PATRICK CUNNINGHAM

THE CLINTON

In his second term, Bill Clinton will use your savings to reward a vast network of left-wing activists, cronies, and big-money supporters. It'll be Dan Lasater and ADFA all over again.

BY JAMES RING ADAMS

It was Jesse Jackson, in his speech to the Democratic National Convention, who spilled the beans. "We have six trillion dollars in private and public pension funds," Jackson thundered. "Why can't we take five percent of that money—$300 billion, government secured—[and] use that money to reinvest in our infrastructure and put America back to work?"

Why not, indeed? Tapping the enormous pool of capital in employee pension funds has been a pivotal scheme throughout Bill Clinton's political career (see "Pension Pincher," *TAS*, January 1996). Arkansas residents are only now discovering how thoroughly Clinton exploited the retirement savings of his poorly paid state employees, not to "put America back to work," but to build his political machine. Clinton dipped into pension funds worth more than $6 billion to generate campaign contributions, reward friends (and, indirectly, in one case his wife Hillary), and buy off potential opposition. His one true innovation as governor was a state financial structure designed as a spigot into the retirement systems. It may well have been the advantage that took him from small-state Southern politician to national contender.

Clinton's willingness to tap into those funds in Arkansas makes Jackson's words an ominous harbinger for all Americans. True, there are legal barriers to pension dipping. Trustees are bound by the "prudent man rule" of English common law; it holds that a pension trustee should act on behalf of the fund the same way a prudent, intelligent businessman would act on his own behalf. In addition, federal and state law requires that pension fund decisions should be made "solely in the interest of the participants and beneficiaries."

Pensions are a hot issue this year. House Republicans pushed a bill to reaffirm the traditional standards after Clinton's Labor Department made rulings that seemed to loosen them. To defuse the controversy, the White House recently announced a policy package (some of it Republican proposals) that would expand pension protections.

But the vast amounts accumulating in the nation's pension funds will always remain a temptation for ambitious politicians. Some twenty states have already tried raids on their public employees' funds, and Jesse Jackson's oratory reflects a long-standing dream of post–New Left theorists (such as Clinton pal Derek Shearer) to tap private savings as well. If these dreams come to pass, all the excesses of political spending would follow, and the inevitable result would be a financial crisis on the order of the savings and loan debacle. Pensioners, and ultimately taxpayers, would foot the bill.

THE ADFA SPIGOT

The story of Bill Clinton's pension fund raids, and their central place in his career, is just now coming to light, and not a minute too soon, thanks to the political upheaval in Arkansas. Republican Mike Huckabee knew he was entering hostile territory when he took over as Arkansas governor from the disgraced Jim Guy Tucker last July. But even Huckabee's most experienced staff seemed surprised when they began to probe the foundations of the Clinton/Tucker political machine. After only three weeks in office, Huckabee decided he had to act quickly to clean out one of its power centers, the Arkansas Development Finance Administration (ADFA).

The ADFA issues state-backed bonds to raise money to lend to private businesses. As governor, Clinton had so much control over the agency that he personally directed Wooten Epes, then head of ADFA's predecessor agency, to move his headquarters into the former Little Rock warehouse and laundry that had been renovated by Whitewater partner James McDougal as the main office of Madison Guaranty Savings and Loan.

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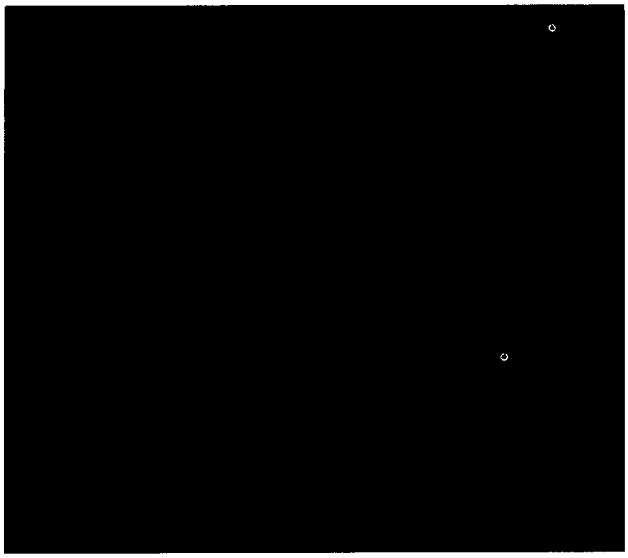
Epes signed an expanded lease with McDougal in April 1985, a week after McDougal hosted a fund-raiser for Clinton in the lobby of the building. (After McDougal's collapse, Epes broke the lease and moved out.)

After deciding on the sweeping changes he would make at the agency, Huckabee sent three senior aides on the morning of August 7 to hand ADFA president Vincent Tilford his letter of resignation. The three gave Tilford a chance to gather up personal items and then walked him out of the building. Three more senior ADFA officers, including the general counsel and the vice president for finance, were pushed out the same day. But the purge wasn't the surprise Huckabee had hoped for; he was told later that word of the firings had leaked out, and that ADFA officers had spent the night shredding documents.



Huckabee had clearly touched a nerve at the agency, which, in addition to its other troubles, had been at the center of a number of conspiracy theories; there was gossip that ADFA was a conduit for drug-money laundering from the Mena, Arkansas, airport. This speculation came largely from the role of Dan Ray Lasater, a bond-dealer, convicted cocaine user, and Clinton supporter who was poised to make a killing on ADFA business in its first year. It was in the course of dismissing such notions that Clinton supporters tipped their hand about the real purpose of ADFA.

In 1994, the *Arkansas Democrat-Gazette* ran a lengthy rebuttal of the video "The Clinton Chronicles"—the widely distributed source of the charge that the ADFA was laundering Mena drug money. The origins of ADFA were mundane, said the paper, quoting former ADFA head Wooten Epes to the effect that he had shaped the agency himself, with help from Belden Hull Daniels, a Boston consultant.

