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Pension Pincher

IN HIS CAMPAIGN MANIFESTO *Putting People First*, Bill Clinton proposed dipping into pension funds as a way to "grow the economy." Why you should be worried he might keep his promise this time.

BY JAMES RING ADAMS

JOHN SPRINGS

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QUIETLY BUT STEADILY, Bill Clinton is pushing a stealth raid on the private economy of the United States. The plan, which dwarfs even his administration's attempt to take control of the nation's health-care industry, calls for diverting a portion of the vast resources of the nation's public and private pension funds—more than $4.8 trillion—into "economically targeted investments," or ETIs. By re-routing even a small percentage of the money those funds control, Bill Clinton would have a larger lock on the U.S. economy than any conceivable tax-and-spend legislation could produce.

Not surprising to anyone who has watched this president closely, the plan is a product of the theorists of the 1970's left in which Clinton cut his political teeth, and was honed on the cronyism of his years as governor of Arkansas. It is essentially a repeat of his own failed experiments with the pension funds of the Arkansas public employee retirement systems—but with far greater dollars to be made, and far more people at risk of being hurt. By forcing a five-percent quota for ETIs on private pension funds alone, Clinton would put $175 billion at the disposal of his pals and their student left agenda.

The story of Clinton's Arkansas pension grab is now emerging from a newly available cache of documents in the hands of the GOP staff of the Joint Economic Committee. Clinton's crony-targeted investments may have cost his state's pensioners at least $24 million. This minimum estimate is money that should have gone into the underfunded pension systems but instead wound up in the pockets of Bill's fund-raisers and political allies. This may be small potatoes compared to national possibilities, but it shows the real spirit behind the administration's plans for the security blanket of the country's retirees.

THE GIANT POT of money in pension funds started beckoning to New Left theorists in the lean years of the 1970s, when the public mood had turned decisively against massive new spending programs. One of the leading proponents of the pension fund diversion was Jeremy Rifkin. Writing in the name of the Peoples Business Commission, he issued the (forthrightly socialist) tract *The North Will Rise Again* in 1978, predicting that the power of workers' pension fund assets would revive the economy of the industrial "graybelt."

Rifkin envisaged using this vast store of capital to fund a network of community-controlled "public banks." These would lend money for all the political goodies—low-income housing, defense conversion, environmentally friendly industry—that Rifkin claimed were being stiffed by the profit-oriented capitalist system.

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The idea was developed further by buttoned-down, Yale-educated guru Derek Shearer in his 1980 manifesto, *Economic Democracy*. Shearer argued that pension-fund investments, even those of union workers, were largely controlled by the trust departments of a few large banks. He called for union members and public employees to put these funds, which in effect were their deferred wages, at the service of a progressive agenda. Pension fund trustees and friendly politicians would choose investments for their "social benefits" as well as their rate of return.

Typical of the high-minded notions of the progressive left, Shearer's scheme placed agenda idealism ahead of the practical concerns of human beings: The basic purpose of a pension fund is to keep money safe and sound, with the best possible return, for the retirements of the people it belongs to. By definition, the "social investments" Shearer was promoting were far riskier and paid less in return.

There was a major obstacle to implementing this plan, as Shearer noted. Congress had recently tightened the standards for pension fund management. In 1974 it had passed the Employment Retirement Income Security Act (ERISA), a response to self-dealing and pension plundering by corporations engaged in their own version of "social investing." ERISA, which is still in the books, states that private pension fund managers must invest "solely in the interest" of the fund members, "for the exclusive purpose" of providing and administering their benefits.

The act was essentially a reinforcement of the traditional "prudent man" rule, the common law standard for trustees who invest other people's money: Pensions were to be run the way "men of prudence, discretion and intelligence manage their own affairs." Shearer noted that "socially oriented" investing could lead to lawsuits by federal pension overseers. In spite of the problems, however, Shearer's program sounded good to a friend of his—Bill Clinton.

