THE TEXAS Observer

SPECIAL FINANCE ISSUE

A JOURNAL OF FREE VOICES

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The Great S&L Robbery

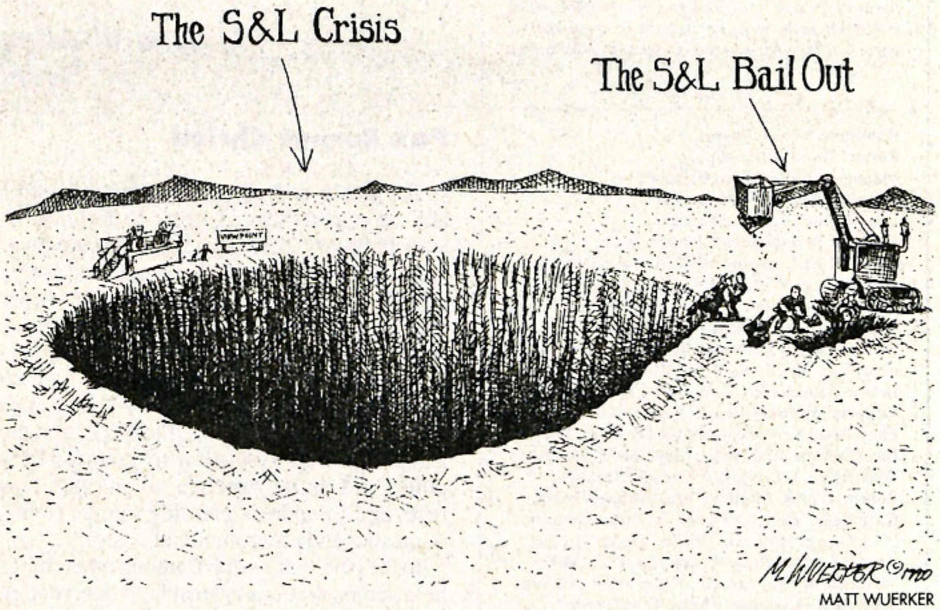
JUST OVER A YEAR AGO, *Houston Post* investigative reporter Pete Brewton exposed an explosive new angle to the savings and loan scandal. In a front page article dated February 4, 1990, Brewton declared that "During an eight-month investigation into the role of fraud in the nation's savings and loans crisis, the *Post* has found evidence suggesting a possible link between the Central Intelligence Agency and organized crime in the failure of at least 22 thrifts, including 16 in Texas." Moreover, Brewton reported, "the CIA may have used part of the proceeds from S&L fraud to help pay for covert operations and other activities that Congress was unwilling to support publicly."

That story, and subsequent follow-ups, set off a controversy that has not died down since. Congress, the CIA, and federal law enforcement officials have devoted enormous energy and resources to efforts aimed at discrediting Brewton's thesis. Corporate media, taking their cue from Washington and East Coast power brokers in typical lapdog fashion, have almost entirely failed to pursue Brewton's lead.

Several more adventurous media groups, however, have rallied to Brewton's side. Earlier this year, Brewton's *Post* series was named among the 10 most underreported stories of 1990 by Project Censored, a 16-year-old media monitoring group in Northern California. In March, Brewton received the PEN Center USA West Literary Award in Journalism. He is currently working on a book for Simon and Schuster that is due out in the fall.

Henry Ford once remarked that if people really understood the banking system, they'd riot in the streets. Given what Pete Brewton knows about the S&L crisis, that notion may be more applicable today than ever before.

— D.A.



MATT WUERKER

Spookbuster Pete Brewton Tells All

HOUSTON POST investigative reporter Pete Brewton, the journalist who lifted the lid on the CIA-Mob-S&L connection, recently discussed his findings with *Observer* editor David Armstrong. The following is an edited transcript of that interview.

Armstrong: How did you first begin writing about S&Ls?