The mention of Daniels suddenly put ADFA in a new light. Not just an economic development agency, it now appeared as the kingpin of the pension raid, following a national strategy that Daniels and his "alternative policy" colleagues had touted since the end of the 1970's. Daniels was best known for advocating the post–New Left message that private capital markets were too conservative to fund the new companies making technological breakthroughs. The computer revolution of the 1980's belied that reasoning, but Daniels nevertheless maintained that states could create new industries for themselves if only they could tap previously unexploited pools of money—in other words, state employee pension funds. This version of state directed investment (sometimes disguised under the euphemism "Industrial Policy") followed the post–New Left trend of looking to state and local government for the "progressive politics" that had been repudiated nationally by the Reagan landslide. The pension funds offered another advantage prized by the new breed of progressive; it didn't take a tax levy to get at the money, so taxpayers wouldn't be alerted.

In his academic writings, Daniels made perfectly clear that agencies like ADFA—"state-owned equity financing institutions"—were designed to dip into the pension funds. In a 1979 monograph co-authored with Lawrence Litvak, Daniels singled out pension funds as "perhaps the greatest potential" source of public money. In his own book two years later, Litvak elaborated: "Venture-capital state intermediaries...[provide] what may be the best model for public investment vehicles for pension funds."[1]

When Litvak wrote those words in 1981, these funds were small and limited to specific hi-tech projects. But Bill Clinton's ambitions gave the consultants a broader canvas. In February 1985, Clinton started to push his plan to make the state a major fund-raiser. Its centerpiece proposed converting the state Housing Development Authority to ADFA. (The legislative sponsor of the package in the Arkansas House of Representatives aptly called ADFA "the head of the octopus.")

The Clinton package also required state employee pension funds to put five to ten percent of their money in "Arkansas-related investments." Belden Daniels came down from Boston to explain ADFA to legislative committees; and although Clinton's package looked to the pension funds for money, Daniels downplayed the connection.

Even in the mid-eighties, the five state employee pension funds were the biggest pool of ready money in a capital-starved state. (Today, with the boom in the stock market, the largest fund, the Arkansas Teachers Retirement System, sits on $3.6 billion of assets. Yet, according to the Legislative Joint Auditing Committee, it still falls $425.7 million short of full funding for its pension obligations.) With the companion APERS fund (Arkansas Public Employees Retirement System), and smaller funds for highway workers, state police, and the judicial system, the state pensions control more than $6 billion in assets. By comparison, when Worthen Banking Corporation was the largest locally owned bank in Arkansas (since merged

[1] In his 1983 book, *The Next American Frontier*, Robert B. Reich echoed this theme: "The investment of a given portion of pension fund assets in regional development banks would help spur the economy and thereby benefit American workers over the long term," he wrote. As secretary of labor, Reich is now in charge of the Clinton administration's pension policy.

into the North Carolina–based NationsBank), its assets totaled no more than $3.6 billion.

Although all of these funds have questionable deals on their books, the teachers have been exploited the most egregiously. The difference may well have been that the chair of the investment committee at APERS was the one independent voice in state finance during the '80's, State Auditor Julia Hughes Jones. (She did not sit on the ATRS board.) During 1987, says Mrs. Jones, she received a series of letters from a local investment consultant named Michael Drake, urging APERS to imitate the more permissive policies of the ATRS. Drake was formerly number three man at Dan Lasater's firm.

When Jones resisted, *Democrat-Gazette* columnist Meredith Oakley reported, Drake and another local consultant helped orchestrate a coup to replace the chairman of the APERS board. The chairman narrowly survived a tie vote in September 1987, and Jones was reappointed to another term on the investment committee. During this time, according to an undated memo in state files, Governor Clinton told one senior appointee that he wanted the replacement of the executive director at APERS.

ADFA developed close—some might say conflicted—institutional ties to these funds, but its dealings with the teachers raised eyebrows the highest. The ATRS set up a revolving line of credit to provide interim financing for ADFA projects, so that ADFA could disburse money while waiting for the bond issue to sell. At the same time, the ATRS turned to ADFA to provide a credit analysis of all potential private borrowers (satisfying a state law that it submit its lending to review by an independent investment bank). So ADFA acted as both the lending agent and independent reviewer, charging all loan applicants a minimum fee of $500 for the service. A local banker who has borrowed from ATRS says that the ADFA review failed to meet minimum banking standards. But it did make the money flow more quickly.

The arrogance of this plan emerged plainly in an article Daniels wrote four years later, praising Bill Clinton (and a few others like Massachusetts Governor Michael Dukakis) for not letting "self-interested pressure groups (bankers, bond counsel, public pension fund beneficiaries) surround [him] as a public official." As Daniels put it, "Always corral all of the interest groups so they are drawn into a larger public interest."[2] The trouble with this advice is that the assets of the pension funds don't belong to the public, or to New Democrat politicians. The money comes from the deferred pay of the plans' members, who, in the case of Arkansas' teachers, ranked 48th in the country in salary. The "prudent man" rule embedded in federal and Arkansas state law gives the pension trustees only one job: to make sure that the fund stays as healthy as possible to meet the needs of the retirees. Legally and morally, the pension fund beneficiaries are far more than a "self-interested pressure group"; they are the owners and *raison d'être* of this enormous pot of money.

But the political logic behind ADFA and the five-percent rule was overwhelming. ADFA brought billions of dollars under the control of Governor Clinton, without the pain of asking for a tax increase. Its bond issues made business for the biggest firms on Wall Street. Bond counsels, bond insurers, and above all bond underwriters became a rich new arena for Clinton's campaign fund-raising. And the loans themselves gave him powerful leverage in the Arkansas economy, which he freely used to reward friends and neutralize potential enemies.

