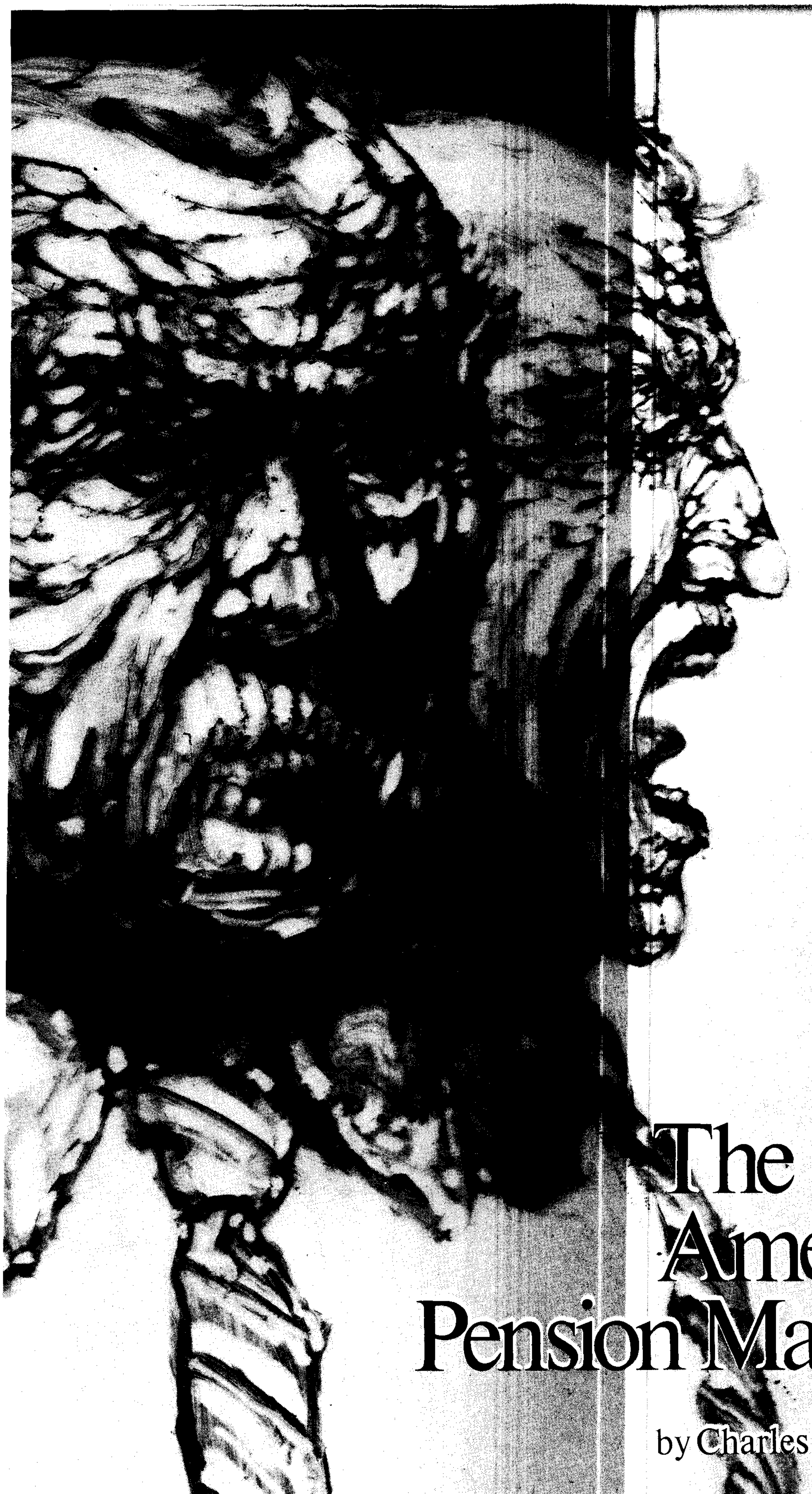


The Great American Pension Machine

by Charles Leinenweber

IN A SOCIETY WHERE GROWING OLD is no great joy, growing old and poor is even worse. Here is Alex Goldman, a cabinetmaker, 74 years old. He came to the United States from Vienna in 1939, worked his trade in non-union jobs through the war, then joined the union in 1948. This was in New York. In 1957 he moved to the Golden State, to Concord, California, a packed, working-class bedroom suburb, where the pre-fab houses look like first cousins to house trailers, and bleach a little after a good rain. Goldman worked until past 70, decided to retire, and waited for his first pension check, which never came and hasn't yet.

The pension credits he built up in New York didn't transfer with him; he lost the credits he built up in California because one employer failed to pay into the fund for a six-month period, and the time he worked past 70 didn't count, according to the rules. "I am entitled," Goldman says, "I worked in the trade, in the union, twenty-three years, I paid the pension fund here and in New York, I am entitled to some kind of pension . . . I am entitled and I can't get it out of them." Goldman's pension trustees—five employer and five union representatives—voted on his case. The union men voted yes, the employers men no—a stalemate, so no pension.