Brewton: One of our business writers, Greg Seay, got a tip, an anonymous tip from someone who told him to take a look at Mainland Savings and a man named Howard Pulvar. And so Greg went down to the courthouse and started looking at the deed records and there were hundreds of thousands of pages on Mainland doing deals with Howard Pulver and his associates. And so Greg started saying: "Help! This is overwhelming." And I guess the business editor went to the city editor and said can you give us some help. The city editor at time was Tom Nelson and he came to me and asked me if I would just help Greg look at the records.

So I went with Greg down to the courthouse and we started looking at the records. They were incredible records. Mainland paid out over a $100 million to these apartment syndicators from Long Island, New York. And so we wrote a big story about that. Just these deals how

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THE TEXAS
Observer

A JOURNAL OF FREE VOICES

We will serve no group or party but will hew hard to the truth as we find it and the right as we see it. We are dedicated to the whole truth, to human values above all interests, to the rights of human-kind as the foundation of democracy: we will take orders from none but our own conscience, and never will we overlook or misrepresent the truth to serve the interests of the powerful or cater to the ignoble in the human spirit.

Writers are responsible for their own work, but not for anything they have not themselves written, and in publishing them we do not necessarily imply that we agree with them because this is a journal of free voices.

SINCE 1954

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DIALOGUE

Bigger is Better

I'm 87 years old and legally blind — The *Observer* has been a very special part of my life, but trying to read with a hand magnifying glass was too tiring. A good friend recently gave me a wonderful electrified magnifying glass on a stand so please start my subscription *at once.*

Martha W. Allen
Terrel

Pax Corpus Christi

The peace and justice movement is alive and thriving in Corpus Christi. Unfortunately, your February 22 article, "The Peace Movement in Texas," omitted coverage of events and actions in our area. For many years a core group of activists in Corpus Christi have worked individually and through organizations like Pax Christi South Texas (which publishes an excellent newsletter), Causa de Paz, Local Friends, SANE/FREEZE, and the Laughing Gull Coalition to counter U.S. policy in Central America, to end the arms race, and to address pressing human rights, domestic, and environmental issues.

In the past year we have among other things held demonstrations against U.S. intervention in Central America, protested military waste at Homeport Ingleside, worked to establish Corpus Christi as a nuclear-free zone, and collected over 1,400 signatures in support of a Comprehensive Test Ban Treaty.

Last November, the South Texas Coalition for Peace in the Middle East evolved in response to the Persian Gulf Crisis. The Coalition has sponsored teach-ins, public forums, a half-page anti-war advertisement in the *Caller-Times*, and a January 16 Bayfront Peace Rally with guest speakers Sissy Farenthold and Jack Elder. Over 500 people attended this event. Since the outbreak of the war, two campus peace groups have formed and we have begun to make use of public access television. Monday evening peace vigils have been held on the steps of City Hall, along with Friday night organizational meetings.

For further information about the peace and justice movement in Corpus Christi contact (512) 854-9708, 881-9329, and 882- 9231.

Jeff Timmons Leslie Jarmon Ann Bright
Corpus Christi

Editor's note:

Because of space constraints and the chaos surrounding the changing of the Observer's *editorial guard, this letter did not run immediately upon submission. It was dated the fourth of March. We sincerely regret the delay, as well as the original omission of Corpus Christi from our resource list.*

TCLU Morass

There must come a time when we all put the TCLU morass behind us and get on with the business of defending civil rights in Texas. But this cannot happen if the *Observer* doesn't show the journalistic courtesy of allowing one to respond to bald and erroneous accusations of fact. A case in point is the accusation in Nancy Baker Jones' letter ("Taking Liberties," *TO* 3/8/91) that her husband Al King watched me "instruct one of these new members how to complete his ballot" during the Central Texas Civil Liberties Union election. She used this to support her contention that I interfered with an election in which I didn't even vote. I remember the event well, but what Al watched was me tell my high-school son, Elias, how to spell Toni Luckett's name as a write-in. Elias knew Toni because of her activism as UT student-body president and wanted to vote for her. Nor was he a new member. He joined in 1988 as a result of the Bush-Dukakis debate, a decision in which I took great fatherly pride. Elias personally knew the board candidates. What's the crime in that? There are other equally baseless assertions of fact in Nancy's letter. However, misconstruing our father-son endeavor is truly egregious.