WALL STREET PAYS TO PLAY

Governor Clinton's new bond-making machine tapped not only the pension funds but the political fundraising power of the national market in municipal bonds. This multi-billion dollar market is either an anomaly or the lifeblood of the federal system, depending on one's attitude toward the federal system. Every level of government, from the state to the school district, sells bonds to private investors in order to raise money for buildings or other public investments. Because of the federal division of powers, interest on these bonds is untaxed by the national government, making them a standby of high-income individuals and lowering the cost of borrowing for state and local bodies. The general public may not pay much attention, but every time politicians have access to large amounts of money with little public scrutiny, strange things start to happen.

A large industry surrounds the bond market, just ripe for political plucking. Each bond issue needs a certificate from one or more bond counsels, assuring the investor that it meets the rules for tax-free status. These lawyers get high fees for very little work. The millions and billions raised by the bond sales have to be held by trustee banks until the bills have to be paid; bankers receive trustee fees, as well as heaps of cash as deposits.

But first of all come the mobs of bond salesmen, who make the calls to your Aunt Tilly or your filthy rich family doctor, suggesting that the Upper Rodent, New Jersey water district series 1996B is just the bond to pay them tax-free dividends twice a year. Bond houses fight for the right to be the first sellers of such

[2] Although Daniels lavished praise on his client Arkansas and Governor Clinton, he reserved his biggest plug for the Kansas Public Employees Retirement System (KPERS), "One of the best regulated, managed and most profitable pension funds—public or private—in the United States." This praise is revealing in light of KPERS' subsequent history. By 1991, a series of big losses in its targeted investments rattled the program, prompting a flurry of lawsuits and state legislative hearings. Wrote the *Wall Street Journal*, "As state investigators sort through the wreckage, the Kansas Public Employees Retirement System, known as KPERS (pronounced "capers"—unfortunately some say), faces probably the largest loss ever to stem from a pension fund's backyard investment program. Although other states have had problems with such investments, none has had so many things go wrong." The governor during the "social investing" spree was Democrat John Carlin, chairman of Clinton's 1992 campaign in Kansas. In May 1995, Clinton named Carlin to head the National Archives and Records Administration, prompting vigorous objections from historians' groups who said he was unqualified and would politicize the job.

issues, bringing them to market in syndicates that spread around the business in an elaborate pecking order. Lead underwriters get a handsome fee for this service, as well as the commissions they earn on sales.

Competition has tightened in recent years on the "muni" market, but local officials don't see much difference in quality among the bond reps constantly asking for their business. So they look for other ways to decide, like the extent to which the bond house is willing to get involved in community good works, which is often a euphemism for a willingness to make political contributions. There is some dispute whether the campaign shakedowns started with greedy politicians or with over-eager bond houses, but by all counts the "pay to play" system, making campaign contributions a condition for getting bond business, became firmly entrenched over the last decade. It raised its head in Clinton's Arkansas even before ADFA cleared the legislature.

Clinton was already hitting Wall Street up to help fund his 1984 campaign. At least two Paine Webber officers gave the maximum $1,500 each, the bond house gave another $1,500, and so did a subsidiary, Blyth Eastman Paine Webber Health Care Funding, Inc. Since April 1983, Blyth Eastman had been a leading underwriter for single-family mortgage revenue bonds issued by ADFA's predecessor, the Arkansas Housing Development Agency. (This work-horse program packaged pools of home mortgages as backing for bond issues of $25 million and up; it is still ADFA's largest single function.) From July 1985, the renamed PaineWebber Inc. became lead underwriter for ADFA in the same bond program, ultimately bringing more than $800 million worth of bonds to market.

The expanded powers of ADFA made plenty of business to spread around. The bond houses of the major housing bond syndicates also doubled as large campaign contributors—T. J. Raney & Sons, Stephens Inc, George K. Baum & Co., and its Little Rock representative, Dabbs Sullivan, and the soon to be notorious Collins, Locke and Lasater, whose Little Rock office began throwing lavish parties featuring cocaine on silver platters.

Although the legal maximum was $1,500, the bond houses usually arranged to make multiple donations through subsidiaries and individual employees. Other less visible conduits may also have been available. A senior officer with Morgan Keegan, the subsidiary of T.J. Raney, led a group of Little Rock businessmen in buying the rights to a manuscript written by Connie Hamzy, the self-described rock-star and Clinton groupie, scheduled for publication in 1992. Its account of a lustful meeting with Governor Clinton might have embarrassed his presidential campaign, but the book never appeared.[3] (In general, campaign contributions seem small compared to the favors granted, but they may be limited by market forces and by the politicians' residual sense of their own worth.)

In most cases, the bond issues came out at least a month *before* the contribution, making it difficult to show a straight *quid pro quo*. Yet all of the dozen or more ADFA bond underwriters also show up at one time or another as political donors. Some firms gave money without getting bond business, but these turned out to be getting other work; Smith Barney, for instance, doesn't show up as an underwriter, but the firm was a longstanding financial adviser to ATRS.

Just on the face of the numbers, it's remarkable that Arkansas, and Bill Clinton, have so far been unscathed by the "pay to play" scandals roiling the municipal bond market for the past two years. The incestuous business and political structure, and the incessant appetite for political funds, present the sort of profile that has attracted the attention of federal prosecutors in other jurisdictions. In spite of the apparent lack of interest in investigating Clinton's public finances, criminal cases in other jurisdictions have grazed close to his backyard.

Since 1993, the Securities and Exchange Commission has been pressuring major Wall Street houses to end the campaign donations and other favors they used to lay out to the state and local officials who controlled their governments' bond issues. In 1994, an industry rule supposedly limited contributions to $250, although some unabashed local pols petitioned a federal court to knock it down, and solicited bond houses for funds for the lawsuit. The SEC followed up in several cases by bringing criminal charges, a first time for the municipal bond market.

