacated);
The Supreme Court clarified its *McNally* holding in *Carpenter v. United States*.\(^{215}\) *Carpenter* involved a scheme in which the defendants used advance information about the contents and publication schedule of an influential *Wall Street Journal* column as a basis for stock trading.\(^{216}\) The *Carpenter* defendants, indicted for mail fraud, argued that a publication’s interest in prepublication confidentiality was an “intangible consideration,” outside the reach of section 1341.\(^{217}\) The Court rejected the defendants’ argument and characterized the publication schedule and column contents as intangible *property* fully within the scope of section 1341.\(^{218}\) The Court noted that “[c]onfidential business information has long been recognized as property,”\(^{219}\) and explained that its *McNally* holding did not limit section 1341’s scope to tangible as distinguished from intangible property.\(^{220}\) The Court further clarified its holding regarding intangible property, explaining that an entity need not suffer a loss of money or property as a result of the improper use of its confidential information to establish a violation of the statute.\(^{221}\) Thus, after *Car-

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\(^{215}\) United States v. Kato, 878 F.2d 267 (9th Cir. 1989) (conviction upheld because insufficient mail fraud charge contained every element of conspiracy to defraud government); United States v. Marcello, 876 F.2d 1147 (5th Cir. 1989) (mail fraud and RICO convictions vacated); United States v. Mandel, 862 F.2d 1067 (4th Cir. 1988) (former Governor of Maryland’s ten-year old mail fraud and RICO convictions vacated); United States v. Saly, No. 86-67CR(1), slip op. (E.D. Mo. July 6, 1989) (first conviction set aside post- *McNally*; after retrial, indictment dismissed for failure to allege property violation of mail fraud statute).  

\(^{216}\) Defendant Winans co-wrote the “Heard on the Street” column for the *Wall Street Journal*. 108 S. Ct. at 318-19. Winans conspired with other defendants to provide them prepublication information and the publication schedule of the column. *Id.* at 319. The information allowed the conspirators to trade on stocks in anticipation of the columns impact on the market. *Id.* In a four month period the conspirators net profits from the stock trades were about $650,000. *Id.* After a bench trial, the court convicted the defendants of securities fraud and mail fraud. *Id.*  

The fraud that triggered § 1341 was not that perpetrated against the innocent parties who traded stocks with the conspirators. The prosecutors alleged that defendants perpetrated a mail fraud against the *Wall Street Journal* based on the conspirators’ use of the Journal’s confidential information. 108 S. Ct. 320. The Court found that the Journal’s use of the wires and mails to print and distribute its papers satisfied the § 1341 mailing element. *Id.* at 322.  

\(^{217}\) The defendants argued that the conspirators’ activities did not violate the mail or wire fraud statutes because the players did not obtain any money or property from the Journal as require under *McNally*. 108 S. Ct. at 320.  

\(^{218}\) *Id.* at 320. The Court held that the conspirators defrauded the Journal of its confidential information and thus out of property. *Id.* at 321-22.  

\(^{219}\) *Id.* at 320 (citing Ruckleshaus v. Monsanto Co., 467 U.S. 986, 1001-04 (1984); Dirks v. SEC, 463 U.S. 646, 653 n.10 (1983); Board of Trade of Chicago v. Christie Grain & Stock Co., 198 U.S. 236, 250-51 (1905)).  

\(^{220}\) *Id.*  

\(^{221}\) *Id.* at 321. Petitioners argued that because they had not interfered with the Journal’s use of
penter, the Supreme Court sanctioned mail fraud convictions involving schemes to deprive persons of judicially recognized intangible property rights, but not those involving schemes to deprive persons of other intangible rights.

Congress addressed this development in 1988 by enacting section 1346. Section 1346 expressly extends the protections of the mail and wire fraud statutes to the "intangible right of honest services." With section 1346, Congress plainly intended to overrule McNally and revive the intangible rights theory. What is not clear, however, is whether sections 1341 and 1346 now protect the entire spectrum of intangible rights.