Here is Madalin Burnett, who worked for Borden's in Sacramento, twenty-two years in their retail credit department. She retired in 1969, along with three co-workers from the same department. She called Borden's regional office and asked about her retirement benefits. "Everything's taken care of, Madam," they said, "don't worry." Burnett got her pension, $95 per month from her union, an average American pension. She also got $5.22 from Bordens. "It wasn't very good—I couldn't even go out and get a decent dinner."

The company had lost her records on hospitalization and life insurance. After a fight, she finally got them to pay for an operation, and the company paid her a flat $500 for life insurance. They paid one of her co-workers $2000. Somehow, the four of them were paid different benefits and different pensions. "Every case was different and we figured we should all be about the same because we had the same time . . . .What can I do? They're not consistent at all."

Cases like these are far from being isolated horror stories arising out of a private pension system that's basically adequate. In fact, the system is best characterized by its monumental failures: Thirty-two million workers, the white and blue collar backbone of America's corporate giants, are covered by pension plans so outrageously hazardous that at best only one out of three can expect ever to retire with a pension. Two-thirds will get nothing. And, according to a Senate survey just released, most of the lucky third, the winners in the great pension sweepstakes, will get next to nothing: the average benefits actually paid to workers on pensions amount to $1080 per year. A Joint Economic Committee study predicts that in 1980 about 80 percent of retired couples and 85 percent of single persons will be living on pensions of less than $3000 per year.

The future is dimmer still for another huge chunk of the work force—some 20 million workers, mostly employees of the countless small businesses that grow like moss in the cracks of the economy. These, including domestics and the like, are covered by no pension plans whatsoever, aside from the meager reserves allotted to all old people by Social Security. Social Security payments to retired Americans average $129 per month.

At first glance the American pension system seems like an enormously chaotic and anarchic thicket, full of irrationalities and wasteful extravagances. A closer look reveals an artfully constructed maze, one drawn up so that the families who get pensions do so only with greatest difficulty.

■ The 32 million workers covered in private industry participate in no less than 33,000 separate and uncoordinated plans, spread among different corporations and in some cases, different union jurisdictions. There are no provisions for transferring from one plan to another. Thus someone who works for Ford cannot take a job with General Motors —or anyone else—without losing pension credits. Or someone who works on the Ford line cannot take a clerical job with the same company, without losing credits. Throughout all of big industry, labor turnover and mobility are sufficiently high to guarantee that only a minority of workers will ever collect pension benefits.

■ Roughly half of those covered—blue collar workers—fall under the dominion of union-bargained pensions. The rest—white collar workers—do not. However, except for craft union plans that enable workers to switch employers without penalty, so long as they remain within the union's jurisdiction there are no significant differences between the two. As unions won pension rights for their members, corporations usually granted the same to their non-union white collar employees. Moreover, the Taft-Hartley Act requires that no union be allowed to administer a pension fund by itself—at least half the fund's trustees must come from the employer. One consequence of this is that most industrial unions turn over all responsibility for funds to the corporations themselves.

■ The plans are interlaced with complex webs of fine print, spun by expert legal and financial minds, with the intention of restricting payouts and confusing potential pensioners. Every plan requires a minimum period of service under it—10 years for liberal plans, 15 to 20 years for most—before the participant can lay claim to a share of the fund upon retirement. Anyone who leaves before that time is served loses all credits and can claim nothing. Anyone laid off for an extended period is guilty of a "break in service" and likewise loses credits. Most plans also require that workers reach a certain age—usually 65—before retiring or suffer a loss. These and numerous other deceptive and bewildering conditions combine to make the pension system more like a gambling enterprise than a provision for old age security.

■ Women, along with seasonal workers and workers in high-turnover industries, are hardest hit by stiff provisions for long and continuous service. AT&T, the most notorious big employer of women, requires 15 years of work before "vesting," or the time when a worker can claim a share of the fund. As a result of this scheme, only 3 percent of the women who left AT&T over the last twenty years have left with any pension rights—although all pay into the fund. In the meantime, 14 percent of the company's working men left with pensions. While this figure in itself is nothing to crow about, the difference between the two underscores the

Illustration by Vincent Perez

more intensive exploitation of women by the private pension system.

Moreover, since pension benefits are tied to wages, and women get paid less, there is a substantial difference between the sizes of pensions for women and men. In the past year, women who retired from AT&T with pensions received an average benefit of $2200 per year. Retired AT&T men, on the other hand, got more than twice as much—$5300.

■ All pension plans evolve from earlier attempts by corporations to keep middle-level management on the job. Pensions once were a device to ensure loyal and enduring service. However this is no longer true. As demands for pensions broadened, the format of these earlier plans simply was adapted to new situations—but with a different logic. No employer expects his entire work force to stay with the company until retirement. He would be outraged if this were the case, if only because it would involve paying out a great deal of cash for pensions. Instead, corporations wish to keep up the appearance of pension generosity, while in fact payouts are drastically restricted.