By coincidence, its first target was a well known Arkansan, Preston Bynum, a lobbyist for Stephens Inc., the Little Rock investment bank that made its fortune in Depression-era municipal bonds. Bynum was the chief of staff for Republican Governor Frank White, who beat Bill Clinton. After Clinton's 1982 comeback, both White and Bynum went to work for the Stephens Inc. municipal bond division. Bynum frequently lobbied the Arkansas pension funds to make Stephens-backed investments. Last year Bynum pleaded guilty to reduced charges

3 The irrepressible Ms. Hamzy has re-emerged as a candidate for Little Rock city commissioner, sharing the local ballot with Bill Clinton. Still fuming over the Clinton camp's attempt to impugn her veracity, she is offering to take a polygraph to support her version of the 1984 meeting, described in a 1991 *Penthouse* article.

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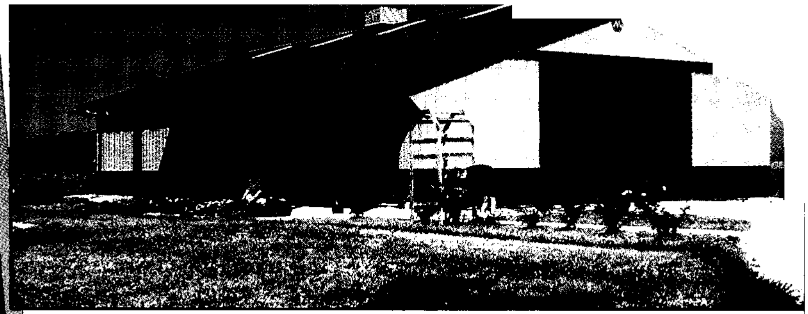

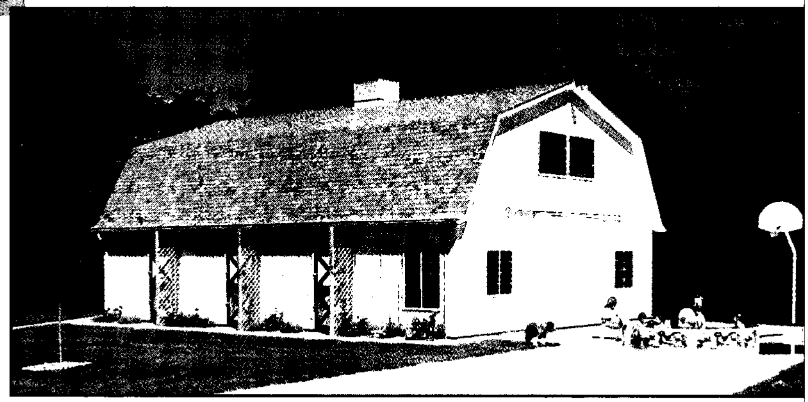

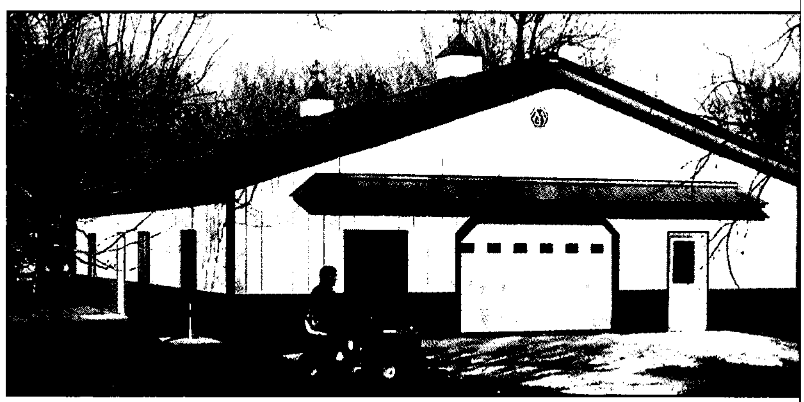

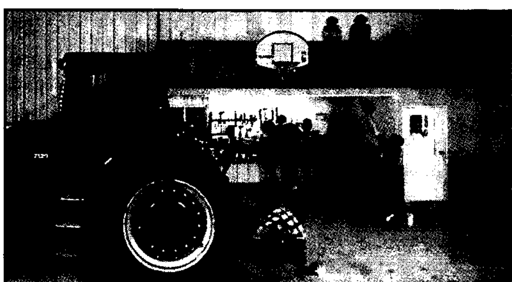

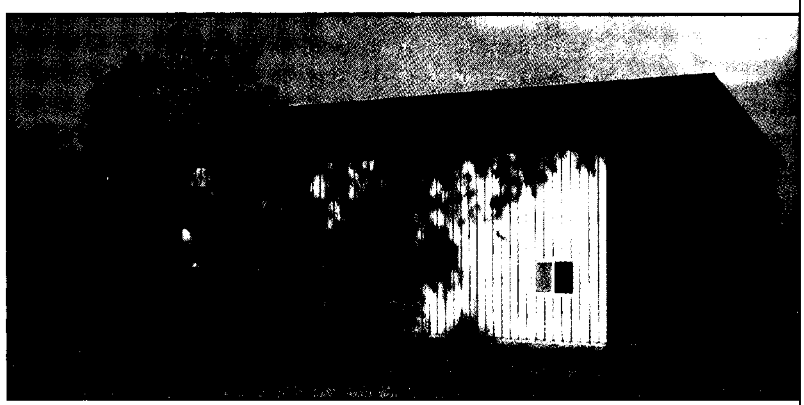

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of bribing a county utility commissioner in Florida and is now serving a two-year sentence. (Stephens president Warren Stephens said that Bynum's favor-dealing was "certainly not standard operating procedure for us.")