James C. Harrington
Austin

Editor's note:

Mr. Harrington, like any Observer *reader, certainly has the right to respond to allegations made against him in the magazine. That's why we have this Dialogue section, and that's why we printed his letter.*

Knee-Jerk Jerk

Scott Henson's prototypically knee-jerk, liberal analysis of the recent Persian Gulf war ("Peace Dividend," *TO* 3/8/91) brings to mind H.L. Mencken's dictum: "For every complicated problem, there is a simple solution — and it is almost always wrong." The assertion that George Bush conceived and carried out this war to help his business cronies is no more believable than the notion that Saddam Hussein's army invaded Kuwait to help the plight of the Palestinians. As for the rout and

See Dialogue page 31

EDITORIALS

Dimensions of a Disaster Foretold

"White Men Control Federal Reserve, Banking Study Finds."
Headline, *Fort Worth Star-Telegram*, September 4, 1990.

IN THE AFTERMATH of the Persian Gulf war, the S&L/banking crisis continues to loom darkly over the Texas economy. In the first two-and-a-half months of 1991, one-third of bank failures in the United States occurred in Texas. Banks failed in Farmers Branch, Austin, Rockport, Lockhart, Kaufman, Wortham, College Station, and Victoria. Since the thrift debacle was forced to compete for the small amount of news space not devoted to the war, however, the collapse of our banking system has been largely ignored.

This year's bank failures are symptoms of a much larger problem. In 1990, 168 banks failed nationwide — 103 of these were in Texas, according to information provided by the Texas Department of Banking. In 1989, 134 Texas banks failed out of 206 nationally. Of the 200 banks that failed nationwide in 1988, 113 were in Texas. By comparison, only 10 U.S. banks failed in 1980.

The white men who control the U.S. banking system have apparently decided that small banks are no longer necessary to the survival of our economy. Instead, megabanks like the North Carolina National Bank (NCNB), First City, Comercia Bank, Bank One, and Hibernia vie for control of the Texas banking industry. In 1990, these five banks bought 55 of the 103 failed banks, making them the largest purchasers of defunct banks in the state. This rapid concentration of the Texas financial system deserves more attention than an occasional blurb buried in the business pages of the dailies just below the banking industry press releases.

One effect of this consolidation of the banking industry has been an exacerbation of the credit crunch, a situation Representative Pete Patterson, a Brookstone Democrat, hopes to address with his H.B. 236 (see Dan Heyman's story, page four). NCNB, which bought about 15 percent of failed Texas banks last year, has led the way on this count, shifting Texas deposits to bolster operations in other states. Texans, as a result, are left scrambling for cash. Former Agriculture Commissioner Jim Hightower, now working with the Financial Democracy Campaign, believes NCNB really stands for No Cash for No Body.

Here We Go Again

GIVEN THE catastrophe that befell the thrifts and the skyrocketing number of bank failures, one can only marvel at the Bush Administration's audacity as it pushes ahead with plans to deregulate the banking system. The President's proposal includes, among other things, abolishing the Glass-Steagal Act, thereby allowing banks to market securities. This despite the fact that the securities-industry failure rate approaches that of the banks, and that Wall Street has laid off thousands of workers since the stock market crash in 1987. Thankfully, few banks could currently enter the securities markets because of shrinking demand there. But cutting banks in at the Wall Street casino isn't the solution to our financial woes.

The Administration's proposal that would allow commercial firms to own banks is equally onerous. Under the plan, firms like General Motors or Exxon could operate banks. Imagine GM using federally insured deposits to make loans to car buyers. Exactly what incentive does GM have to ensure that its customers would have the ability to pay? If the loan defaults, the losses are insured by the taxpayers. While the idiocy of this proposal in the face of the greatest financial disaster in the country's history can't be overstated, it does illustrate the go-go mentality which holds that the banks must "grow out of" their difficulties. Former Federal Home Loan Bank Board Chair Ed Gray could tell the President how that mindset turned the thrift crisis from a manageable mistake into a financial nightmare.

