

James Ring Adams

## Poor Pamela

*Like the party she served so faithfully, the Democrats' queen mother Pamela Harriman has squandered her patrimony and may be one court appearance away from bankruptcy.*

Through the dry 1980s, Pamela Digby Churchill Hayward Harriman—ex-wife of Winston Churchill's oldest son and widow of the railroad magnate, diplomat, and former New York Governor W. Averell Harriman—used her Georgetown connections and gilded soirées to drum up nearly \$12 million for Democratic candidates. Mrs. Harriman is now United States ambassador to France, and guests from her dinners are sprinkled throughout the Clinton administration. But a tarnish is clouding her glamour. Averell Harriman's heirs from his previous marriages are accusing her of stripping several of their inheritance trusts of at least \$30 million. An additional action charges that she used another part of the Governor's legacy as a virtual checkbook during the late 1980s, maintaining lavish living standards for the benefit of both herself and the Democratic Party. The patrimony is close to dissipated, and Pamela Harriman now fears bankruptcy—not unlike the party that calls her its First Lady.

The dramatis personae of the Harriman disgrace come

*James Ring Adams, an investigative writer with The American Spectator, is at work on a book on the decline of the American republic.*



from the highest ranks of the Democratic Party. Clark Clifford and his law partner, arms control "Wise Man" Paul C. Warnke, both trustees of the estate, and their money managers have been named as co-defendants in U.S. District Court in New York. Clifford has even had his assets frozen. (The court excluded Mrs. Harriman from the freeze order, on assurances that she still had sufficient resources, mainly in Matisse and Van Goghs, to cover the alleged damages.) Lloyd Cutler was helping Mrs. Harriman with negotiations in the case when President Clinton called for his help as temporary White House counsel. It became

one of the two matters from his private business that the Ethics Office said he could still work on while in the administration.

Even more damaging charges surfaced in September in Loudoun County, Virginia, where Averell Harriman's will is registered. Although overshadowed by stories about the New York trust funds, the Virginia action involved the personal conduct of Pamela herself, not the bad judgment of intermediaries. Mrs. Harriman's step-grandchildren and step-great-grandchildren tried to have her removed as trustee of the governor's residual estate, on the grounds that she had lent most of it to herself. Averell Harriman's will set up a marital trust to provide income for Pamela,

but the principal was to pass after her death to his grandchildren and great-grandchildren. (Pamela and Averell had no children by their own marriage.) The Governor's offspring were beginning to worry that with the way Pamela was dipping into the estate there would be nothing left to distribute. "Because of the Executor's numerous breaches of her fiduciary duties," they wrote the Commissioner of Accounts in Leesburg, Virginia, "the principal account has been severely and negligently depleted and is at great risk of further depletion." Commissioner William Hanes passed the accounting to the circuit judge, telling the heirs it was more appropriate to sue Mrs. Harriman directly. As this issue goes to press, the heirs are thinking it over.

### **Pamela Harriman, Aristocrat and Fundraiser**

Born Pamela Digby on March 20, 1920, the English aristocrat has been called the "courtesan of the century." More than a hostess and less than an independent thinker, Harriman became the linchpin of the Georgetown wing of the Democratic party at least as early as December 1980, when she organized her own political action committee—Democrats For The '80s, also known as PamPAC—as a place for bringing together centrist Democrats. Democratic Leadership Council stalwart Bill Clinton, who had just lost his re-election campaign for the Arkansas governorship, became a member of the first PamPAC board.

Harriman's mentors in her fundraising were Robert Strauss, a Texas lawyer and former Democratic National Committee chairman, and Clark Clifford. In particular, Clifford—who arranged Harry Truman's poker games, designed the presidential seal, and, as secretary of defense, ended the bombing of North Vietnam—held a special place at the socialite's dinners. It was at one of her soirées that Clifford described Ronald Reagan as "an amiable dunce."

For roughly the decade that he helped Mrs. Harriman with PamPAC, Clifford enjoyed a new career as a banker—one that ended in disaster with the failure of the notorious Bank of Credit and Commerce International (BCCI) and the revelation that it secretly and illegally controlled Clifford's First American Bankshares. Clifford and junior partner Robert Altman were later indicted on state and federal securities law violations. The charges against Clifford were dropped after Altman was acquitted by a New York state jury.