The clearest case is one like McNally in which the scheme consists of payments to a government official in exchange for favorable treatment. This type of scheme, corrupting a public fiduciary, deprives the citizenry of its collective right to honest service from its government officials and is the most likely type of fraud Congress targeted in section 1346. Analogous schemes exist in the private sector. Courts have found union officials, who have private fiduciary obligations to their unions, guilty of defrauding their unions by accepting kickbacks. One could argue forcefully that both situations above result in the deprivation of "honest services," acts now specifically prohibited by sections 1341 and 1346.

Whether section 1346 covers cases not involving the corruption of its information, they had not harmed the Journal. The Court rejected petitioners' arguments that a loss of money or property was a necessary element of a scheme to defraud based on intangible property. The Court found it sufficient that the conspirators deprived the Journal of its right to exclusive use of its information.

224. No House or Senate Report accompanied Congress' passage of § 1346. However, Representative John Conyers, the floor sponsor of § 1346, submitted comments on the amendment's purpose. 134 Cong. Rec. H11251 (daily ed October 21, 1988). Representative Conyers stated, "This amendment restores the mail fraud provision to where that provision was before the McNally decision. . . . Thus it is no longer necessary to determine whether or not the scheme or artifice to defraud involved money or property." Id.
225. In McNally, the government official solicited the bribe but the effect was the same; the citizens were deprived of the official's honest service.
226. See supra note 224 (comments of Representative John Conyers indicating purpose of § 1346 was to overturn McNally).
public or private fiduciaries is less clear. For example, a more difficult case involves election fraud where campaign workers use the mails to falsify votes, thus defrauding the citizenry of its right to an honest election. An even tougher question would involve schemes to defraud individuals of their right to privacy. Both of these scenarios were prohibited by pre-McNally interpretations of the Mail Fraud Statute.

On its face, section 1346 does not refer to these types of schemes. The only legislative history available for section 1346, however, suggests these schemes should be included. Representative Conyers, floor sponsor of section 1346, commented, “This amendment is intended merely to overturn the McNally decision. No other change in the law is intended.” Because all of the schemes described above were prohibited by the pre-McNally Mail Fraud Statute, once section 1346 overturns McNally, section 1341 may again cover those fact patterns.

228. This situation is distinct from the facts of McNally because the candidate is not yet elected. As such, she and her workers may not yet owe the public the duty of “honest services.”

229. Examples of such fraud might include tricking the post office into giving information regarding private individuals. See infra note 230. Here, unlike any of the previous examples, there is not even an allegation that the fraudulent acts will lead to dishonest services.

230. See, e.g., United States v. Clapps, 732 F.2d 1148 (3d Cir.) (Mail Fraud Statute applies to party chairman), cert. denied 469 U.S. 1085 (1984); United States v. States, 488 F.2d 761 (8th Cir. 1973), cert. denied, 417 U.S. 909 (1974) (Mail Fraud Statute covers candidates for city office); United States v. Condol, 600 F.2d 7 (4th Cir. 1979) (wire fraud conviction related to bogus talent agency designed to seduce women); United States v. Louderman, 576 F.2d 1383, (9th Cir. 1978) (debt collectors convicted of wire fraud for misrepresenting themselves to the telephone company and the post office in order to obtain information that deprived subscribers and boxholders of their privacy). Although the Condol and Louderman cases involved wire fraud, they are also relevant to mail fraud because the mail and wire fraud statutes are nearly identical in wording. Compare 18 U.S.C § 1343 (1988) with 18 U.S.C. § 1341 (1968). Also, both are affected by § 1346.

231. Section 1346 defines § 1341’s “scheme or artifice to defraud” to include “a scheme or artifice to deprive another of the intangible right of honest services.” The “honest services” language implies a fiduciary relationship, not a right to an honest election or right to privacy.

232. “[W]hile the comments of a sponsor are not determinative of legislative intent, congressional intent may be inferred from statements of a sponsor on the floor.” United States v. Berg, 710 F. Supp. 438, 442 (E.D.N.Y. 1989) (citations omitted). Such inferred intent may of necessity be particularly strong in the case of § 1346, because no other Congressman spoke on the section and no House or Senate Report was produced. Id.