Clinton's connection with Shearer goes back to his Rhodes Scholar days. The group of Americans that sailed to England in 1968 included Strobe Talbott, whom Clinton biographer David Maraniss says was Shearer's best friend at Yale. (Another shipmate was Robert Reich from Dartmouth, now Clinton's labor secretary and the administration's point man on the pension issue.) During their Yale Law School days, Bill and Hillary stayed close to Strobe and his fiancée, who was Shearer's sister. Maraniss sees their influence in a paper Clinton wrote for a law school class, attacking the American corporate system. Derek Shearer contributed to Clinton's first campaign for Congress, and cited Clinton's term as state attorney general as the sort of grass-roots action that was keeping progressive politics alive.

The theme of pension fund power showed up in Clinton's first campaign for governor in 1978. A campaign memo to Clinton has now surfaced that gave him a

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run-down on the six state-employee pension funds of Arkansas. The memo mentions them as possible sources of money "to help stimulate the economic development of . . . Arkansas." The memo also reminds Clinton of the "prudent man" rule and possible problems if Congress were to extend ERISA to public employee funds. But it concludes that further study was "worth doing."

In 1985 Clinton sponsored legislation to help get his hands on the money. The bill required that five to ten percent of the state's pension funds, which were then holding about $1.5 billion, were to go to "Arkansas-based investments." This economic package also set up the Arkansas Development Finance Authority (ADFA), now a center of controversy over Bill Clinton's dealings with his friend Dan Lasater, a bond trader and later convicted drug-dealer.

The ambitious package was on the verge of passing the state legislature just weeks before Worthen Bank and Trust lost $52 million by investing state pension fund money with a fraud-plagued government securities bond trader. As reported in these pages last September, Jackson T. Stephens of Stephens Inc., then Worthen's largest local shareholder, personally made good the loss and helped cover up the scandal.

In addition to saving Worthen, the bailout also averted critical scrutiny of the state's handling of its pension funds. As luck would have it, the legislature had held up both ADFA and the Arkansas-based investment bill on a technicality. The bills did not get voted on until after the Worthen crisis had blown over—much to the benefit of both the governor and Stephens Inc.

Clinton bragged about the results of this economic package in his 1992 presidential campaign, but for good reason didn't give many specifics. His campaign manifesto, *Putting People First*, proposed dipping into pension funds for his Rebuild America Fund. This was one campaign promise, it turned out, that Clinton has been very interested in keeping.

NINETEEN STATES, including Arkansas, have experimented with targeted investments in their employee funds, and a study by the Cato Institute has found the results "dismal" and sometimes embarrassing. With jobs disappearing out of state due to Gov. Lowell Weicker's tax increases, Connecticut invested $25 million in pension funds in Hartford's own Colt Industries. This put the state in the dubious role as part-owner of a gun manufacturing concern that made assault weapons the state legislature had voted to ban.

Because politicians have a direct hand in their affairs, state and local public employees' pension savings are always vulnerable to political wrangling and investments of questionable judgment. But the potential for mischief in the public funds, which total $1.2 trillion nationwide, is dwarfed by the far more massive resources—$3.6 trillion—of the private sector.

The Clinton administration's first major threat to private funds came in June 1994, when Labor Secretary Robert Reich performed a quiet bureaucratic maneuver. Reich issued Interpretive Bulletin Number 94-1, allowing investments "to be selected for their economic benefits apart from their investment return." This sentence addressed the basic issue about ETIs. When pension fund managers diversified their portfolios, they were obliged to consider two factors: the level of risk, which had to be as low as possible, and the best possible return at that level. The Labor Department was adding a third factor, the general benefit to the economy, meaning regional development, as in bidding to keep industries from relocating, or even general social "improvement," as in subsidized housing. The problem with the third criterion is that the economic benefits would be defined by government officials, bringing politics into the pension funds in a big way.