■ The ultimate goal of restricting payouts, so far as employers are concerned, is to build up pension reserves so vast that through interest, dividends and appreciation, the funds will pay for themselves. The larger the fund, and the lower the proportion of workers who must actually be paid a pension, the less the employer must contribute. Most employers, particularly large corporations, are wise in the ways of long-range financial planning. Thus most big pension plans are geared toward self-support after some thirty years. Any force that disrupts this thirty-year plan is obviously a serious threat.

■ The whole pension system balances on the fact that it is private and voluntary. In nearly all plans the employer, technically speaking, makes the contribution—a contribution which, by the grace of government, is tax-deductible. Thus a corporation may discontinue or change a plan at whim, unless it runs into trouble from unions. Conglomerates especially are renowned for terminating the plans of companies they take over and raking off the assets. A corporation that shuts down a plant in some city will also cut off its pension plan. The idea that plans are funded voluntarily out of their own contributions enables corporations to justify the scandalous results. The view that many workers gradually are adopting, however, is that whatever goes into a fund is their own. Pensions represent not voluntary contributions, but the postponed, or deferred, wages of workers, whether or not these are deducted from paychecks.

If the pension system is an enormous thicket, it is nonetheless a fertile and profitable one. However stunning and bewildering 33,000 separate plans may appear from the bottom, from the top they blend into one homogeneous and organic compost-heap—a $130 billion heap, from which blooms an entire pension industry, and in which is rooted one mainstay of America's financial empires, the giant banks' multi-billion dollar trust departments. The funds generated at the workplace and disguised as employers' contributions are first trimmed and pruned by a welter of pension experts and advisors, then sucked upward, to reside as investment assets in a few major banks and insurance companies. At this point the game changes, and the funds are reborn, to be deployed as strategic factors in the financial domination of capitalist enterprise.

Underneath all this are the "aged poor"—workers who once were young and better off, and whose poverty simply marks the final phase of their long careers. It is convenient for social commentators who deal in abrupt categories to consider the "aged poor" as a phenomenon unto themselves. But they are not. Becoming old and poor is the natural end-product of millions of working careers, one current in the dark, winding stream that flows beneath the creamy froth of American capitalism. The dazzling glitter of countless automobiles and washing machines long hid the purposeful corruption and decay of America's health system. The same glitter disguises the ultimate regard for a lifetime of work. To someone covered by no pension whatsoever, old age and poverty come together with a fierce certainty. But to someone who expects a decent pension and does not get it, poverty always comes as a surprise.

[AMERICA'S PENSION INDUSTRY]

BEFORE THE SECOND WORLD WAR, CORPORATE pension reserves amounted to little more than a pile of gold watches, waiting for the engraver. During the war, however, the watches came to be replaced by a steadily-growing pile of cash. Companies found themselves competing for scarce labor under the structures of a government-imposed wage ceiling, and like airlines today advertising fancy lounges, they evolved gimmicks—fringe benefits—to attract and hold a work force for the war's duration.

Whatever the intention, it soon became evident that most workers took fringe benefits seriously. In the great wave of strikes that followed the war, demands for pension, health and welfare benefits increased sharply. In 1948 a Federal court ruled that pensions were a proper subject for collective bargaining. The case involved a prominent member of the steel industry, Inland Steel, and by the following year the industry as a whole registered its acceptance of the principle. The Steel Industry Board reported in 1949 that "social insurance and pensions should be considered a part of normal business costs to take care of temporary and permanent depreciation in the human 'machine' in much the same way as provision is made for depreciation and insurance of plant and machinery."

In those innocent years, few knew how valuable the depreciation of human machines would prove. In 1945, pension fund reserves for all of private industry amounted to $5.4 billion. But by 1950 they had reached $12.0 billion, and from that point on increased enormously, year after year—to $52 billion in 1960, and $86.5 billion in 1965. By the end of 1970, pension reserves had passed the $130 billion mark. They are still growing.

Once started, the accumulation of such vast sums did not pass unnoticed. It is a normative principle of capitalism that no cash shall ever lay idle. Nothing sours a true capitalist more than to see money lying about in slothfulness, and aristocratic decay. Idle cash, like idle people, is unproductive: it must be put to work.

On the pension horizon there shortly appeared a constellation of financial wizards, willing and able to put the funds to work—banks, insurance companies, mutual funds, and other investment advisors and firms. Banks and insurance companies, which serve as key financiers for corporations, were already "insiders" in the corporate world, and so they got the lion's share. They would take the responsibility for investing the funds shrewdly, causing them to grow, and in the meantime slice off some healthy fees for their putative shrewdness.

Still, their services were not enough. A bundle of money as big as pensions were becoming inevitably arouses the attention of a host of little experts, who know how to squeeze it in such a way as to make it shed still more fees and commissions. A $130 billion bundle easily generates $4 billion in living wages for experts.