But the really big fish was a Boston legicrat turned investment banker named Mark Ferber, who some say played the same role for municipals that Michael Milken did for junk bonds. Like Milken, Ferber took a fall that is still sending shock waves through his industry. After a three-month trial, a federal jury in Boston in early September found him guilty on fifty-eight counts of fraud and corruption. The shock waves spread more widely because of Ferber's extensive contacts, both in the bond business and in national Democratic politics. He had been a senior officer, after all, in some of Wall Street's poshest firms. This was no rogue trader making cold calls. His friends included former staffers for the Democratic party's brightest stars. It was Mario Cuomo's chief of staff who brought him to Lazard Freres in the first place. Many in the industry thought that Ferber would never be convicted because his alleged misdeeds were too technical and ambiguous to explain to a jury. And besides, the practice was too widespread. If Ferber fell, the muni market was really in trouble.

The federal trial convicted Ferber of abusing his position as financial adviser for the Massachusetts Water Resources Authority, the District of Columbia, the state of Michigan, and the U.S. Postal Service. It showed that he pressured Wall Street firms such as PaineWebber, Shearson Lehman, and Merrill Lynch for business and payments. Merrill Lynch paid him a secret retainer totaling $2.8 million after he threatened to freeze it out of his advisees' business. Ferber is scheduled for sentencing on Monday, November 4, the day before national elections. He faces a possible five years on each of the 58 counts, in addition to millions in fines and restitution. Merrill Lynch and Lazard Freres have already paid fines of $12 million each, the largest settlement in municipal finance history, and Lazard has quit the business entirely.

The trial didn't touch on Ferber's Arkansas work, but state records drop tantalizing hints that he was a key player in the Clinton apparatus. On August 25, 1988, shortly after Ferber jumped to Lazard Freres, the ADFA board voted unanimously to hire Lazard as its financial adviser. President Wooten Epes explained that the agency wanted to explore "new product type financing." Over the next year, for a fee of $150,000, Ferber made the arduous trip from Boston to Little Rock for monthly ADFA board meetings, complaining afterwards to his colleagues about the poor airline connections. On one briefing session he was accompanied by a familiar face, the Boston consultant Belden Daniels.

Merrill Lynch received a lagniappe soon after Ferber's appointment. On December 13, 1988, without competitive bidding, ADFA let it handle $6.1 million in bonds for four Arkansas businesses. But the broker had already been a big player and contributor in Arkansas. In 1985 it brought out four multi-family housing bonds totaling $34.6 million, and donated at least $3,000 to Bill Clinton's 1986 campaign. The donations came through on November 6, 1985, just a week before Merrill Lynch Capital Markets re-offered the last of these bonds. Investigators might ask what role Ferber played in all this. According to a Merrill Lynch memo released during his trial, he reminded a company official while shaking him down for business "that he delivered Arkansas."

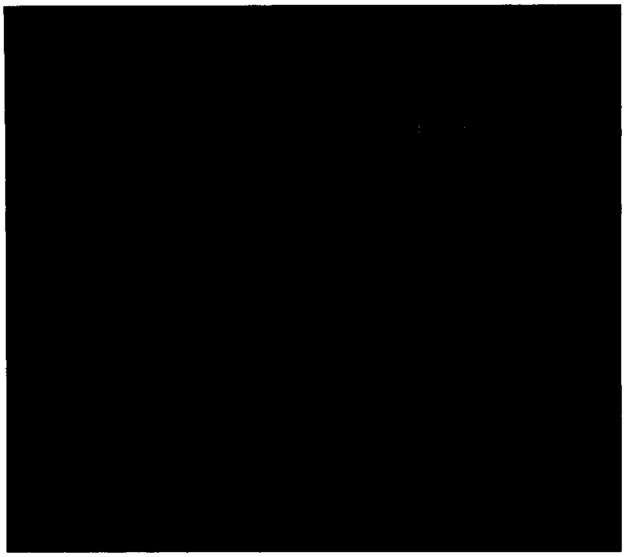
THE LASATER CONNECTION

So much sleaze surrounds the biggest of the Wall Street firms that Dan Ray Lasater seems almost a minor player in Clinton's financial scheme, just as defenders of the White House say he was. Yet, thanks to the drug connection, he is the most widely known of this crew, and he typifies the shady side of an industry that lives by its political connections. An Arkansas native who grew up in Indiana, he made his first $20 million with the Ponderosa chain of steak houses. Shifting his interest to thoroughbred racing and breeding, he began to run his stable at the Oaklawn track in Hot Springs and around 1978 moved to Little Rock. Lasater says that his connection with Bill Clinton sprang from his racetrack friendship with Bill's mother, Virginia Kelley, and her other son, Roger.

In 1980 Lasater was talked into starting a bond house by David Collins, an experienced broker, and George Locke, an Arkansas state senator. In its first incarnation, Collins, Locke and Lasater entered a local market very much dominated by Stephens Inc. In the intricate politics of the Arkansas business elite, the Stephenses had helped dump Bill Clinton in 1980, and observed a wary détente after his comeback in 1982. According to a Clinton confidant of the period, Lasater and his firm offered the governor a counterweight to the financial power of Stephens Inc.

At first, the word in Little Rock was that ADFA would be Lasater's show. At least that's what a former ADFA employee bluntly told the Senate Whitewater Committee. When Lasater testified before the Senate Whitewater Committee last spring, Democratic senators explained the logic of 1985. Clinton was trying to open up the tight world of Little Rock bond underwriting, said the minority staff, producing charts showing that ADFA spread the business among a number of smaller firms. (The undercurrents in this Whitewater hearing matched the subtleties of Little Rock. As Democrats defended Lasater as the upstart challenger to the Stephens oligopoly, Republicans took the side of Jackson Stephens, by now a major supporter of presidential candidate Bob Dole.)

Even before the agency's 1985 start-up, Lasater began to take a cut of the bond business of its predecessor, the Arkansas Housing Development Agency. He managed to get the agency to add his firm at the last minute to an April 1983 bond underwriting syndicate. Bond houses fight over their positions on a bond syndicate's "tombstone" ad about as fiercely as wolves do for their status in the pack, and Stephens Inc., the designated co-manager, took the change badly. In a letter of April 28 to the ADFA chairman, Stephens Inc. resigned from the bond issue, warning of "an erosion of the independence of the Board of Directors which, if publicly perceived, can only be received adversely in the market." It pointedly sent a copy to Bill Clinton.