234. Notwithstanding the legislative history behind § 1346, discussed supra at text accompanying note 233, the new provision on its face would not appear to cover the non-elected candidate or the privacy deprivation hypothesized in note 231 above. Nevertheless, one could make an argument that these scenarios should receive Mail Fraud Statute protection. The language of § 1346 is not restrictive; the provision merely says a “scheme or artifice to defraud” includes schemes to deprive another of the intangible right of honest services. The statute as written still does not address other intangible rights. Because a court would therefore need to look to the legislative history of the Mail
B. Incidental Mailings In Ongoing Schemes: Schmuck v. United States

While Congress, through section 1346, expanded the scope of the Mail Fraud Statute's scheme element, the Supreme Court, in Schmuck v. United States,235 expanded the scope of the mailing element to include incidental mailings in ongoing schemes. Prior to Schmuck, the Court several times addressed the issue of whether a mailing was sufficiently closely related to the defendant's scheme to bring his conduct within the Mail Fraud Statute's mailing element.236 In Kann v. United States,237 the defendants set up a dummy corporation that issued the defendants fraudulent checks. They cashed the checks at local banks, and the local banks mailed the checks to the drawee bank for collection. The Court found these mailings insufficient to meet the mailing requirement: the schemes had reached "fruition" when the defendants received the money irrevocably and "[i]t was immaterial to [the defendants], or to any consummation of the scheme, how the bank that paid or credited the check would collect from the drawee bank."238

Again in Parr v. United States,239 the Court held the mailing insufficiently related to the scheme to meet the Statute's mailing element. In Parr, the defendants used their employer's credit card without authorization. The mailing at issue was the card issuer's mailing of collection invoices to the defendants' employer. The Court held these mailings were insufficiently connected to the execution of the scheme because it was immaterial to the defendants how the credit card issuer went about collecting its payment.240

Finally, in United States v. Maze,241 the Court once again held the mailings too unrelated to meet the Statute's requirement. Maze also involved a defendant's unauthorized use of a credit card. The two mailings

Fraud Statute and § 1346 for guidance, it would find Congress' intent to overturn McNally. See supra note 233 and accompanying text. The court might then decide Congress intended in § 1346 to overturn McNally's broad holding—that all intangible rights not deemed to be property rights are not protected.

236. The Mail Fraud Statute requires a mailing for the purpose of executing a scheme or artifice to defraud. See supra note 207.
238. Id. at 94.
240. Id. at 393.
at issue were the proprietors' mailing of card invoices to the issuing bank, and the bank's mailing of a bill to the credit card owner. The Court viewed these mailings as merely account adjustments on which the success of the defendant's scheme did not depend in any way. In fact, the Court noted, the defendant probably would have preferred to have the invoices misplaced and never mailed at all.

In *Schmuck v. United States*, the Court upheld a used-car distributor's mail fraud conviction related to an odometer tampering scheme. This time the court held that the defendant Schmuck satisfied the mailing element when the unwitting dealers, who bought the altered cars from Schmuck, mailed title-application forms necessary to complete sales to retail customers. The Court reasoned that Schmuck's scheme had not reached fruition until the dealers completed the retail sale of the altered vehicles, because if the dealers could not resell the cars, Schmuck could not continue to sell tampered cars to the dealers. The Court asserted that a mailing satisfied the mailing element when it was "incident to an essential part of the scheme... or a step in the plot."