If there were to be pension plans in the first place, someone had to tell how to draw up each one. Thus there arose pension consultants. If the plans were to boast any funds, someone had to collect for them. Thus there arose collection agencies. Once the money was collected, someone had to suggest what to do with it—turn it over to a bank, invest it directly, or whatever. Thus there arose special investment advisors. To keep books, accountants were necessary; and to check on the accountants, auditors had to be hired. The funds had to pay out something to pensioners. How much to how many could be determined only by actuaries. On top of all this had to be added a heavy layer of administrators, to send the checks on their way, and to keep records on all the people covered. And to oversee the legality of every aspect of the operation, lawyers had to be on hand.

With the rise of pension funds was thus created a gigantic, parasitic structure, made of bits and pieces of small-time chiselers, big-time financiers and trade union officials, all welded together like some horrendous piece of junk sculpture. One medium-sized fund, the $460 million West Coast Teamsters' pension, pays out $2 million annually in fees and commissions—including $1.5 million to administrators, $190 thousand to favorite collectors, $83 thousand to auditors, and $150 thousand to a pension consultant whose Seattle, Los Angeles and San Francisco branches are all located in the same Seattle office suite. After these fees and commissions are skimmed off by small-timers, the money goes to the world's largest insurance company, Prudential, which adds it to its own reserves for investment, and also takes a huge cut for its trouble. There are good fortunes to be made in pensions.

Pensions are now a big business, generating enough yearly revenues for their handlers to place them on a level equal to such corporate giants as Westinghouse Electric and U.S. Steel. The variety of business interests with a stake in handling pensions is enormous. One Pacific Coast organization, the Western Pension Conference, brings them all under one roof. The Conference consists of some 700 individual members, representing major commercial banks, industrial corporations and insurance companies, utilities, law firms, investment banks and stockbrokers, down the line to advisors, collection agencies and other fly-by-night operators.

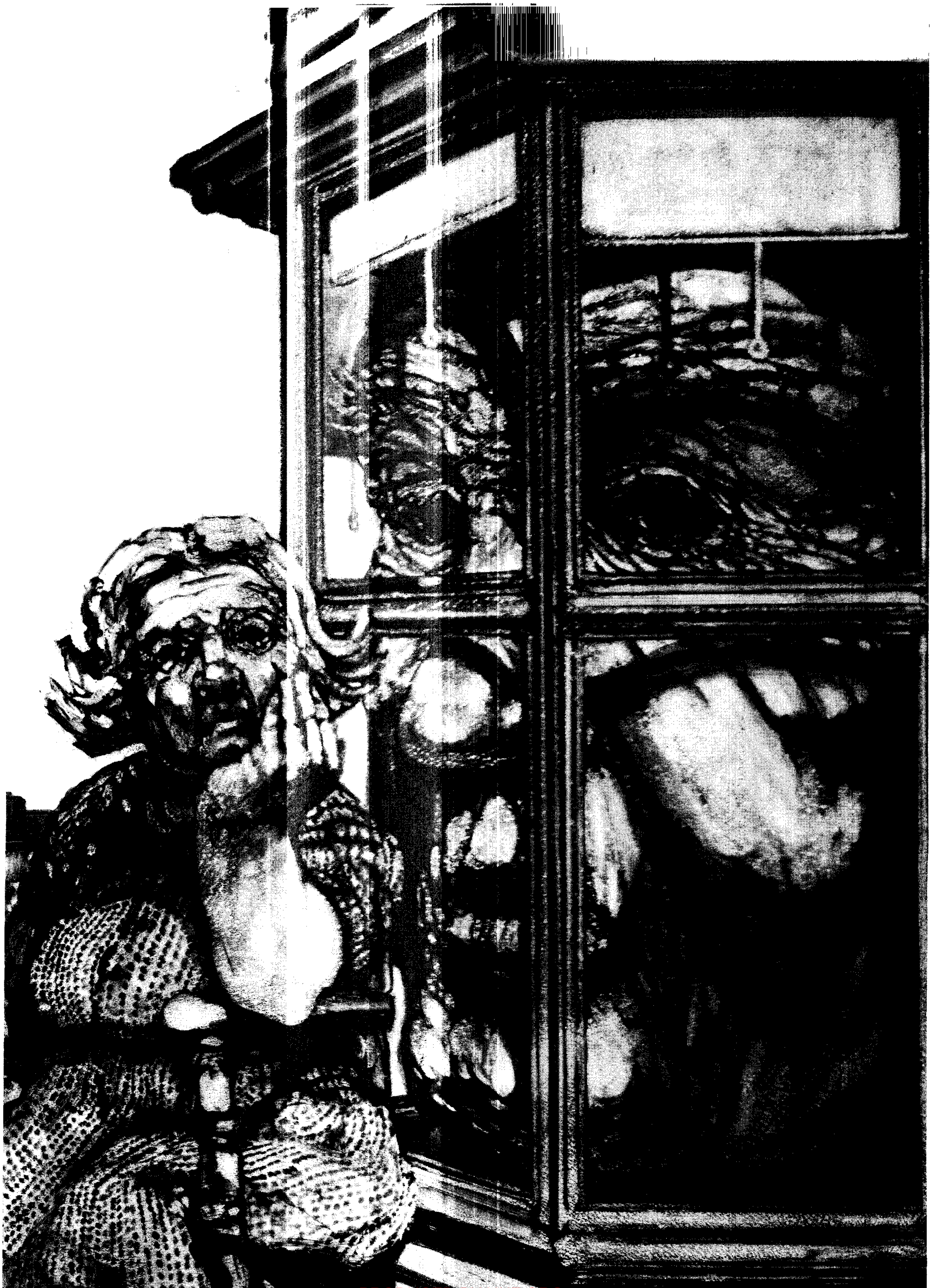
At the top of the group's pyramid are representatives of major Western banks—including eight trust officers from the Bank of America—along with executives from the nation's largest insurance companies. The West's biggest pension-producers are also represented, such corporations as Standard Oil of California, Litton Industries, Lockheed, Boeing, Weyerhauser and Kaiser. Investment bankers and stockbrokers include Merrill Lynch, Eastman Dillon, and du Pont Glore Forgan. Finally, at the bottom of the pyramid, are spread the flotsam-and-jetsam pieces of the pension world, small companies with distinctively sinister names, like Certified Portfolios, Inc., Incentive Industries, and Incentive Plans of America.