In the meantime, while the President asks Congress to issue bank owners a license to steal — a license recent history shows would be gleefully exploited — Federal Deposit Insurance Corporation chief William Seidman recently asked for *unlimited* borrowing authority to clean up the mess from the last round of financial deregulation. U.S. taxpayers must look like real suckers.

Familiar Faces

HEGEL WROTE that "History teaches us that man learns nothing from history." Hegel would have found humor in the Bush proposals. Many of the same individuals who helped deregulate the thrifts are now helping set the stage for a massive bank meltdown.

See Disaster page 9

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FEATURES

DEPARTMENTS

Cover illustration by Matt Wuerker.

No Credit for No Body

Texas Lawmakers Take Aim at a Megabank

BY DAN HEYMAN

THE PROBLEM IS that the federal government has decided that we are just gonna have three or four big banks, and they are coming down hard on the small banks," said Representative Pete Patterson, a Brookstone Democrat. "Of course the big banks are not gonna disagree."

Thanks to the cries of his capital-starved constituents, Patterson has rediscovered that smaller banks and businesses are at the mercy of capital flight. (*TO* 6/29/90) The bigger the institution accumulating the capital, of course, the more able it is to take capital from one area and move it to another.

Patterson's H.B. 236, otherwise known as the NCNB bill, imposes a 5-percent tax on the difference between a bank's deposits and its local loans. Under the bill, the first $300 million in deposits are exempt, and local loans are credited at $1.75 for every dollar.

The banking industry takes the bill very seriously, and the bill's opponents portray it as a vindictive and hamfisted attack on a particular segment of the industry. That it is a narrow attack is beyond question. The $300 million exemption means that the bill would affect only the largest banks operating in the state, notably the North Carolina National Bank (NCNB), against whom constituents direct most of their angry testimony, and Bank One, also the subject of recent criticism.

A seemingly endless stream of anecdotal evidence has surfaced about NCNB denying credit in Texas communities where the bank has taken over smaller institutions. The complaints fall into two general categories. A group of mostly small-business people called Consumers for Ethical Financial Institution Inc. (CEFII) says NCNB refuses to finance or refinance all but the most heavily collateralized borrowers.

CEFII also accuses the bank of demanding immediate or accelerated payment on loans, mostly what are called performing non-compliance loans — loans where the borrowers have kept up the payments — but in which the real estate collateral has fallen below the value of the principle due. Critics accuse NCNB of using its discretionary powers to take Texas deposits and use them to shore up weak branches in other parts of the country.

Figures that might prove these accusations are difficult to come by, but NCNB admits that in the third quarter of 1990, NCNB Texas made $82.2 million, while NCNB's national profits were just $57 million. One supporter of the Patterson bill confirmed the accusation that NCNB Texas made a transfer of about $50 million to the national in another quarter of 1990.

A SURPRISINGLY RADICAL analysis underlies the bill. Kevin McCommon, who advises Patterson on banking issues, says that federal regulators knowingly granted hundreds of national bank charters during the boom and even into the beginning of the bust, knowing that the state was over-banked and about to go into a downturn.

McCommon says that larger institutions, supported by such favorable regulatory policies as the "too big to fail" doctrine, as well as newly loosened restrictions on branch banking, were poised to make massive expansions by acquiring smaller institutions when the weakest of them went bust.

SCOTT HENSON

It was with those acquisitions in the Southwest that NCNB went from being a medium-sized, regional bank to one of the largest or "money-center" banks, some of which are so genuinely international they are difficult or impossible for even national governments to regulate. John De La Garza, a spokesman for NCNB, says the bank tax unfairly attacks institutions with "geographic diversity," banks better able to adjust to local downturns, as he sees it.

Smaller community banks complain that the FDIC favors money-center banks by not charging to insure overseas deposits, which account for a large part of money-center bank deposits. The money-center banks argue that doing so would put them at a competitive disadvantage internationally.

Even mainstream bank analysts admit that Texas now shares some of the financial difficulties of a Third World nation. When the tax laws encouraging real-estate overdevelopment changed, vulnerable small banks fell and the communities dependent on real-estate investment began feeling the pinch, in some ways indistinguishable from Third World debt peonage and redlining in minority neighborhoods.