Throughout the nastiness, Harriman stood by her friend. Shortly before the collapse of the BCCI in 1991, she threw a dinner party to celebrate publication of Clifford's memoirs. The hundreds of guests caused "limo-lock the likes of which N Street hadn't seen for ages," said the *Washington Post*. They included Democratic congres-

sional leaders, future Clinton appointees Ron Brown and Lloyd Cutler, and media glitterati such as the *Wall Street Journal's* Al Hunt, Jack Nelson from the *Los Angeles Times*, and NBC commentator Tim Russert, none of whom reported on the affair.

**T**he more than \$200,000 of start-up money for PamPAC came from an unlikely mix of hard-nosed labor unions and New York society. The Marine Engineers Beneficial Association gave the group \$5,000, as did the United Auto Workers' Good Government Fund. Other early support came from the Railroad Signalmen, the Communications Workers, the Longshoremen, and the Machinists, not to mention the Democratic Leadership Council. Contributions of \$1,000 and more came from New York philanthropist Mary Lasker, several of Harriman's children and grandchildren, politically active New York lawyers and industrialists, and fixtures of the East Coast social elite such as Brooke Astor, Ellen and Peter Straus, Sharon Percy Rockefeller, Angier Biddle Duke, and Orin Lehman.

PamPAC's first payouts were modestly distributed in \$500 increments to four obscure congressional candidates. A fundraiser for Averell's 90th birthday in October 1981 more than doubled the group's funds, allowing PamPAC to give \$10,000 each to the

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*In one of the marital trust funds totaling \$2 million, trustees William Rich and Pamela Harriman presented an accounting last September in which all but \$1,500 consisted of IOUs from Mrs. Harriman.*

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Democratic Congressional Campaign Committee and the Democratic Leadership Circle. By the midterm elections in 1982, Pamela's group was in full swing. A long roster of liberal and not-so-liberal Democratic candidates got checks of up to \$5,000, and some of those recipients became familiar names on Capitol Hill—Tom Daschle of South Dakota, George Mitchell of Maine, Barbara Boxer of California, Barney Frank of Massachusetts. Democratic campaign committees for the Senate and the House each received the maximum donation of \$15,000, and by the end of 1982, Mrs. Harriman and PamPAC had handed out nearly \$700,000.

Her peak fundraising year came in 1986, when the dinners at her Georgetown home raised \$1.8 million for a successful campaign to win back the Senate. (Only a relative handful of House candidates, among them Mike Espy of Mississippi, received the group's support in the election.) Mario Cuomo called PamPAC "the most effective political organization I know of within our party."

### **How the Trust Fund Got Taken**

According to its campaign reports, Democrats For The 80s operated in part from the Wall Street address of Middleburg Management Corporation, which oversaw the Harriman

estate. MMC was run by a hard-working, unglamorous money manager named William Rich III, who played a prominent role in Clifford's own affairs as one of the five outside directors on the nine-man board of First American Bank of New York.

Mrs. Harriman's political and personal interests intertwined in the person of Rich, who represented a narrower interest than anyone else on the board, since he had only one outside client: the Harriman trusts. (Clifford entrusted his own legal work on the trusts to a junior partner named J. Griffin Leshner, who also handled the details of Clifford's involvement with the BCCI. Leshner represented the First American Bankshares Inc. and its subsidiaries, as well as the offshore shell corporations that fronted for the secret BCCI ownership. "He did the dirty work," an investigator into the BCCI debacle said of Leshner, who received immunity from the Manhattan district attorney to testify at Robert Altman's trial.)

In late 1989, William Rich fell in with Eugene W. Mulvihill, a fast-talking real-estate sharpie from New Jersey who had an admitted history of fraud and had been barred for life from the securities industry. Mulvihill had already made some money for Rich in a minor land flip, and now was offering Rich the deal of a lifetime—a resort hotel in the hills of northwest New Jersey. With just \$5 million for renovations, the hotel could become a world-class conference center, Mulvihill said. He drove Rich to view the dramatic setting and hooked his fish.