But Clinton stood by Lasater, and later that summer, Jackson Stephens swallowed his pride, accepting an equal share with Lasater on a $125 million housing issue. Now operating as Lasater and Company, Danny Ray had a cut of seven of ADFA's first ten public bond issues. He also had free access to the governor's mansion. State Trooper Barry Spivey, then one of Clinton's drivers, testified in a court deposition that when Lasater dropped by the mansion, a common occurrence, he would wave the bond-dealer through to "Miss Liza's kitchen." Spivey also said that Clinton would make frequent calls at Lasater's downtown office: "A lot of times he'd say stop and he'd jump out and run in and I'd circle the block and he'd jump back in."

This cozy relationship fell apart in late 1986, when a protracted state and federal investigation resulted in Lasater's indictment for cocaine possession with intent to distribute. The case grew out of Roger Clinton's own drug arrest in 1984. Lasater had put Roger on his payroll and fed his drug habit. After Lasater pled guilty in October 1986 to one count of possession and distribution, along with Collins and Locke, he handed over control of his affairs to his senior aide and Clinton confidante, Patsy Thomasson. She preserved his personal business deals under the name of the Phoenix Group as the bond company changed hands.

But Jackson Stephens had the last word. The company, renamed United Capital Corporation (UCC), was a target of a 1987 state Security Division crackdown on Little Rock "bond daddies" widely believed to have been prompted by Stephens Inc.; in a page-one lead story in the *Wall Street Journal*, Jack Stephens said UCC had damaged the reputation of Little Rock's legitimate dealers.

Lasater's recent recovery has been as remarkable as his downfall. After six months in prison and four months in a halfway house, he returned to Little Rock. Governor Clinton gave him permission through the state parole board to apply for a gun license. Lasater denies that it was a full pardon, but others say the parole action allowed him to resume state licensed businesses. He has resumed a busy schedule with the Phoenix Group. Lasater's former partner David Collins has also made a comeback. After going through a bankruptcy proceeding in which his lawyer told the court that he had disappeared, he reemerged in Little Rock with his own small business.

Patsy Thomasson is leading a charmed life in the White House. After a controversial tenure as director of the Office of Administration, dealing with security clearances and a new phone system, and a mysterious appearance in Vince Foster's office on the night of his death, she was reassigned as deputy director of the Office of Personnel. She reports to another survivor, Bob Nash, the former head of ADFA.

These careers leave a raft of unanswered questions. Was Lasater taking drug money as well as drugs? Did his firm launder money, with or without the ADFA? Do he and his former colleagues know something that is bringing them protection? These are concerns for the conspiracy buff network, and a few serious reporters. But one thing is clear about these trips into murky waters: In their fascination with Lasater and the drug world, the reporters who investigate ADFA miss the most obvious fact; with its access to Wall Street and the $6 billion in the state pension funds, this agency is the powerful engine of a subtle and pervasive political machine.

THE USES OF ADFA

The important story is the way this financial apparatus served Clinton in his political career, buying off potential opponents and rewarding his friends—and Hillary. Almost all the Arkansans who understood the game were playing it. The few independent voices who spoke against it paid dearly. In 1987, Little Rock investment adviser Roy Drew analyzed a few deals for State Auditor Jones, saving the APERS from one investment that later went bankrupt, and found himself the target of a hostile press campaign portraying him as a disgruntled former Stephens Inc. employee. But those who stayed on the good side of Clinton and his apparatus were rewarded with ready access to capital.

Not only did this apparatus mobilize a national network of fundraisers, it spread around loans that happened to neutralize potential political challengers. One major beneficiary was the Rockefeller family, a popular political name since 1966, when Winthrop Rockefeller became the first Republican governor since Reconstruction. His son, Winthrop Paul Rockefeller, entered politics this year as a candidate for the vacant lieutenant governorship and is given a good chance at it.

During the Clinton years, however, Win Paul stayed out of politics to tend a family business well financed by ADFA and the Teachers Retirement System. According to the *Democrat-Gazette*, the first private activity bond issued by the new ADFA in 1985 provided $750,00 for Planters Lumber Co. of North Little Rock, a division of Winrock, the Rockefeller family holding company. Win Paul has also drawn heavily from the ATRS. He holds a half interest in the Bale Chevrolet-Honda auto dealership, financed by a $6.3 million mortgage from the teachers.

However Clinton handled his enemies, he was certainly meticulous in helping his allies. Practically every loan file at

ADFA and the retirement systems has some kind of political story behind it. The role of the Stephens family and the Rose Law Firm is already well known.

Canoodling abounds at every level. New York developer Sidney Weniger made a big splash when he came to Arkansas in the late '70's, entertaining lavishly and pouring money into local campaigns, while putting up buildings in posh areas of Little Rock. One of his most ambitious was the Freeway Medical Towers, a $14 million, nine-story, state-of-the-art condo for medical offices, financed by a loan from FirstSouth Savings and Loan of Pine Bluff. (Sidney and his son Earl gave Clinton a total of $3,000 in 1984. The building itself gave Clinton another $1,500 in its own name.) Weniger also provided Roger Clinton with a free apartment in another building, the Vantage Point: this "corporate unit," by the account of a former building manager, became the scene for drug parties with teenage girls.

HILLARY'S GOOD WORKS

The social investing of the pension fund/ADFA complex usually worked to the benefit of the state's well-connected elite, instead of the state's have-nots or its teachers. So it should be no surprise to find evidence of the hand of the best connected of all the Little Rock lawyers, Hillary Clinton. Her involvement reflects her own unique blend of social activism and commercial advantage.