TO BECOME LAW, H.B. 236 must overcome the argument that it unconstitutionally restricts free trade. Patterson, on McCommon's advice, argues that deposits are not a trade commodity but something that depositors and their communities have as much or more right to control as banks. Not surprisingly, the bank tax and the underlying reasoning frightens even the small banks that might benefit. Community bank consultant Bob Walters says "politically I like the sound of it, but it sets a precedent that scares the shit out of me."

Surprisingly, the rural, more conservative branch of the Democratic party and the more liberal urban branch might actually cooperate on this issue. Last spring when Patterson and people from CEFII presented their complaints to a hearing of the Congressional House Banking Committee in Austin, an Association of Community Organizations for Reform Now (ACORN) officer testified that the largest lending institutions in the state paid approximately as much in executive salaries as they lent in minority and integrated neighborhoods.

Last session, Patterson sponsored a bill that would deny state deposits to banks that do not make a high percentage of their loans to low-income areas as mandated by the national Community Reinvestment Act, a measure designed to combat red lining. Stephenville Senator Bob Glasgow is carrying the redlining bill in the Senate this session, but Patterson isn't carrying it in the House, and an aide to the Senator says Glasgow won't seek action on it. The aide said Glasgow will carry the NCNB bill if it reaches the Senate — which it could.

Representative James Hury, a Galveston Democrat, says if the bank tax bill can be proven constitutional, it has a chance to be voted out of his Ways and Means Committee onto the floor of the House, where in the words of one member, fans and opponents are preparing for a "donnybrook."

McCommon says the bill's backers are trying to smooth its progress by compromising with one group of banks he says were unintentionally included as tax targets, banks on the border that take in large deposits from Mexico and have difficulty loaning out all the money locally. The Glasgow bill may be presented as a compromise measure if the House bill is defeated. ❑

Dan Heyman lives in Austin.

The Devil's Playground

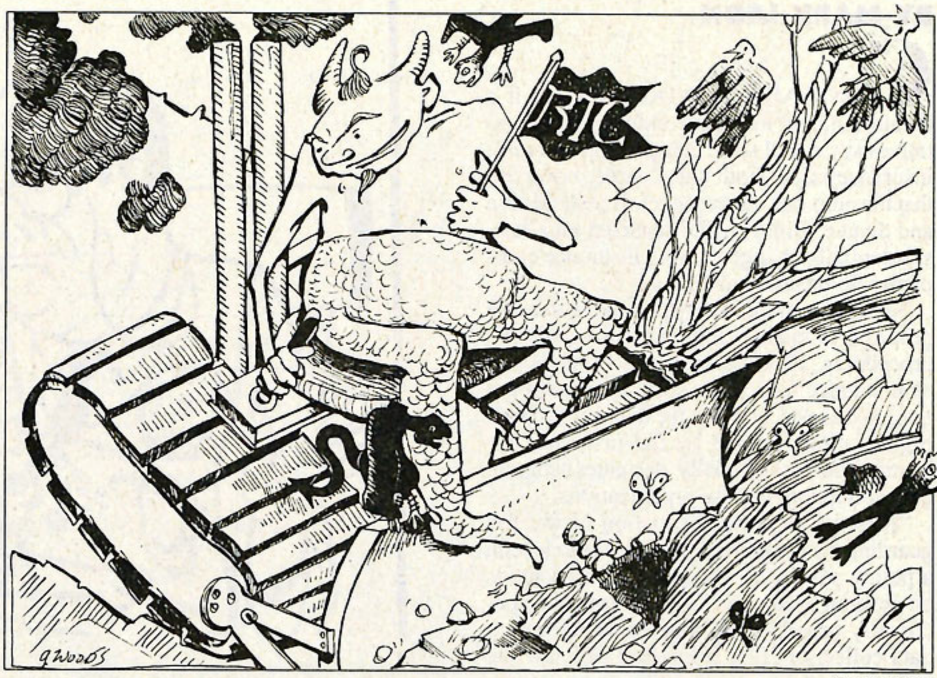
The RTC and the Texas Environment

BY JORGE RENAUD

THE RESOLUTION Trust Corporation isn't really the devil. It just seems that way. Created in August of 1989, the RTC was set up to dispose of the assets of the failed savings and loans. As such, it is the federal entity entrusted with the lands that belonged to the thrifts sucked under by the whirlpool of fiscal mismanagement and general incompetence that characterized the lending industry of the last decade. Many of the thousands of acres that passed into the hands of the RTC are pristine and lovely to behold, thus attractive to developers.

