Joint Economic Committee Republicans
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Clinton's Radical Attack on Middle Class Pension Wealth

Executive Summary

Most Americans put a very high priority on the security of their private pension savings. How many older Americans would imagine that our government might try to manipulate -- indeed, jeopardize -- private retirement savings for the sake of investing in risky social projects (a concept known in the pension world as 'Economically Targeted Investments' [ETIs])?

If President Clinton and Labor Secretary Reich get their way, however, private pension savings will be invested for all sorts of reasons (i.e. the Administration's pet social projects) and the financial interests of the investor, the future retiree, the American citizen will be given second-class status.

Study after study, anecdote after anecdote, and example after example, all come to one simple, but very important conclusion: **The Administration's pursuit of ETIs is dangerous to the security of private pension savings.**

Attached please find a substantive report written by economists at the Joint Economic Committee (JEC). I think you will find the report thorough and persuasive. It provides the facts and analysis that you'll need to discuss this issue with your district reporters and, more importantly, with your constituents.

The Administration is frustrated with the new Congress' responsible budgeting goals. Secretary Reich thinks he's found a new pot of money (to the tune of $3.5 trillion in America's private pension funds) that is subject to their liberal whims and bloated spending patterns.

With your help in distributing the attached study, the American people will send a loud message to the White House: **keep your grubby hands off our retirement savings!**

JIM SAXTON
Vice-Chairman
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Committee

Clinton's Radical Attack on Middle Class Pension Wealth

The Clinton Administration has put in place a policy that targets the pension benefits and retirement security of millions of middle class Americans. Furthermore, this policy threatens to bury American taxpayers under huge liabilities reminiscent of the S&L debacle. Finally, this policy would undermine economic and wage growth through a misallocation of capital resources. All this could come to pass unless Congress stops the Administration's reckless promotion of so-called "economically targeted investments" (ETIs), an Orwellian term for **"politically targeted investments."**

The economic objective of any investment is the highest risk-adjusted return. In this sense all investments are economically targeted investments. What the Clinton Administration is promoting is the notion that pension fund managers should consider social and political purposes other than solely maximizing the economic return to beneficiaries. These other purposes include a variety of social and political goals. Furthermore, an examination of these goals reveals the hidden radical political agenda of the Clinton Administration and its allies spearheading the ETI drive. While ETIs and their supporters have been around for years, the persistent, leading role of one group in setting the Administration's pension agenda raises serious questions.

Moreover, it is ironic that an Administration that has posed as a defender of the hard pressed middle class has targeted one of the largest sources of middle class wealth. Clinton officials have conjured up a number of issues by systematically misrepresenting income data on the "anxious" middle class, while implementing plans to exploit the pension wealth of the middle class to service an ideological agenda most middle class Americans disagree with.

The Clinton Administration's "Radical" Agenda

In 1994 a top Clinton ETI official acknowledged the difficulty in promoting ETIs. In describing the program, Olena Berg said, "It is a radical notion."[1] Why would an Administration official in charge of promoting ETIs so naturally use the term "radical" to describe the ETI agenda? What agenda could be worth the risk of hundreds of billions of dollars in pension assets and the retirement security of millions of Americans?

One clue is provided by those leading the push for the Clinton ETI agenda. For example, the Center for Policy Alternatives (CPA) has provided model legislation and released a number of reports supportive of ETIs at least since 1992. In addition, the Clinton Labor Department initially selected CPA to receive a federal contract to create an ETI clearinghouse, though it was later edged out by another contractor. The CPA "public capital program" manager identifies himself as an expert who has "worked closely" on ETI policy with federal officials.[2] Clearly the CPA has been a major force behind the ETI agenda. What is the CPA, what is its relationship to Administration policy, and how do ETIs fit into its economic and political goals?

The CPA describes itself as an agent of "progressive federalism," described as "allowing innovative grassroots ideas to make their way from state to state and ultimately to national prominence."[3] Not coincidentally, CPA has been very active promoting state ETIs for years, a strategy for influencing federal policy that seemed to pay off in 1992, when the Clinton campaign called for a new federal investment program "leveraged with state, local, private sector and pension fund contributions."[4] This Clinton campaign plank is evidently an example of how the CPA develops experimental state programs for later adoption at the national level.