THE MONEY THAT SHOULD have gone into underfunded pension systems wound up in the pockets of Clinton's fund-raisers and political allies.

Reich went one step further that fall. The Labor Department decided to list the "socially desirable" investments it wanted to encourage, and awarded a $1.2 million contract to Hamilton Securities Advisory Services of Washington, D.C. to establish an ETI Clearinghouse.

This creep toward ETIs raised the hackles of House Republicans. New Jersey Rep. Jim Saxton, now vice chairman of the Joint Economic Committee, predicted that the next steps would be federal guarantees and subsidies to make up for the inevitably higher loss rate on the ETIs, which would wind up charged to the taxpayer, just as the savings and loan debacle had been. Saxton claimed that what the administration really wanted was a rule requiring all pension funds to put five percent of their assets into social investing, along the lines of those laws now in effect in the nineteen state legislatures.

The Labor Department pooh-poohed Saxton's charge, saying that its plan contained nothing new. Assistant Labor Secretary Olena Berg, head of the Pension and Welfare Benefits Administration, told the Joint Economic Committee last May 18 that Reich's bulletin was merely a restatement of the department's official position since the beginning of the Reagan administration. ETIs were acceptable, Berg said, only if they produced the same return as other investments. She expressly repudiated the idea, "favored in

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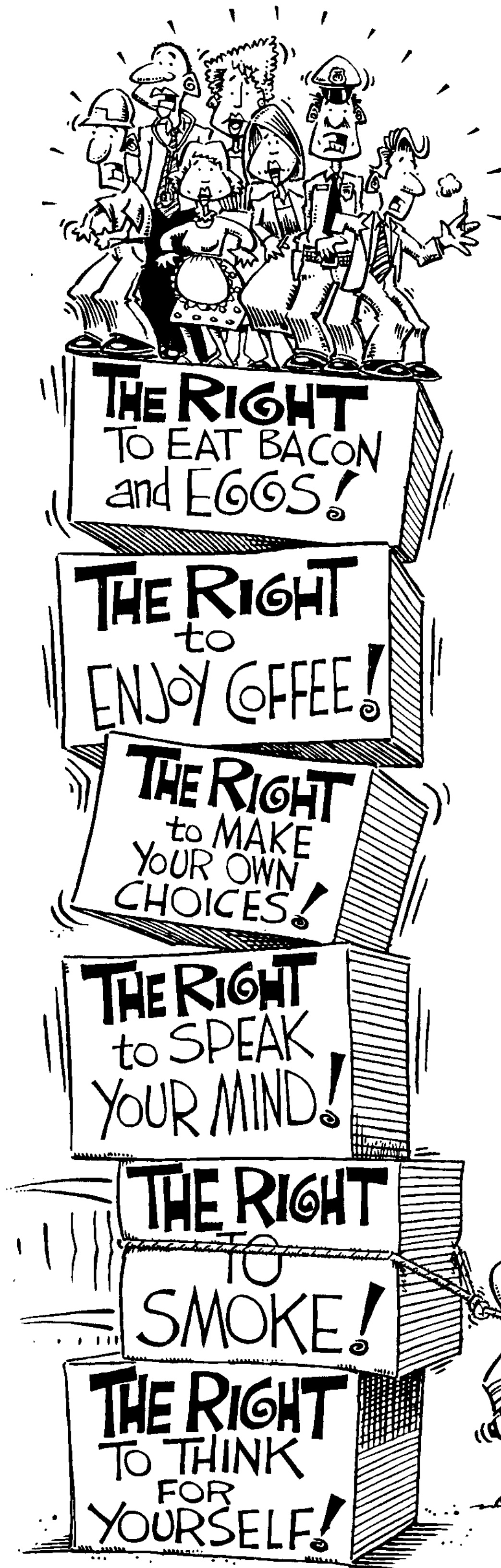

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some circles in years past," that pension plans should try to solve social problems at the expense of competitive rates or return. The clearinghouse idea dated to George Bush, she claimed, adding that Hamilton Securities is run by Republicans, including a former aide to Senator Alfonse D'Amato. She categorically denied that the Clinton administration would impose investment choices on the private funds.