However, many are also home to species that are fairly uncommon, and, in some cases, in danger of becoming extinct. In its haste to find buyers for the land and recoup some of the money used to bail out the thrift industry, the RTC has been accused of selling land without regard to the mandates of the Endangered Species Act.

As a result, the RTC may find itself in court. In what must have seemed an acerbic Valentine's Day gift, attorney, William Bunch, point man for several environmental groups, on February 14 informed the RTC and the Federal Deposit Insurance Corporation of an intent to sue if they did not begin consulting with the U.S. Fish and Wildlife Service before selling the lands they hold.



GAIL WOODS

THE ISSUE HERE — as it usually is when banks, even failed ones, are concerned — is money. Specifically, how much money the sale of the land will bring and fulfill what RTC real estate specialist James McBride called "a congressional mandate to sell those properties under recovery."

In its rush to sell, the RTC has run afoul of supporters of the Balcones Canyonland Conservation Plan (BCCP), the coalition of developers, conservationists, and government officials that is trying to establish a 64,000-acre habitat for several endangered species. People aligned with the BCCP say that if the RTC would just wait, once the habitat is established and the surrounding area freed up for development, land values that have been depressed will rise, making the RTC's holdings more valuable. The BCCP has a special interest in how the RTC does business: It wants some of the land the RTC has for sale.

"There are certain properties we need to get from the RTC for this plan to succeed," said Kent Butler, chief consultant for the BCCP. "The value of all land outside the preserves, including a great amount of RTC land, will stabilize if not strengthen in value because the plan works on the premise that if land is set aside (for a preserve) the other land, whether having endangered species or not, can be developed."

Therein lies the problem. The RTC, according to one source, is in possession of more than 8 percent of Travis County, which makes it a big player in the area land skirmishes. That figure represents the book value of what the land was valued at when the money on it was loaned. In the depressed Austin economy, the land is worth perhaps 65 percent of book value now. The RTC is holding land that may or may not rise in value. So if someone makes an offer, it listens.

NO ONE disputes that the RTC has a right to listen to any offers. What the BCCP and other conservationists want is for the RTC to let the U.S. Fish and Wildlife Service determine if the land being considered has endangered species on it, something the RTC guardedly says it doesn't have to do.

"Right now we don't know of anything that prohibits us from selling anything within the habitat plan. If you are willing to buy that land, we don't see any legal encumbrances that would prohibit us from selling that property," Murphy said.

That attitude does not sit well with Jane Lyons, who sits on the executive committee of the BCCP, as does Bunch. Lyons, the regional representative for the Southwest Region of the National Adoubon Society, said the RTC acts like it is above federal law. "They are not really working under federal guidelines and are in fact claiming that they are exempt (from complying with the Endangered Species Act.) They claim the only mandate they have is the enablement that set up the RTC and they are not a federal agency, subject to federal laws. That's a major question the courts will have to decide," Lyons said. "They have not been exactly forthcoming in their attempt to protect endangered species, or to allow the lands to be purchased and set aside. There is a significant amount of [black-capped] vireo and [golden-cheeked] warbler habitat in RTC-controlled lands."

Lyons raises a couple of questions that RTC officials skirt: Can the RTC dump or sell or do whatever it wants with land that it is under federal mandate to protect? And, considering the extent of its holdings in the area, are its actions producing a short-termprofit but a long-term loss?

WHETHER OR NOT the RTC can do what it wants may be addressed April 14 in some courtroom. But Bunch thinks that the answers to the second question are evident. Bunch said that developers will take advantage of the situation by telling RTC officials that if endangered species are in fact found on RTC land, the price will be further de-

See RTC page 24

Jorge Renaud is an Austin journalist.