Union officials are the only element with a stake in handling pensions, who are excluded from this group and others like it. Presumably, this is to honor the class and legal boundaries of the pension system. The Conference is an employers' organization, which includes their associates, advisors and trustees. But the employers' associates, advisors and trustees serve in the very same capacities to union officials, particularly administrators of craft union funds. In this solidly homogeneous atmosphere, it is to be expected that union officials will not differ much from their brethren on the other side of the class line.

Within the past few years a series of public scandals have blown the cover of the pension industry and revealed it to be infested with grafters and swindlers. Five trustees for one corporation's funded themselves $300 thousand in annual salaries, and paid an investment firm they owned on the side another $130 thousand for managing the fund's investment. Officers of the United Mine Workers had their union buy control of a small Washington, D.C. bank, then diverted $78 million of the union's pension fund into it, to be held interest-free. In an even more dramatic case, trustees for the $800 million Central States Teamsters fund plowed close to $600 million into real estate and mortgages, at least $100 million of which involved pet projects, kickbacks, and assorted lucrative arrangements.

THE IMPORTANCE OF CORRUPTION in the pension industry, however widespread, can easily be exaggerated. Outright embezzlement is rare, or relatively undetectable against a $130 billion backdrop. Instead, corruption usually takes the forms it assumes in ordinary business circles, under the guise of reciprocation. Any major bank whose trust department places a large order with a stockbroker expects that broker to deposit a substantial amount of cash with the bank in return. This, along with many similar instances, amounts to a kickback. But it is never considered corruption, only doing business. The broker loses nothing, and neither do the banks' trust funds, unless their stockholdings purposely are being "churned" to created broker commissions — also rare with a big bank, which has other thoughts in mind. The Central States Teamsters fund, so blatantly mishandled, yielded as much in interest as it would have if invested by a bank. There is a thin line between corruption and routine business. What the game is called depends on who is playing.

The pension industry, honest and dishonest elements alike, drain about three percent of the money heading toward pension funds, each year. Three percent amounts to a massive sum of money, but it in no way accounts for the fact that so many workers are deprived of pensions. Three per-



cent is a mere trimming; the inability of funds to pay off is built into the pension system itself. Corruption can be a diversionary issue, especially where workers are led to believe that the only reason they receive no pension is because their union officials and pension trustees drive Cadillacs.

A few echoes of revolt recently have sounded through the murk and haze that enshrouds the pension system. Most major pension plans are by now ten or fifteen years old, and enough workers have come out on the short end, that their cries of shock and surprise are beginning to alarm those who believed themselves securely covered. The same cries have moved certain Congressmen and politicians to press for pension reform. The most important of these is Jacob Javits, who authored a pension bill now before the Senate, and who serves as one of the foremost critics of the pension system.

Javits' bill is an elaborate one, containing numerous worthwhile proposals for reforming the pension system. The bill would tighten and centralize government supervision over the middle-level pension industry, restricting or eliminating the overt corruption that goes on there; provide for federal reinsurance of pension assets in case a fund goes bankrupt; and set minimum standards for the amount of assets a fund must contain, in proportion to what it is supposed to pay out. Moreover, the bill would put an end to the rudest mechanisms for disqualifying potential pensioners, such as "break in service" clauses, and age requirements for people who want to retire.

Javits' bill also provides for a government-run clearinghouse that would transfer pension credits from one plan to another when workers change jobs. Finally, it would require all plans to begin vesting a worker's pension credits after he or she has worked six years. Under the present setup no plan is required to begin vesting within a certain period of time.