In one of his many congressional appearances, Webb Hubbell mentioned that when he removed Hillary's Whitewater files from the Rose Law Firm during the 1992 campaign, he had also taken her file on the Southern Development Bancorporation (SDB). This Arkadelphia-based private bank holding company, sponsored by the Winthrop Rockefeller Foundation, has been called one of "the most radical experiments in the history of rural economic development." Mrs. Clinton has been on the board of directors since its inception in 1988.

SDB and its subsidiaries make housing and small business loans to lower-income entrepreneurs. A real-estate division sells "affordable" homes, often to low-income purchasers with low-interest ADFA financing. These don't seem to be objectionable activities. But one could ask how much Hillary helped to open doors at the pension fund. In 1988, Southern purchased the sleepy Elk Horn Bank in Arkadelphia as a lending arm. Elk Horn is now one of two banks to hold $1 million in teachers' retirement funds, the largest sum the ATRS now deposits in CDs.

Hillary figured indirectly in another pension fund investment, which turned out to be the sort of once-in-a-lifetime success that obscures all questions about impropriety. In the early '80's, Wal-Mart founder Sam Walton had ambitious plans to diversify and spread his regional chain across the country. Already labeled the nation's richest man, with a fortune of $2.8 billion, he still had bitter memories of his early difficulties raising capital. As a financial supporter of Bill Clinton, he turned to the state pension funds. APERS gave him a loan of $20 million. The ATRS bought three separate $5 million Wal-Mart bond issues, giving the company a break on interest rates that gave it a competitive edge. From time to time, the system also plunges in Wal-Mart common stock, last year holding nearly 50,000 shares.

The Walton success story generates a great deal of local pride, but the prudent trustee still has to worry about too great a concentration in a company that won't keep growing forever. Even in the mid-80's heyday of Wal-Mart, some on the APERS board complained that they hadn't been fully informed about its $20 million bond issue. Billed as an Arkansas-related investment, the money, it turned out, wasn't staying in the state at all, but going instead for a warehouse project in neighboring Brookhaven, Mississippi. Misgivings over the Wal-Mart loans intensified when the company itself raised the specter of a political payoff.

In 1986, the year after the state vaults opened to it, Wal-Mart added Hillary Clinton to its board of directors, apparently replacing long-time director Jackson Stephens. As a "non-consultant" director, she received $12,000 a year, plus $1,000 for each board meeting and committee meeting she attended. She also doubled her holding of Wal-Mart stock, reporting 800 shares in the 1988 notice of its annual meeting. (At the current high of $28, this would make a tidy nest egg of $22,400.)

ALICE IN PLUNDERLAND

As a director, Hillary approved a transaction that launched the next generation of Waltons on their own careers, and set up the next generation of pension fund raids. In 1989, she was appointed to a five-person Independent Directors Committee to supervise a stock swap that in effect distributed the Walton family holdings among Sam Walton and his four adult children. As a result of the deal, his oldest daughter Alice came to control more than one billion dollars.

At the age of 47, Ms. Walton now has a net worth estimated at $4.3 billion, making her one of the ten richest people in the country, and she is working hard to be a major financial player in Arkansas, and the nation. Her effort carries a tinge of resentment. With help from Mark Ferber, the Lazard Freres partner and ADFA adviser, the Alice-owned Llama Company joined at least one ADFA bond syndicate. But even with its preferred status as a "minority-owned" business, writers say the company has had a hard time cracking the bond-dealers' fraternity. So Ms. Walton has gone back to another lesson she learned from her father—how to exploit the pension funds.

Llama set up several layers of partnerships under the name Heartland as a sort of private ADFA for a ten-state southern region. The structure was designed to facilitate joint investing with pension funds. In 1994, a subsidiary called the Heartland Capital Appreciation Fund approached ATRS executive director Bill Shirron with an offer he couldn't refuse. "Our system has been asked to invest several million dollars in a 'venture capital limited partnership,'" Shirron wrote to the Arkansas attorney general, asking if it were permissible.

The end result of the New Left theorizing and the Bill Clinton fundraising is a fiscal apparatus ripe for the political plucking.

The attorney general's office said no, warning that Heartland looked by definition like a violation of the "Prudent Man" rule. Lawyers for the ATRS, the Little Rock firm of Dover and Dixon, said emphatically that "a venture capital investment would be almost prohibitively difficult to justify."

But Shirron went ahead anyway. Last year he signed a commitment to let Heartland manage $17 million, and delivered more than $3 million. More strangely, the ATRS calculated Heartland's management fee as if the fund were in charge of the full seventeen million, resulting in a payment last year of nearly half a million dollars. Most of this fee is a flat-out gift to a lady who hardly seems to need one.

KNUCKLE-RAPPING THE TEACHERS

The Heartland case highlights the stark question of whether the pension funds are being run for the benefit of their members or the Arkansas business and political establishment. In a meeting with teachers this February, executive director Shirron described his standard of pension fund management: "I don't feel we should be greedy. We should share revenues with the system." It was an off-hand statement but highly revealing, because it is hard to reconcile the Shirron Rule with the Prudent Man Rule incorporated in federal and Arkansas law.

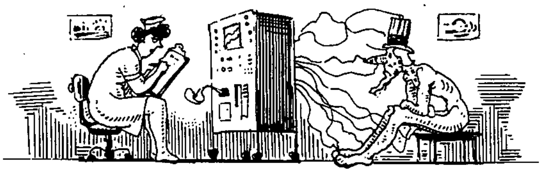
The point of the prudent man rule, and the other legal safeguards for the pension fund members, is to prevent the funds from suffering the almost inevitable fate of politically driven investing. Programs that seem benign at first and even begin by paying their way tend to be pushed further and further past safe limits by government empire-builders who can't resist overdoing a good thing. The end result is collapse and a taxpayer bailout. That was the experience of the "moral obligation" development bond in New York state in the '70's and the savings-and-loan deposit guarantee in the '80's. In the absence of a coherent economic strategy, the "economically targeted investing" of the Arkansas system has already started to spin out of control.