In December 1992, a Clinton transition liaison, speaking before a CPA conference, noted "the key role CPA and state treasurers can play linking the experiences of state ETIs with new federal initiatives."[5] Clearly the CPA has been ready, willing, and able to carry out this "key role" at the national level. According to CPA President Linda Tarr-Whelan, "President Clinton will have to follow through fastidiously on his vision to build a New Economy by creating new governmental structures, incentives, and constituencies to encourage its growth."[6] Unfortunately for CPA, it must carry on "in the face of a growing, well-funded conservative opposition."

The CPA Agenda: Your Retirement Dollars at Work?

The CPA was founded under a different name in 1975[7] as a spinoff project of the Institute for Policy Studies (IPS) by IPS fellow Derek Shearer and others. The philosophy of both groups was well expressed in the 1977 IPS federal budget report requested by Representatives Bonior, Stark, Ford, Baucus, Mikulski and others. The IPS policy orientation as well as its sensitivity to middle class concerns is reflected in a chapter from the 1977 budget report entitled "Housing: A Socialist Alternative." Here, according to the IPS authors, "we try to show that it would be quite feasible economically to develop a socialist housing program which would compete with and steadily replace the private housing and mortgage markets."[8]

In another chapter of the IPS budget book, under the heading "Allocating Capital to the Underdeveloped Sectors," the authors outline the case for capital allocation by public policy. "In order to get capital directly into what we have been calling the underdeveloped sectors of the economy, we are going to need a new institutional 'delivery system;" the authors state, going on to offer international illustrations of "a variety of mechanisms for allocating capital to socially preferred uses" including a way "used to 'steer' private investment in desired directions."[9] For example, in one case, "the savings banks are owned by the government, thus directly channeling private savings into publicly preferred uses." Derek Shearer, a long-time friend of President Clinton receiving several presidential appointments in his Administration, and another IPS chapter contributor, explicitly recommends the involvement of pension assets: **"States and cities could invest their pension funds in worker-owned firms and co-ops which help to reduce unemployment and uneven development."** [10] This indicates that the components of the IPS policy suggesting pension funds as a means of allocating capital to "socially preferred" uses was developed as early as 1977, though the term ETIs had yet to be coined. **In 1981, Shearer and a coauthor explicitly recommended "employee retirement funds now managed by private financial institutions" as a means of "exerting democratic control over investment."**

The advocacy of allocation of capital by government officials is a staple of IPS/CPA policy recommendations. This is viewed correctly as a means of "economic planning," endorsed in the IPS budget report and elsewhere. Over the last two decades IPS/CPA officials have demonstrated a great flexibility in designing their preferred instruments of credit control, generally favoring whatever means seemed most politically feasible at the time. The thread of credit control runs through a variety of policy proposals, while the tactical means of reaching this policy objective shifts continually. Clearly ETIs have become the preferred vehicle for this policy in an era when government spending for such purposes is not feasible; instead, private pension resources are the source of capital for allocation to what the IPS in 1977 referred to as "socially preferred uses."

CPA, then under a different name, defined its role as a "populist, progressive, socialist" coalition to "strengthen the programmatic work of the Left..."engaged in "a politics of how to change to a democratic, decentralized, socialism from a corporate, monopolistic state."[11] Over the years IPS and its spinoff organization have promoted a colorful if eccentric variety of policy alternatives associated with the New Left. Of course, in a free society, citizens certainly have the right to peacefully advocate their views no matter how exotic, just as taxpayers on the other hand also have every right to know when these leftish views are being subsidized or promoted with their tax money.

One of these projects has been the promotion of "economic democracy" under a variety of fluid tactics. In the late 1970s the National Consumer Cooperative Bank was established to subsidize consumer co-ops in a failed attempt to lead a radical transformation of the economy. In the early 1980s, the theme was industrial policy and planning. And now in the 1990s, the project is known as ETIs. The common underlying rationale for all of these projects has been the conviction that the market allocation of capital must be replaced by public allocation of capital. As a means of advancing its agenda, the CPA has attempted in many instances to establish government entities to promote its views.