Both these proposals are misleading, however. Participation in the clearinghouse is voluntary—no plan is required to join. More important, only those credits that a worker already can lay claim to—that is, vested credits—may be transferred through a clearinghouse. The advantages, then, are slight. As for Javits' six-year-vesting scheme, it contains some fine print: a worker may claim only 10 percent of the six years' worth of credits he or she accumulates, 20 percent of seven years' worth, and so forth. Full vesting occurs only after fifteen years of service.

Despite its shortcomings, Javits' bill has aroused a great deal of enthusiasm—its program represents an unmistakable advance over the way the system presently operates. But something big is missing: with all of his foraging through the private pension system, Javits would leave untouched and unscathed its sturdiest pillars: banks and insurance companies.

This should come as no special surprise, for there are really two Javits's rolled into one—Javits the Senator, and Javits the bankers' helper. In 1966 Javits the Senator sponsored a study by a committee of prominent bankers, concerning the obstacles American banks encounter in expanding abroad. In the same year, along with Robert Kennedy and Edward Brooke, he introduced a Senate bill to make bank expansion into Europe easier. In 1969 in testimony before Wright Patman's House Banking and Currency Committee he defended the banks' high lending rates. Also in 1969 Javits sponsored a joint Congressional resolution authorizing the President to declare a "National Banking Week."

Behind all this stands Javits the Banker, or more accurately, Javits the legislative aid of First National City Bank. First National City is America's second largest bank, with assets of $25.8 billion. It is the fourth largest pension fund manager, handling seven percent of the nation's total. Javits was a prime mover in the efforts to bail out the Penn Central and Lockheed, each of which owed First National City some $30 million. Javits' relationship to the banking giant is really quite simple: his law firm, Javits, Trubin, represents First National City in mortgage transactions. From 1968 to 1970 Javits, Trubin served as the bank's council in sixty-six separate cases, each routine and presenting no special difficulties. "Deals like these," one real estate lawyer noted, "are plums and banks often choose lawyers they want to reward."

It is the domination of the pension system by finance capital that bequeathes to it its private character. And in turn, it is the system's private character that guarantees its hazards. No bank has a special fondness for pensioners; no bank takes on the task of administering pension funds out of generosity. The fact that a worker may want a pension is not part of a bank's logic. A bank wants pension funds for its own reasons—first, for the fees and commissions they produce, and ultimately, to launch itself into a share of control over American industry.

[A PENSION COLOSSUS]

FROM THE SYSTEM'S INFANCY, the investment end of the pension business has been dominated by the moguls of the financial world, banks and insurance companies. Until the early 1950s the two divided pension assets more or less equally. By 1955, however, banks began to take the edge, and by 1960 were handling two-thirds of the funds. They have maintained that lead ever since.

Until the 1968 release of Wright Patman's investigation of bank trusts, no outsider really knew how much in pensions were going to what banks. More than four thousand banks are eligible to handle the funds, but since trust records are secret it was anybody's guess as to who got what share. The Patman Report revealed an astonishing concentration: Three Wall Street banks—Morgan Guaranty Trust, Bankers Trust and Chase Manhattan—handled $23.8 billion in pension funds, one-third of the national total managed by banks. A mere seven accounted for half, and twenty accounted for three-quarters.

In the hands of these few banks resides the fastest-growing and potentially most awesome chunk of corporate stock held anywhere in America. In 1960, bank-managed pension funds owned 3.6 percent of all the common stock of American corporations; by 1970, 7.9 percent. Over the last decade they have become the nation's largest institutional investor—outstripping mutual funds—and there is no end in sight.

The Securities and Exchange Commission reports that for the second quarter of 1971 "Over $2.9 billion of common stock was bought by private non-insured [bank-managed] pension funds, with gross purchase amounting to $6.5 billion and sales of $3.6 billion. These dollar purchases were all records for pension funds." A noted investment expert claims that pensions will soon prove an indispensable source of new capital for corporations. *Fortune* magazine predicts that, if pension funds maintain their current rate of growth, they will reach $250 billion by 1980.

But the true possibilities are nearly boundless: if pension benefits increase, so must the reserves, even faster than now. And out in that great world, the resources of a huge portion of the private work force lay untapped — thus Richard Nixon's plan for individual pensions, to accumulate on a tax-free basis some of the disposable wealth of doctors, and other highly-paid professionals. The pension system is fast becoming a Pension Colossus, presided over and controlled by that ancient and venerable target of muckrakers, Wall Street.

Ironically, the impetus for banks to invest pension funds in corporate stock originally came from the corporations that entrusted their funds to them. Banks at first limited their investments to a conservative, slow-gaining mix, placing most of the funds in corporate and government bonds. Gradually, the mix changed. The better the funds performed, the less corporations would be forced to pay into them. The idea was, and still is, that the funds would become so gigantic, and so profitable, that they would pay for themselves. But as Marxists often point out, quantity has a way of changing into quality. The growth in pension assets, combined with the shift in their deployment, turned them into a solid-gold tool for corporate control.