Earlier this year, the ATRS drew criticism for a $50 million arbitrage deal which produced as large a fee for the underwriter (Stephens Inc.) as it did in economic benefit for the pension fund. (See "Pension Pincher," *TAS*, January 1996). Instead of halting the practice, the ATRS adopted guidelines expanding permissible deals to $100 million.

The real face of the system has started to show itself at ATRS board meetings, under pressure from a handful of alarmed teachers who have started to ask questions. At its June meeting, the board debated a motion to allow more time for public comments. No, said board member Paul Fair, director of the Arkansas Retired Teachers Association, we need the time to study the investments we make. The motion failed, and as the five-minute public comment section began, Shirron and Board chairman Charles Dyer left their chairs to get coffee.

At the end of July, the teacher gadflies traveled to Hot Springs, where the ATRS board had gathered at the Lake Hamilton resort for a three-day session with afternoons free for private activities. When they tried to raise questions about the management contract with Alice Walton's Heartland, Shirron cut off the session. Instead, the ATRS board adopted new rules requiring anyone seeking to speak at the public comment segment to submit a petition with the signatures and Social Security numbers of twenty-five pension fund beneficiaries. When last seen in early October, the 13 members of the ATRS board were en route to Puerto Rico for a six-day stay at the National Pension Fund conference—in $200-a-night hotel rooms.

Those teachers who pay attention to this spectacle might well ask if anyone is left to protect their money. The end result of the New Left theorizing, the Cambridge consulting, and the Bill Clinton fundraising is a fiscal apparatus ripe for the political plucking. The national rise of Clinton is sure to inspire imitators, and the pressure is bound to continue on pension funds around the country. In spite of the rhetoric of Jesse Jackson, it won't be the poor who benefit, but the politically connected business elite. In spite of the arguments of the development consultants, the pension money will pour not into new technologies but into projects of dubious economic sense. In the end the losers will be the workers who put their deferred earnings into the pension fund—and the taxpayers who will end up cleaning up the mess.



by Jeremy Rabkin

Guns in Your Political Future

Bill Clinton's commitment to gun control is a winner for him nationally—and a killer for Democrats locally.

Gun control may be one of the great sleeper issues of the 1996 elections. The contending sides in this ongoing American debate are certainly wide awake and quite alert to the potential stakes. But the major news media seem to regard gun control as simply one more shimmering image, beckoning dreamy voters onto Clinton's bridge to the future.

The Clinton campaign has given a prominent place to gun control in its campaign imagery. Sarah and James Brady, though nominal Republicans, were featured speakers at the Democratic convention in Chicago, there to celebrate the gun control cause. Also featured was Carolyn McCarthy, a Democratic candidate for Congress from suburban Long Island, New York. Her main claim to the nomination is that she, like the Bradys, is a victim of gun violence. Her husband was one of the fatalities, and her son one of those gravely wounded, when a murderous psychotic sprayed bullets throughout a Long Island Railroad passenger car in 1993.

And, in case anyone missed the point, Clinton offered a series of proposals for further gun controls on his way to accept the nomination in Chicago. He plumped for another—a proposal to ban heavy "cop-killer" bullets—in accepting the endorsement of the Fraternal Order of Police in mid-September.

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Having abandoned liberal positions on welfare, gay rights, and budget balancing, gun control is one of Clinton's only remaining commitments to the historic liberal agenda. Polls show that Clinton's support for gun control has played well with most voters. It has enhanced his claim to be taking a firm line against violent crime—an unusual asset for a Democratic politician. More importantly, Clinton has consistently and loudly defended the gun control legislation enacted during his first two years in office, and used this commitment to portray Republicans as pawns of the National Rifle Association.

One sign this tactic is working is that it has spooked Bob Dole. In the opening weeks of the current Congress, Dole announced his support for repeal of the 1994 assault weapons ban, but then backed away during the primary season last spring and has been running from the gun issue ever since. Unlike Reagan and Bush, Dole did not receive the NRA's endorsement—and seems relieved not to have it.

But beneath the surface, there is a very different picture. The Republican Congress has been resolutely hostile to gun control measures and the odds are that the new Congress will be the same. In Republican primaries, the winners in recent months have usually been those endorsed by the NRA. In Kansas, where retiring Republican Senator Nancy Kassebaum was a firm supporter of recent gun control measures (and Dole seems to have abandoned his previous opposition to gun control), primary races yielded strong opponents of control as Republican contenders for both seats. In Illinois, Al Salvi, a relative outsider, defied party leaders to win the Republican nomination for the U.S. Senate in a hotly contested primary: Salvi received strong support from the NRA, while his established opponent disdained it. The NRA's endorsement may have helped Bob Riley to gain the Republican nomination in a multi-candidate primary field for an Alabama House seat. Almost certainly the NRA helped GOP-backed Woody Jenkins achieve his come-from-behind first place finish in Louisiana's September 21, ten-man, multi-party primary for the state's open U.S. Senate seat.

Meanwhile, NRA-endorsed Republicans have been running ahead of their Democratic opponents in contests to determine who will replace retiring Democratic senators in Georgia and Alabama. Clinton's enthusiasm for gun control does not seem to be helping Democratic congressional candidates. Particularly in the South and West—regions where even Democrats have traditionally been eager to boast of NRA support—the trend is just the reverse. As the campaign entered its middle stretch in early fall, the NRA was predicting an overall increase in the number of sympathetic representatives and senators in the new Congress.

The history of gun control efforts is revealing, not least because it has been consistently underreported in the general media, which finds it hard to imagine that any substantial number of real voters could possibly oppose gun control. But the actual voter history is quite well known to the Clinton White House.

As recently as five years ago, the NRA estimated that its membership was about evenly divided between Democrats and Republicans. Like most advocacy groups