In *Schmuck* the Court distinguished the mailings at issue from those held not to satisfy the mailing element in *Kann, Parr*, and *Maze*. The *Schmuck* Court characterized the mailings in the earlier cases as involving "post-fraud accounting among potential victims of the various

242. *Id.*
243. *Id.*
244. 109 S. Ct. 1443 (1989).
245. *Id.* at 1450.
246. Several of the dealers purchased from Schmuck on a consistent basis over a period of about 15 years. *Id.* at 1448.
247. To complete the resale of each car, the dealer would mail a title-application for to the Wisconsin Department of Transportation on behalf of his customer. *Id.* at 1445-46. The receipt of a Wisconsin title was a prerequisite to completing the resale; without it, the dealer could not transfer title and the customer could not obtain Wisconsin tags. *Id.* at 1446.
248. *Id.* at 1448. Schmuck argued that prosecutors may predicate mail fraud only on a mailing that affirmatively assists the perpetrator in carrying out his fraudulent scheme. *Id.* at 1447. Schmuck asserted that a mailing, routine and innocent in and of itself, could not satisfy the mailing element. *Id.* The Court disagreed with Schmuck's characterization of the mailings at issue and with his description of mail fraud law. *Id.*
249. The transactions at issue involved twelve cars. *Id.* at 1448.
250. *Id.* at 1447 (quoting Badders v. United States, 240 U.S. 391, 394 (1916)). At least one commentator has invited the courts to treat the mailing requirement as nothing more than "an overt and jurisdictional act." Rakoff, supra note 208, at 821.
251. 109 S. Ct. at 1448-49. For a discussion of these cases, see supra notes 237-243 and accompanying text.
schemes. The long-term success of each fraud did not turn on these “post-fraud” mailings. The Court concluded the long-term success of Schmuck’s fraud, however, depended on the mailing of the title-registration forms. The mailing was an essential step in passing title to retail purchasers, and “failure in this passage of title would have jeopardized Schmuck’s relationship of trust and goodwill with the retail dealers upon whose unwitting cooperation his scheme depended.”

In a strong dissent, Justice Scalia criticized the Court’s attempt to distinguish the mailings at issue from those in Kann, Parr, and Maze. Scalia maintained that, analogous to these cases, Schmuck’s fraud was complete with respect to each car when he pocketed the dealer’s money. “It was as inconsequential to him whether the dealer resold the car as it was inconsequential to the defendant in Maze whether the defrauded merchant ever forwarded the charges to the credit card company.” Scalia noted that in Kann, the Court rejected the government’s proposed theory of ongoing fraud that was identical to the theory the Schmuck majority adopted.

C. Conclusion

With the enactment of section 1346, federal prosecutors once again have the means of attacking corrupt government officials and private fiduciaries through the use of the Mail Fraud Statute. One must wait to see whether imaginative prosecutors and courts will look to Representative Conyers’ remarks as a source of authority to stretch sections 1346’s “honest services” language to cover the full spectrum of fraudulent schemes, including election fraud and privacy rights.

252. 109 S. Ct. at 1449.
253. Id.
254. Id.
255. Justices Brennan, Marshall, and O’Connor joined in the dissent.
256. 109 S. Ct. at 1454 (Scalia, J., dissenting).
257. Id.
258. The government’s theory was that the defendants intended to continue to issue fraudulent checks through their dummy corporation. The clearing of these first checks, therefore, was essential to their ability to cash future checks. Kann, 323 U.S. at 95. The Kann Court concluded, however, that the check-clearing transactions “were merely incidental and collateral to the scheme and not part of it.” Id.
259. 109 S. Ct. at 1454 (Scalia, J., dissenting). See supra note 47 and accompanying text.
260. See supra notes 225-27 and accompanying text.
261. See supra text accompanying note 233.
262. See supra note 232 and accompanying text.
263. See supra notes 228-234 and accompanying text.
A prosecutor's success under *Schmuck* will depend on her ability to characterize the scheme as an ongoing one, incomplete in the absence of the alleged mailing.264 The prosecutor must "combin[e] all of the individual transactions into a single scheme,"265 and allege that the success of each subsequent transaction depended upon the mailing incidental to the previous transactions. Given federal prosecutors' affection for the Mail Fraud Statute,266 it is safe to predict that they will apply the Court's strategy lesson and reach frauds accompanied by only incidental mailings.

264. *See supra* notes 244-254 and accompanying text.
265. 109 S. Ct. at 1454 (Scalia, J., dissenting).
266. *See supra* note 208 and accompanying text.