The tool was shaped in the muffled workshops of Wall Street law firms. There, lawyers silently hammered out sets of agreements that would deliver to banks absolute authority over the funds they handled. Chase Manhattan, whose law firm is the famed Millbank, Tweed, Hadly & McCloy, and which alone accounts for nine percent of the banks' pension share, recently showed a masterful sample contract to the House Judiciary Committee. The contract contains sixteen primary articles, including provisions to exempt the bank from any responsibility toward pensioners.

But its heart lies in an elaborately-worded Fourth article, which contains, strung throughout in incredible but air-tight legalese, all the necessities for corporate control. The bank, the contract says, shall have the power and authority "to oppose or consent to the reorganization, consolidation, merger or readjustment of the finances of any corporation, company or association, or to the sale, mortgage, pledge or lease of the property of any corporation, company or association any of the securities of which may at any time be held by it. . . ." What this means is that the bank, as trustee, enjoys unlimited authority to utilize the stocks and bonds it buys with pension funds, as an entry into the decision-making processes of the corporations it has a stake in. Indeed, the bank can exercise "any right, including the right to vote, appurtent to any securities or other property held by it at any time."

All this is wrapped up in the shortest article of all, the Fifth, which states: "The powers listed in the Article Fourth of this Agreement shall be exercised by the Trustee in its uncontrolled discretion." Uncontrolled discretion—the poetry of the ruling class.

Even before the pension bonanza, bank trusts had established themselves as a powerful factor in corporate control. Throughout the century, and including today, major banks have served as gathering-places for America's wealthiest capitalist families, and as centralized management houses for their fortunes. The bank-managed holdings of these families—combined with the smaller holdings of lesser but still rich families—include $85 billion in corporate stock. Thus private (or family) bank trusts hold ten percent of all corporate stock, a share that has remained constant over the last decade. (Private foundations, which serve as tax-free holding companies for wealthy families, account for another two percent.) Half of these private assets are concentrated in thirty banks; a quarter in ten. For the most part these are the same banks in which pension funds are lodged: fifteen of the top twenty pension-managing banks rank among the top twenty private trust managers. More than anything else, pension funds have added a full new dimension to the already-established powers of bank trusts, in the world of corporate control.

THE WORLD OF CORPORATE CONTROL is a mysterious one, and properly so. If its mysteries were revealed, this would prove inconvenient for the ideologists of capitalism, who make up different explanations of corporate control to fit the changing moods of the times. There would be no people's capitalism, no managerial revolution, and no insurgent technostructure. The role of bank trusts in corporate control has been an especially well-guarded secret.

Prior to the pension bonanza, and during the time that bank trust assets consisted mostly of the stocks and bonds owned by wealthy capitalist families, bank trusts worked as follows: if a family's holdings in a particular corporation were strong, it could demand representation for itself on the corporation's board of directors, or it could have a bank officer—as trustee—sit in its place. If the combined holdings within one bank of a number of family trusts added up to a strong position in a corporation, then the bank could demand a seat for itself to represent all of them. Through the 1920s and '30s a pattern emerged whereby bankers, as trustees, found places reserved for them on corporate boards. This pattern was of course reinforced by the fact that the same bankers raised loans for the same corporations.

With the rise of pension funds, the basic relationships between bank trusts and corporations remained intact, but with these changes: First, banks struck the pension bonanza at the same time as they underwent a wave of mergers and consolidations among themselves. Second, pension funds went to the biggest of the big banks, mostly on Wall Street, ones that already had developed the most elaborate ties to industry. The net effect of all this movement was to concentrate bank trusts and the powers of corporate control even more, and to increase the share of the top few.

In an unusually candid corporation history, Isaac F. Marcosson, official historian for copper giant ASARCO, or

American Smelting, tells how back in 1922 the company structured its board of directors according to a principle "which has been maintained since." "A majority of the board," Marcosson writes, "was composed of persons who are not associated with the company other than as directors. Of those, five are or were high officers of important New York banks, who in their various capacities as trustees and executors are among the large shareholders of the Company."

Four of the five original shareholder-banks are still represented today, with the names slightly changed due to mergers. One of them is Morgan Guaranty Trust, the nation's leader in total trust and pension assets. In the 1940 report of the Temporary National Economic Committee, Guaranty Trust appeared among ASARCO's top twenty stockholders, with about two percent of the company's shares. Today, through its private trusts, Morgan Guaranty holds over five percent of ASARCO's stock.

But there is more: through its pension trusts, the bank holds an additional ten percent of the company's stock, bringing the grand total to more than fifteen, and making Morgan far and away the largest single shareholder in ASARCO. And there is more yet: the bank also holds eighteen percent of the stock of another copper giant, Kennecott, with ten percent through pensions. Morgan Guaranty's current president, Walter H. Page, sits on Kennecott's board, while a former president, Dale E. Sharp, represents the bank at ASARCO.

