CONGRESS OF THE UNITED STATES

CONGRESSMAN JIM SAXTON

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GOVERNMENT DIRECTION OF SOCIAL SECURITY INVESTMENT RAISES MORE CONCERNS

— Federal Investigation of Social Investment Contractor Cited —

WASHINGTON, D.C.—President Clinton's proposal for government investment of social security funds in the stock market would be counterproductive and potentially dangerous, **Congressman Jim Saxton** said today. The prospect of government interference in the capital markets is one major problem, as Federal Reserve Chairman Alan Greenspan has pointed out. Moreover, an earlier Administration initiative related to social investment of retirement funds, including the involvement of an investment firm under federal criminal investigation, is a disturbing precedent, and illustrates the potential for massive conflicts of interest.

"The Administration's previous advocacy and promotion of social investment raises concerns about its proposal to invest social security funds in private markets," Saxton said. "Although there are surely those in the Administration that would oppose social or political considerations in investment of social security funds, the Administration's previous stance gives grounds for concern. Furthermore, in one earlier Administration experiment with social investing involving private pension funds, the Administration gave a central role to a firm that later came under criminal investigation by the Department of Justice. Given the necessity of protecting the safety of social security and private pension retirement benefits, the Administration's choice of such a firm in such a sensitive area is very questionable.

"Federal direction of social security investments raises the danger of lowering social security benefits relative to what they would otherwise be," Saxton said. "The intense pressures to steer social security investments to politically or socially favored uses will lower the returns to social security beneficiaries. If investments are made on any basis other than maximizing the rate of return for beneficiaries, the financial welfare of seniors will suffer."

The potential dangers of government direction of retirement investment are illustrated by the Administration proposal in 1994 that established a clearinghouse for sanctioned social investments for private pension funds. The contractor chosen by the Administration to designate these "economically targeted investments" later came under federal criminal investigation. This Administration contractor was accused of fraud and was liquidated, but apparently the problem is still under investigation. The General Accounting Office (GAO) has confirmed to Saxton that the firm provided the ETI contract was Hamilton Securities, separately identified in press reports as under federal investigation.

"The idea that such a firm was selected to provide guidance and advice for private pension investments does not inspire confidence in this general approach," Saxton noted. "Pension and retirement assets should be invested to produce maximum returns for beneficiaries, and not risk diversion to politically favored projects. Fortunately, the passage of my legislation by the House in 1995 led to the end of this initiative. Now we may have a new problem.

"There is also another conflict of interest inherent in the Administration proposal. The government or its agent must invest in a wide array of businesses and industries that also will be affected by the entire range of federal policies. To take just one example, if the social security funds are invested to maximize returns, some will be invested in firms with holdings in defense, medical, construction, tobacco, and other industries.

"The government will be part-owner of businesses affected by innumerable tax, budget and regulatory decisions. For instance, it would be capitalizing the tobacco industry on the one hand, even as it is suing it on the other. This proposal would lead to massive conflicts of interests based on the contradictions between partial ownership and the many policy decisions that would directly affect the market value of the government investment. Either lower returns for pensioners or contradictions in government policy, or perhaps both, would be the result."

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