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20th Century Fund Fields New Pension Swindle

SPECIAL REPORT

A report issued by the Administration-linked Twentieth Century Fund last March, *Union Pension Fund Asset Management*, recommends that all remaining union control over pension funds be ended in favor of "a federal takeover of the management of union pension funds or a reorganization of fund boards to include independent, third-party trustees or to force management trustees to assume the active role envisioned by the framers of Taft-Hartley."

Put forward as the solution to "flagrant abuses" by the Teamsters' Central States and other largely union-administered pension funds, these recommendations would open up union pension funds to the most flagrant abuse in their history. The Fund's intent is to place some $35 billion in union pension assets at the full discretion of "outside" managers—New york-centered financial interests who desperately need all the funds they can get their hands on for various bail out operations.

As one indication of what is being planned for pension funds in the back rooms on Wall Street, EIR learned recently that one leading New York investment bank was investigating the legality of investing public pension funds and retirement systems in the debt offerings of foreign corporations — a hitherto unheard of practice.

However, several years ago no fiduciary would have dared to invest in the x-rated bonds of a bankrupt municipality like New York. Then a number of Wall Street lawyers, including Robert Preiskel of Fried, Frank, Harris, Shriver, and Kampelman, did the legal footwork which freed the trustees of the New York municipal pension funds to invest the monies entrusted to them in MAC bonds with impunity. Now the MAC operation is being planned on a grand scale.

The Twentieth Century Fund report itself hints at the purposes which union pension funds will be applied to — if the swindle succeeds. According to the report, one unintended side-effect of the Employee Retirement Income Security Act of 1974 (ERISA), also known as the Pension Reform Act, was to stop most investment by union pension funds in "socially responsible" investments — ghetto rehabilitation, job creation, etc. But now that there is a shortage of funds for creating union-busting public works jobs and for servicing the debts of bankrupt cities or "rehabilitating" inner cities just enough to protect crumbling mortgage values, there is a great demand for pension funds in "socially responsible" investments. "Congress should reconsider whether or not it really wants, through ERISA, to block union pension funds from investing in ways that create jobs for union members," the report recommends. "As a preliminary step, Congress or the Department of Labor should undertake a detailed study of the construction industry to find out just how dependent the industry is on loans from union funds, just how widespread the abuses are when union pension funds make such loans, and whether or not there is any effective legal system under which such loans can once again be made."

In view of the New York banks' own near bankrupt condition, it's not hard to conceive that the banks are presently devising ways of using pension funds to bail out their shakiest operations — for example, their uncollectable Third World loans. In an interview with EIR, Professor Roy Schotland of Georgetown University Law School, a noted pension "expert" and the director of the Twentieth Century Fund union pension fund report, said that bank trust departments couldn't possibly be investing pension funds in the corporate obligations issued by countries heavily in debt to the banks — though investment in bank stocks might be conceived as a way of indirectly refinancing the debts.

Many trade unionists around the country are understandably worried about the way "outside" managers, by and large bank trust departments, are presently managing their pension funds. Undoubtedly these unionists remember what came to light in the wake of the Penn Central bankruptcy — the fact that the various banks and investment banks which had been the railroad's creditor and knew it was going bankrupt were quietly unloading their own shares of the stock, and selling it off to their trust department customers! With virtually every economist now predicting a new recession to hit by next year at the latest, the banks can be counted on to try the same thing on a large scale.

This classic depression swindle is precisely what was going on behind the scenes in the New York City crisis — the commercial banks quietly got out of the worst of their New York City notes only later to pawn off Big MAC bonds on the union pension funds.

The switch from internal to "independent" outside management took place in the wake of ERISA and the barrage of newspaper stories by the New York Times' Lee Dembart and other labor writers on the alleged abuses by the Central States pension fund. The main aim of ERISA was not to insure the benefits of retiring workers, though the legislation purports to enforce fiduciary responsibility, guarantee benefits and so forth. The July 4 *Business Week* reports that two California Multiple Employer Benefit Trusts recently folded because ERISA forbade regulation of the funds by state authorities and thus actually led to skimping by employers on contributions. The real aim of the Sen. Jacob

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Javits-sponsored Pension Reform Act was to give the Labor Department and I.R.S. "finger-tip control" over some $150 billion in total corporate (company-managed) and union pension funds. For years Wall Street money managers had complained that there were no adequate figures on the number and assets of union pensions. The 1976 edition of *Money Market Directory*, the most comprehensive listing of U.S. financial institutions and their assets, noted that union pension fund assets were largely undisclosed. ERISA was designed to give Labor and IRS full purview of the monies and where they are invested. Under the provisions of ERISA, the Department of Labor was to begin compiling data on pension fund assets by mid-1977.