To round out its position in copper, the bank holds close to nine percent of American Metal Climax, and six percent of Phelps-Dodge. Of the five major copper producers this leaves out only Anaconda, which orbits around the Rockefeller-Chase Manhattan sphere. Morgan Guaranty also holds large blocks of stock in diverse copper users and copper competitors. And finally, through a series of arrangements that date back to the trust-building era of J.P. Morgan himself, the bank shares in the control of the biggest copper users of all, cumbersome super-giants like AT&T and General Electric. Through a combination of private trusts and financial relationships, the Morgan interests long ago began to tie together an integrated empire of copper. Now the gift of pensions has boosted them onto the throne.

THE 1969 CAPER OF CHASE MANHATTAN with an outfit known as Resorts International shows what else banks can do with pension funds. Chase, headed by David Rockefeller, is the nation's third largest pension manager, with more than $7 billion worth of the funds. Its total trust holdings early in 1969 included some nine percent of the stock of Boeing, six percent of United Aircraft, which supplies all of Boeing's jet engines, and seven percent of Pan American Airways, Boeing's biggest buyer. The bank also held large blocks of stock in several other major airlines, including TWA and Eastern.

Resorts International recently had undergone a transformation. Previously, it had been the Mary Carter Paint Company, under which guise it had earned a rather shady reputation. Now it was a casino operator and burgeoning conglomerate, whose major asset was a Bahaman leisure time concentration camp for wealthy businessmen and well-to-do retired, called Paradise Island. But Resorts had bigger plans yet: it wanted to build a far-flung empire of leisure time, with locations throughout the world, including Greece and Colombia.

If Resorts was to build a far-flung empire, it had to devise some way of tying it all together, to get customers around to its various parts. Resorts did not intend its Colombian facilities for a bunch of Indian peasants and farmers. It wanted Americans, white Americans with plenty of money. A cheap operator would charter airplanes to tie its empire together. But Resorts is no cheap operator. It wanted nothing less than the world's largest international air carrier, Pan Am.

Chase Manhattan stepped onto the scene, with an offer to swap all of its pension fund holdings in Pan Am—1.5 million shares, five percent of the total — in exchange for warrants, or options, to buy 3 million shares of Resorts stock. Obviously, the bank had one eye toward the future, when it would enjoy a strong position both in Resorts, and through it, Pan Am.

The Resorts deal, like many business deals, eventually fell through, at least for the time being. The SEC forced Chase to reveal its activities on a Resorts proxy statement, and once this became public the bank was subjected to a good scolding by the press for cavorting with ex-gangsters. The bank withdrew, although one Chase executive noted defensively that the head of Resorts "is an acquaintance of President Richard M. Nixon and we assume that Mr. Nixon would not associate with people of questionable character." People around the stock market knew better than that. Resorts was indeed a crooked outfit, and it was rumored that Nixon himself had sizable holdings in the company.

The participants in this escapade were not limited to a few Chase trust officers and Resorts executives. Unwittingly drawn into it were hundreds of thousands of white- and blue-collar workers, earnest contributors to the 140 different pension funds that Chase utilized for the deal. General Motors' white-collar workers put up 50,000 Pan Am shares to trade with Resorts—without knowing it. The company's production workers put up 75,000, also with no knowledge of their financial acumen. Ford workers contributed 130,000 shares, a sum matched by Western Electric and Standard Oil of New Jersey. Top honors went to Westinghouse workers, who offered 190,000 shares.

The workers of Ford and Westinghouse, and all the 32 million would-be pensioners covered so hazardously by the American pension system, represent a new breed of philanthropists. Their contributions are directed not toward the poor, but toward the rich. Without remorse, they give over their collective life savings to the wealthy, to the Mellons, the Rockefellers, the du Ponts, to the nation's most powerful banks. Theirs is a generosity so vital, empires can be built on it. It is a generosity unmatched in history. Never have so many given so much to so few.

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Fat Cats and Democrats

DEEP IN THE HEART OF THE NEW YORK financial district, a milieu fabled and feared in American hagiography under the designation "Wall Street," there exists a complicated set of familial, social, and business entanglements that form the basis for a network of Democratic Party financial backing that spreads its golden strands throughout the entire United States. This network is especially prominent in the cities and states that are pivotal in determining national control of the Party of the Common Man.

The handful of men in Democratic Central on Wall Street are junior partners in a moneybund that *Fortune* writer T. A. Wise calls "the hard financial core of capitalism in the free world [which] is composed of not more than sixty firms, partnerships, and corporations owned or controlled by some 1,000 men." Along with their Republican superiors and a few confederates in Britain and Western Europe, these Wall Street Democrats help raise, continues Wise, "an estimated 75 percent of the $40 billion in fresh capital needed each year to fuel the long-term growth of the industrial nations."

Now, Wall Street is clearly a small, intimate place. Every major firm seems to have social, business, or familial connections with the other giants. Especially in the financing of the overseas adventures of American companies, the big financial underwriters appear indiscriminate in the temporary alliances they develop. However, there are patterns within Wall Street. Some people do more business with

by G. William Domhoff