

Lazard Readies Alternate Credit And Banking System

At this moment Lazard Freres, home of "financial wizard" Felix Rohatyn of New York's Big Mac, is using the bank's networks inside the U.S. government to ready an alternate credit and banking system appropriate to restructuring the U.S. economy into a technologically backward, labor-intensive nightmare.

This on-going, multipronged operation involves principally the use of federal loan guarantees, federal procurement policies, and the reform of federal regulations governing the investment of pension funds, to channel credit into designated "energy development projects," "industrial parks," and the like in "high-unemployment market areas." One of the eeriest things about this operation is that it represents a total perversion of the principle of dirigism—the use of the government's powers to foster high-technology economic development—as it was understood by Alexander Hamilton and the other men who built this nation into a leading industrial power.

In this latest Rohatyn perversion, the government's powers are used to channel liquidity into the worst sort of labor-intensive projects while starving capital-intensive industry and agriculture of needed credit.

The Pension Fund Grab

Sen. Jacob Javits (R-N.Y.) plans to exploit the atmosphere created by the multimillion-dollar Department of Labor suit against the former trustees of the Teamsters' Central States Fund to push ahead with pension "reform." According to a Javits aide, the Senator will shortly draft legislation to "reform" ERISA (the Employment Retirement and Income Security Act of 1974), relaxing its requirements on prudent management and freeing some \$150 billion in union and corporate pension funds for investment in "socially responsible" investments such as MAC bonds and the "rehabilitation" of inner cities.

Pension fund "reform" has long been the special pet project of Lazard Freres, the Senator's personal investment bankers. The passage of ERISA, sponsored by Javits, increased the potential liabilities of pension fund fiduciaries, thus terrifying union pension fund managers into handing the funds over to professionals like Lazard for "prudent" management. In this atmosphere Javits along with Senators Percy and Jackson, his colleagues on the Permanent Investigation Subcommittee of the Senate Governmental Affairs Committee, launched the investigation of the trustees of the Teamsters' Central States Fund, which, in the spring of 1976, led to the Department of Labor and Justice Department ordering the trustees to hand the \$1.4 billion fund over to a consortium of professional managers, led by Equitable Life Assurance Co., which included Lazard Freres.

Javits's role in recommending Lazard Freres for the

business may soon be the subject of a conflict-of-interest investigation.

Federal Loan Guarantees for MAC Notes?

On Feb. 9 the Senate jettisoned New York City's request for a renewal of its seasonal financing loan from the Treasury, however Lazard's New York City had already shifted. The same day Eugene Keilen, MAC's executive director, told the *New York Post*: "We could say to Washington that we will do the short-term financing, if they will help us over the long term." Under MAC's latest scenario, the city trades off its short-term loans from the federal government in return for federal loan guarantees to back the sale of \$2.5 billion in long-term bonds to raise capital to rebuild the city's crumbling streets, sewers, and bridges.

Targeted Government Procurement

A third aspect of the "alternate credit system" involves diverting the \$140 billion in federal spending on military and nonmilitary goods and services to "high unemployment labor markets." The Urban and Regional Policy group, the interagency taskforce headed by HUD Secretary Patricia Harris, is now running with this policy, for which no legislation is needed. Public Law 9589, passed some 20 years ago, allows the federal government to target government procurement to areas of unemployment. Last November President Carter issued DMP (Defense Manpower Policy) 4A, which instructs government agencies to direct 10-15 percent of their procurement to "high unemployment labor market areas."

The taskforce is presently working on removing the remaining restrictions on directed procurement and intends to turn directed procurement into a key tool of government urban policy. "It could take 700 years pass an Urban Development Bank," one HUD official explained. With directed procurement, "we're talking about \$140 billion in federal spending as early as Fiscal 1979. This policy tool can have a much greater effect than any of the other proposals which have been under discussion."

Youngstown: Lazard Pilot Project

One of the test cases of the procurement policy will be Youngstown, Ohio, hit by the crisis of the steel industry. Gar Alperovitz, director of Lazard's Institute for Policy Studies-linked Exploratory Project on Economic Alternatives, is telling reporters that the directing of government procurement orders to Youngstown is a key element of the plan to reopen the 5,000 man Campbell Works with community-control, community-ownership.

According to Alperovitz, if the government were to place advance orders for steel with Campbell Works, this

would ensure the profitability of the plant and, together with the extension of federal loan guarantees, create the basis for the flow of credit from private investors, to raise capital beyond that which can be squeezed out of the community.

Alperovitz and the people he is working with at the Youngstown religious Coalition are assembling a blue-ribbon group of experts to put together a hardheaded plan which packages a variety of elements—directed procurement, federal loan guarantees, community ownership, advanced energy-conserving techniques. Among them, Stanley Luke of ITT, described by Alperovitz as the foremost acquisition specialist in the country, has recruited himself to act as Sen. Howard Metzenbaum's (D-Oh.) special adviser in arranging the

community-ownership swindle.

On Feb. 16 Alperovitz and members of the Religious Coalition plan to launch a propaganda blitz to sell the concept of community-worker ownership of industry to the Youngstown population. There are going to be mass meetings, sermons in the churches, and literature will be distributed to school children to take home to their parents. Since no corporation has been formed to purchase Campbell Works, no equity can be sold yet. However, Alperovitz is telling reporters that there is nothing to stop the collection of "earnest" money from the community, which can be later applied to equity participation in a new public corporation. Local bankers are already opening "Save our Valley" accounts to collect the money.

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Javits Aide: Sure We're Looking At New Ways To Invest Pension Money

These statements were made by an aide to Senator Jacob Javits on the Senate Human Resources Committee:

Right now, the minority counsel is considering amendments to ERISA that will both increase the protections under the bill for beneficiaries and clear up some confusion as to what would amount to "prudent investments"... The Senator is interested that some of the money should go into socially useful investments. His particular thing is low-income housing, but there are other possibilities like development bonds for industrial parks, solar energy, etc....The Labor Department is going to promulgate some regulations that might handle the thing. They will say that the way to judge a "prudent investment" is to look at the whole portfolio. If the portfolio is secure overall, then it would be all right to have some high risk investments. We don't want all the money tied up in blue chips or Treasury securities...

The Teamster suit also raises some interesting points.

The way things are set up now, if there were to be several big defaults, say a hundred million or so, there would be no way that you could recover this money by holding the trustees personally accountable. The Pension Guarantee Benefit Corp. can't cover the losses since they only handle funds that are going out of existence...so there would be losses and probably benefit cuts.... But the suit is still necessary because it is a major psychological plus, deterring officials in union offices especially....

There is another problem, that has been raised by *Fortune Magazine* and others about funds being underfunded...we don't think that this is a problem so much with private sector funds, but it is a big problem with public employee funds...the only way you can handle the fact that there are so many public employees being forced into retirement without bankrupting the funds is to force a diminishing of payouts. You do this by preventing younger retirees from collecting benefits while they still can work — in some cases they collect benefits and hold down a job...there's no way to solve the problem unless you deal with that...The unions will scream, but would they rather see the fund go under, like the Firemen's (in New York City—ed.) is going?