The Republicans didn't buy it. Rep. Saxton introduced a Pension Protection Act to thwart what he called the "pension grab." It prohibited federal support for social investing and forbade the use of taxpayer money for the ETI Clearinghouse. On September 12, 1995, the bill passed the House by a vote of 239-179. At this writing, the budget infighting may keep a similar bill from passing the Senate, although the section eliminating the ETI clearinghouse is expected to go through. A serious Senate effort to pass a separate pension bill is expected next year.

But Arkansas pension-fund documents, from Clinton's tenure as governor, have fallen into the hands of the Joint Economic Committee staff. They confirm Saxton's worst suspicions—and to the degree that Reich's proposed pension policy is an extension of Clinton's Arkansas maneuverings, Saxton is right to be worried about a money grab.

ARKANSAS PENSION-FUND documents from Clinton's tenure as governor have fallen into the hands of the Joint Economic Committee—confirming Saxton's worst fears.

NOWHERE DO THE DOCUMENTS reveal the cautious standards assistant secretary Berg testified would obtain. An odor of cronyism hangs over the list of in-state lending, and the biggest of its ETI developments looks like a downright boondoggle, making money only for the lawyers and the bond dealer—which just happens to be Stephens Inc.

The 1990 list of state-related investments from the Arkansas Teacher's Retirement System (ATRS) includes obvious "friends" like the Little Rock Athletic Club, which received a loan of $4.9 million. A bit over $3 million went into the Ten-Three-Ten Building in Little Rock, whose managing general partner, a grandson of the late U.S. Senator John L. McClellan, was kicked out of the project amid a flurry of liens from his subcontractors. The pension fund even lent the sisters of Kappa Kappa Gamma nearly $300,000 to build a sorority house in Fayetteville. "I know the daddies of these girls," ATRS fund manager Bill Shiron told a local writer, "and there is no way they would have allowed that loan to go bad."

The fund also bought $5 million in Wal-Mart bonds, just as that firm named Hillary Clinton to its board. (State Auditor Julia Hughes Jones, then a Democrat, questioned whether these bonds counted as an Arkansas investment, since Wal-Mart was incorporated in Delaware.) It gave ADFA nearly $10 million in loans and commitments, to help that agency pursue its own fascinating career.

But the biggest deals raise serious questions about whose benefit was really served. ATRS, along with the somewhat smaller state Public Employee Retirement System (APERS), put together $75 million to raise funds for the Arkansas Student Loan fund. But the money didn't go directly to student loans. Instead, the two pension funds bought $75 million in discounted Ginnie Maes—bonds issued by the Government National Mortgage Association. The plan was that when the bonds rose to par value, the pension funds would sell them off, and transfer the profit to the student loan authority.

Without bidding, the deal was given to Stephens Inc., which collected an estimated $880,000 in fees. Roy Drew, the Little Rock bond analyst and Stephens gadfly, called the fees "about four to five times what it should be." And the trustee for the bonds? Worthen, of which the Stephens bloc then held the largest interest.

The pension funds used the same arrangement, with the same players, in a scheme to build a $60 million slackwater port at the Mississippi River town of Helena, Arkansas. Although private developers failed several times to go ahead with plans for an industrial park, the town fathers of Helena argued, "If you build it, they will come"—and then asked for federal money to dredge the harbor.

The town needed to raise $1 million in matching funds, so it went to the pension funds. In 1987 ATRS and APERS both put up $25 million for Ginnie Mae arbitrage deals. APERS was lucky enough to earn $500,000 on the deal. But the profits went to the bond-dealer—Stephens Inc. For handling the arbitrage, it pocketed a quarter-million dollars in fees. And it did this over and over, for a total of $200 million in arbitrage deals, until growing criticism brought the practice to a stop. Roy Drew calculates that had the pension funds invested directly in the bonds, this would have saved $24 million in profits and fees. Why couldn't the funds have done the deals themselves?