Among the specific regulations enforced by ERISA, all dealings between pension funds and "parties of interest"—employers, unionists, who are beneficiaries — were prohibited. ERISA prohibited loans by pension funds to such "parties of interest" and all types of financial dealings with them. But from an investment standpoint, there is no reason to issue a blanket prohibition against, for example, investment of pension funds in an employers' stock. The ERISA regulation was intended to prohibit investment in companies or areas where Wall Street did not want it.

A look at the personnel involved in pension "reform" clears up any doubt as to what its intent is. ERISA itself evolved out of legislation sponsored by Sen. Jacob Javits (R-NY), who is on record as supporting a direct bail out of the New York commercial banks by the Federal Reserve in the event of a wave of Third World defaults. Roy Schotland, the director of the Twentieth Century Fund report, has been involved in researching the "concentration of assets" in large money managers (bank trust departments, insurance companies, etc.) and its effect on the stock market for six to seven years. He was a consultant to the congressional staff which drafted the Financial Institutions and the National Economy (FINE) legislation and is an ardent supporter of banking reorganization proposals made in that legislation — consolidation of the bank regulatory agencies, top down control over monetary policy, etc. Schotland testified recently before Sen. Lloyd Bentsen's Senate finance subcommittee in favor of a bill which would purportedly limit present "concentration of assets." Under the bill no large money manager would be able to hold more than 5 percent of the stock of any corporation with its pension assets. Since 5 percent is often controlling interest in a corporation, the bill is primarily populist grist. Schotland also testified last week before the House administration committee on abuses in campaign funding.

The Twentieth Century Fund is heavily tied to the Administration — perhaps one reason it would like to see the government take over the management of union pension funds — through its directors Patricia Harris (Secretary of HUD), John Paul Austin (Chairman of Coca Cola, down-home supporter of Jimmy Carter), Hodding Carter III (State Department spokesman), Jonathan Bingham (Rep. from New York who supports Carter's "no-energy" program), Federal Reserve Chairman Arthur Burns, and others. Patricia Harris comes from the same law firm as Robert Preiskel who made possible the investment of the New York municipal pension funds in MAC bonds.

New York Commercial Banks Plan To Bankrupt Savings Institutions

BANKING

The largest New York commercial banks have begun the process of a rate war in order to attract more deposits, a war which will leave so-called thrift institutions — savings and loan associations and mutual savings banks — in a shambles of major bankruptcies, decreased profitability, and less funds to lend to the nation's vital residential housing market.

The attack takes the form of the Carter Administration's introduction to Congress two weeks ago of a series of bills, S. 1664-1669, that would allow commercial banks and savings institutions to offer Negotiable Order of Withdrawal (NOW) accounts. If passed, this would end the 44-year prohibition on interest-bearing demand deposits. One set of bills, endorsed by Federal Reserve Board Chairman Arthur Burns, also proposes the elimination of Regulation Q, the one-fourth percent interest rate differential that savings institutions may pay above the prevailing rate that commercial banks pay on savings accounts.

The actual content of the bills is of far greater longer-term significance than simply improving immediate bank-earnings, as the bills are represented as attempting to accomplish. In fact, the real intent of the legislation is to advantage the commercial banks over the savings institutions in competition for profits and deposit base to such an extent that a large chunk of the $400 billion savings institutions industry may be forced into liquidation.

"The spread of NOW accounts could eventually eliminate 13,000 of the country's 14,000 banks," said one New York analyst. The reasoning behind this judgment is essentially sound.

The failure of the rest of the world to agree to the New York banks' bailout has left them with increasing debt refinancing needs, and an inadequately growing deposit base to cover the financing, especially in deposits derived from the United States. As a last resort, they have chosen rate-war to get their hands on a fresh supply of consumer deposits.