A review of the history of the Clinton ETI initiative shows that the CPA has indeed played a "key role." The evidence suggests that CPA staff are not the kind of sober, objective actuaries, accountants and economists that most pension fund beneficiaries would want to set national pension policy affecting their pensions. The fact that the CPA ETI project is run by the manager of the CPA's "public capital program" is evidently a reflection of the CPA view of pension assets as public goods, and as an appropriate policy instrument. Furthermore, the manager of the CPA "public capital program" has been quite candid in advocating pension investments that "do not meet market tests," but "because of the important social benefits they provide, should be supported with subsidies from a government or foundation partner."[12] In any event, the acknowledgment by the CPA "public capital program" manager that ETI programs "must be enhanced" by loan guarantees, credit concessions, and targeted subsidies when possible only raises further questions about the viability of ETI investments. It also suggests the real possibility of taxpayer exposure to ETI failures, an exposure that could amount to many billions of dollars. Not incidentally, the CPA fellow quoted above describes himself as one "who has worked closely with officials at both the federal and state level to develop ETI policies." Once again, the evidence of CPA involvement in Clinton Administration ETI policy literally speaks for itself.

CPA and others had proposed the creation of a national database on targeted investment, and the Clinton Labor Department duly unveiled a "clearinghouse" on ETIs. Appropriately, the CPA was even initially selected as the contractor for the clearinghouse, but this was changed in a subsequent evaluation. The CPA has indeed played a "key role" in modeling the Clinton ETI strategy, and it has been implemented faithfully by kindred spirits in Secretary Reich's politicized Labor Department.

The Attack on the Middle Class

A willingness to risk hundreds of billions of dollars in middle class pension assets and the retirement security of millions could only be justified by some extremely important overriding objective. It is extremely unlikely that many ordinary Americans will find the ideological obsessions of Secretary Reich and his CPA allies sufficiently compelling to justify jeopardizing their retirement security. However, no one has asked the American people to support the ETI agenda, which has been pursued by the Labor Department using administrative rulemaking. The IPS/CPA agenda has failed to win popular support that would be expressed through recommended federal spending increases, so another way had to be found to finance its initiatives. Since middle class taxpayers have expressed an unwillingness to support CPA priorities through the appropriations process, the Administration apparently believes they will have to be made to provide the necessary resources through their pension assets.

The willingness of the Clinton Administration to risk the retirement assets of millions of middle class Americans to advance a "radical" policy agenda provides an interesting case study of Administration priorities. Furthermore, the IPS/CPA advocacy of government socialization or direction of two of the biggest sources of middle class wealth, housing and pensions, betrays how little the liberal/left really has in common with the economic concerns of the middle class.

Conclusion

In a lapse of candor, Secretary Reich's top ETI official let the cat out of the bag in her description of ETIs as a "radical notion." Hers is an appraisal that is difficult to argue with taken on its own, but the extensive involvement of the CPA in the Administration's ETI effort makes it even more accurate and appropriate.

The Administration's ETI initiative should be defunded, and middle class pension assets should be safeguarded from further Administration efforts to undermine them for its own purposes and that of its political allies. The enactment of H.R. 1594, Congressman Saxton's pension protection legislation to prevent politically motivated investment abuses, is urgently needed.

House JEC Republican Staff

Endnotes

1. Business Week, March 21, 1994.

2. Pension World, December, 1993.

3. Capital Research Center, Organization Trends, June 1993, pg. 1.

4. Putting People First, 1992, pg. 6.

5. Capital Research Center, Organization Trends, June 1993, pg. 3.

6. Ibid., pg. 1.

7. Gale Research Inc., Encyclopedia of Associations, 1995.

8. Raskin, Marcus and Trin Yarborough, eds., The Federal Budget and Social Reconstruction: The People and the State, 1977, pg. 205.

9. Ibid., pg. 452.

10. Ibid., pg. 402.

11. Capital Research Center, op. cit., pg. 5.

12. Ibid., pg. 3.