"It's a legitimate question," Stephens vice president Byron Schriver admitted to the *Bond Buyer* newspaper in 1990. "But that doesn't qualify as an Arkansas-related investment." According to Schriver, Bill Clinton's pension reforms actually mandated the kind of deal that made Stephens so much money.

This is the wonderful world of ETIs, which Clinton and his coterie of "progressive" advisers want to bring to the nation's pension funds.

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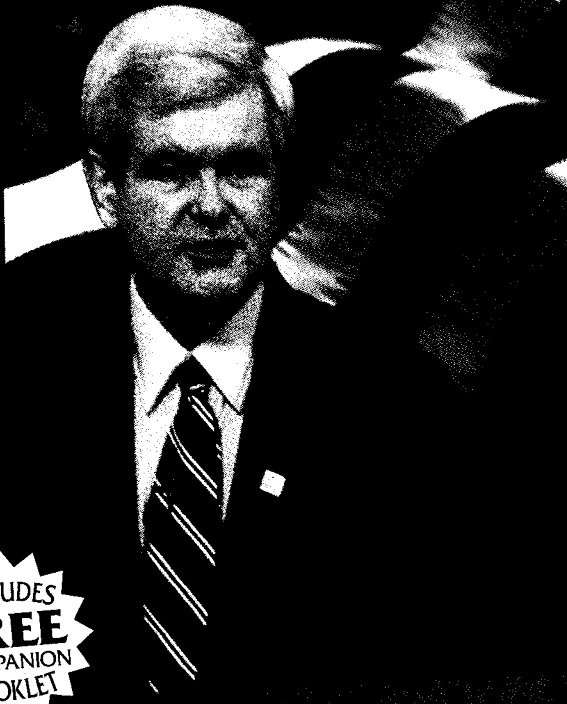

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In today's freewheeling Russia, business is always personal. So is the danger—corpses are piling up on the streets, and new "security" firms have hired almost everyone in the former secret police. Our man in Moscow hits the streets.

by Jonas Bernstein

Moscow

The epidemic of contract murders sweeping the New Russia, just like the deprivations of years past, has spawned some grimly funny jokes. In one, two hit men are standing outside the apartment of a would-be victim, a businessman who is usually home by 9 p.m. Nine o'clock comes and goes—no businessman. At 9:15, he's still a no-show. Finally, at 9:30, one of the killers looks anxiously at his watch. "I'm getting worried," he tells his colleague. "I hope nothing happened to him."

While the humor helps to deal with the fear, corpses keep piling up on the streets of the "free-market" Moscow. Grisly accounts of hired murders are now a staple of the daily papers, detailing what has become little more than a conventional risk of doing business in post–Cold War Russia, as expected and ordinary as a bribe. The Russian Business Roundtable, an entrepreneurs' association embracing 270 business groups around Russia, has even drafted a Russian Business Charter, whose signatories pledge not to use violence, not to engage in "criminal forms of business" or "unscrupulous" business practices, and not to "legalize" dirty business or launder dirty money.

But no one in the business world is immune to the danger. Nine of the Roundtable's top thirty officials, including two members of its presidium, have been murdered within the last year. In August the Roundtable's chairman, Ivan Kivelidi, and his secretary died after suddenly lapsing into comas. Though investigators have not released official conclusions, the two are generally assumed to have been poisoned.

The frequent killings go hand in hand with the remarkable degree of corruption here. On October 29, Valery Radchikov, a former colonel in military intelligence and chairman of the RFIVA, a foundation for disabled vets of the Afghan war, was gunned down along with the RFIVA's legal adviser. The

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