Rich ignored the past of both the hotel and its promoter. The Seasons Resort in Vernon Valley had opened in 1971 as the Playboy Hotel at Great Gorge, and from that tacky start had gone through a change of hands and a foreclosure. Not only run down, the hotel was a dumping ground for its new owners' bad paper: Mulvihill's group had a history of generating worthless investments. He had on his record a guilty plea to six New Jersey state counts of fraud involving unauthorized operation of an insurance company. The SEC had been tracking Mulvihill since 1970, when it first suspended his penny-stock brokerage Mayflower Securities on a series of fraud and stock manipulation charges; it later barred him from the securities industry for life.

One of Mulvihill's partners in the Seasons Resort was a former Mayflower salesman, Robert E. Brennan, who had picked up the wreckage when the company collapsed and turned it into the notorious First Jersey Securities. Famous for the First Jersey television commercials in which he would pop out of a helicopter and tout a new investment opportunity, Brennan is the target of a much-reported SEC

civil suit that finally went to trial in 1994 in New York after a decade of sparring. (Another item from Brennan's past makes him an even more surprising investment partner for Mrs. Harriman: in 1982, he was finance chairman for the Senate campaign of supply-side Republican Jeffrey Bell.)

The hapless Rich invested \$5 million from the Harriman heirs' trust into the Seasons Resort, and soon found he was throwing money into a bottomless pit. Invoices for renovations kept coming, as did notices for back taxes, mortgages, and other obligations the promoters had forgotten to mention. In the futile hope he could turn the investment around, Rich poured good money after bad, and by the end of 1993, Seasons had swallowed \$21 million of funds from the Harrimans' trusts.

The trusts were invested through two partnerships, and since Averell's death in 1986, the only three general partners for both have been Clifford, Warnke, and Pamela Harriman. Not only were the trustees failing to keep Rich in control, but both Clifford and Mrs. Harriman were also putting money of their own into his deals.

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When Mrs. Harriman made the financial disclosure required by her appointment as ambassador, she showed a substantial personal investment in the Seasons Resort. She listed a personal stake in Valley Development Associates, a limited partnership formed in 1990 to hold preferred

stock in Princeton-New York Investors, Inc., the New Jersey corporation that owned the resort and was itself largely owned by Mulvihill and Brennan. The largest stake in Valley Development, some 91 percent, belonged to the Harriman Partnerships. Mrs. Harriman's own share was less than \$100,000, about one percent of the partnership.

But she reported a much larger commitment in direct loans. One of the assets listed on her disclosure form consisted of more than \$1 million in notes receivable from Valley Properties, Inc., "who's [sic] sole asset is a resort located in Vernon Valley, N.J." William Rich formed Valley Properties in April 1991, after he had plunged more than \$10 million into the resort.

Troubling questions surround this entry on the federal disclosure form. When Rich formed Valley Properties, his intention was to inject even more money into the resort by buying the common stock of Princeton-New York. But liquidating the stocks and bonds in the Harriman trust funds would have put the Harriman heirs on red alert. Instead he pledged the blue-chips from the trusts as security for an \$18 million line of credit from Morgan Guaranty. Clifford and Warnke signed the promissory notes as general partners of the Harriman Partnerships. Pamela added what seemed like



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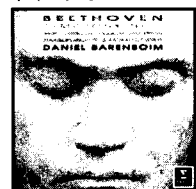
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further security by backing the loan with her personal guarantee.

The New York suit now charges that the three trustees devised this elaborate borrowing scheme as part of an effort to hide these high-risk investments from the Harriman heirs. From 1991 to 1993, the suit charges, the trustees were so anxious to conceal the losses at Seasons Resort that they sold off principal from the trust funds to keep up the regular dividend checks. Although Mrs. Harriman's defenders argue that she was out of the loop on the investment details, the suit charges that her signature on the \$18 million loan guarantee amounts to direct personal involvement. Her sympathizers point to her more than \$1 million in personal loans and investments in the project as proof that she was as much a victim as the Harriman heirs. Maybe so, but one can also say that they place her in a massive conflict of interest, if, as a trustee for the Harriman Partnerships, she authorized those enormous commitments in the hopes of salvaging her personal interest. To cap all the damage, when the Harriman heirs learned that Morgan Guaranty was calling the loan and asked Pamela to make good on her guarantee, she pleaded poverty—and refused.

But while their personal funds took a major hit, Clifford's First American Bank emerged from the Seasons Resort debacle curiously unscathed. The one valuable piece of land at the resort was a golf course, which the project manager sold in November 1990 to a Japanese investor. Part of the proceeds from the sale were used to pay off a six-month-old loan from First American Bank of New York, making it the only outside lender to recoup its investment. The rest of the proceeds from the golf course, including \$7 million that the Harriman heirs say could have repaid part of the involuntary lending to the resort, disappeared into the hotel's omnivorous expenses.

### How Much Did She Take?

Each year in Leesburg, Virginia, near Harriman's "Willow Oak" country home, the Loudoun County Commissioner of Accounts certifies a statement of Averell Harriman's residual estate—that is, what remained after his bequests were parceled out. In one of the marital trust funds totaling \$2 million, trustees William Rich and Pamela Harriman presented an accounting last September in which all but \$1,500 consisted of IOUs from Mrs. Harriman.

The "statement of new investments" for this trust reads like Mrs. Harriman's personal checking account. Through 1989, for instance, the estate made fourteen payments "to or on behalf" of Mrs. Harriman, in sums ranging from \$2,600 to \$100,000; they were rolled together in an "on-going note" of \$569,783.05. By 1993, this "on-going note" totaled \$1,799,402.22.

Shortly after President Clinton's inauguration, Mrs. Harriman learned she was to be named ambassador to France. She then spent the subsequent months cleaning up her financial affairs with Rich, prior to producing a financial disclosure report for the federal Office of Government Ethics. But her clean-up raises even more questions, not least of which is whether the FBI background check noticed what

was actually going on with the money. On March 11, she paid nearly \$1.2 million to the estate on an outstanding note, but on the same date the exact sum of the payment was booked as a loan to an entity identified as the Sterling Fund. A source close to the estate says that no cash actually changed hands, that Mrs. Harriman signed over a note due to her. A similar shuffle occurred a week later. The estate received about \$500,000 in two installments from Mrs. Harriman, but the exact amounts of these payments were invested immediately in "Sterling Fund" notes. If this transaction sounds confusing, that's because it was meant to be, giving the illusion of repayment when little or no money actually changed hands.

If the Sterling Fund is the same as the Sterling Venture Capital Fund (the source is not certain that it is), then whatever money that changed hands would still have ended up with Mrs. Harriman. In 1987, she sold her ownership of the Sterling venture fund back to the fund itself in exchange for \$2 million to be paid in yearly installments, beginning in 1992, of \$200,000. Instead of owning the fund, she became its main creditor. As part of the deal, the Sterling venture fund distributed shares to Averell's grandchildren, whom Rich persuaded to guarantee the payments. As they later complained in the New York suit, the fund doesn't have the money for these payments, and the subsidy to their step-grandmother has now become their personal obligation. A similar arrangement with another of Averell Harriman's investment vehicles saddled the heirs with an additional \$500,000 annual payment. Their lawsuit, in short, alleges that they now have to pay Pamela \$700,000 a year for her services in squandering their patrimony.

Even with this legerdemain, Pamela still owes a lot of money to the fund she has been overseeing. Her government financial disclosure form lists two notes of more than \$1 million each drawn from the Harriman funds.

Like Clark Clifford, Paul Warnke, and the other wealthy liberals who make up her circle, Harriman drew her prestige from proximity to the great events of World War II and its aftermath. A sense of noblesse oblige enforced the Democratic Party's claim to rule as a permanent majority. In light of the scandal and decline over which they presided, it's fitting that even their personal fortunes have been diminished. Mrs. Harriman's fabled riches turn out to consist largely of her art collection, the most valuable part of which, Van Gogh's *White Roses*, is pledged to the National Gallery.

Although her lawyer Lloyd Cutler tells reporters, "By any standards, she will be able to live out her life comfortably," a lawyer for her step-children told the New York court that she is down to her last \$3 million in cash and talking about declaring bankruptcy.

The political realignment brought about by the midterm elections may have been delayed through the 1980s by the highly successful fundraising of figures like Pamela Harriman. Like the grand dame herself, the Democratic Party has been living off its capital. □