Watchdog or Lapdog?

Trying to Put Some Bite Into the SBI's Bark

BY MARK LEON

CONSUMER ADVOCATES call it a dream bill, and insurance industry representatives say it will stifle competition and raise insurance rates. Both sides agree, however, that the omnibus insurance reform bill (House and Senate Bill 2) will, if enacted into law, substantially change the way insurance companies do business in Texas.

No issue is more clearly polarizing than the proposal to change actuarial data-gathering procedures. This is data that the State Board of Insurance uses to set insurance premium rates in Texas. Currently the data comes from organizations funded by the insurance industry. The state officially delegates actuarial data collection to these organizations.

"It is the archetypal situation of the fox guarding the henhouse," says Deece Eckstein, a policy advisor to Governor Ann Richards on insurance matters. The reform bill specifically prohibits the state from delegating data collection. If it is enacted into law the state would take over that function.

SEAN FRENCH

Insurance lobbyists say this will cost the state too much money. Estimates start at $10 million annually. They also insist that the industry wants good, impartial data as much as the public does and that the current system of industry-supplied data works well. "They may give us accurate data," says Senator Carl Parker, a Democrat from Port Arthur, Chairman of the Senate Subcommittee on Insurance and sponsor of the bill, "it is just the perception of the thing."

Eckstein explains that even if the data is fundamentally accurate, the present system does not allow the board or the public to see it before it is filtered through the industry, "The problem is that insurance companies have industry-owned, industry-controlled, industry-philosophized rating organizations that take the data and make assumptions. We want to filter those assumptions out, get the noise out of the system."

CONSUMER LOBBYISTS claim that these assumptions often amount to data massaging designed to protect company profits against market trends which may never materialize. Whether or not this is actually the case, the perceptual problem remains. Eckstein says that under the provisions of the bill the board would set up a staff to, "take data downloaded into state computer banks and develop programs that would allow them to aggregate the data, trend it, do all the things the industry rating organizations currently do. And even if the process is no more impartial it will at least be more open than it is now. This data will be available to everyone, consumer groups, rate payers, policy holders, etc."

Parker counters the charge that it will cost too much money for the state to take over data collection with the following observation: "Two years ago we went to the State Insurance Commission and said 'we want to gather our own data.' We had a bill to do it. We asked the commission to give us a fiscal note on it. They came back with a figure of $100 million. We now discover, in the interim, that it costs only $45 million to do it nationally. That, to me, is the bellwether item that indicates that the Insurance Commission has been the lapdog of the industry."

LAPDOG OR NOT, public confidence in state regulation of the insurance industry is low. Governor Ann Richards gave a powerful voice to this sentiment when she demanded the resignation of the State Board of Insurance. More specifically, her ultimatum was in response to the board's recent recommendation of a 23 percent increase in auto insurance premiums which was seen as yet another unjustified, all too easy acquiescence to industry-sponsored rate analysis.

Insurance lobbyists say that the industry does not manipulate data presented to the board. Some insist that even if the state compiles its own figures the industry will continue to collect data through organizations like Insurance Service Organization (ISO). The implication here is that a wasted duplication of effort by the state will just add to insurance company overhead thereby driving up rates.

Rebecca Lightsey, Counsel to Governor Ann Richards disputes this: "What happens now is that the policy holders pay for data collection because the insurance companies pay for organizations to collect that data and then pass the cost on. Under the bill the state board will be collecting that information. The bill does not prohibit companies from continuing to collect their own data, but it does prevent them from passing that cost on to the policy holders."

Lightsey says, "The governor is concerned that we fully understand the impact on the industry. She wants to make sure that the data is accessible to both the public and the industry." Theoretically, once the responsibility for data collection is transferred to the state, any citizen as well as any insurance company will be able to get that data. While these numbers may not mean much to someone who doesn't read actuarial tables, Lightsey stresses that "they will mean a great deal to the public counsel who represents consumers before the board."

The office of the public counsel is expanded in the bill. Created in 1988, the job of

Mark Leon is a graduate student in Austin.

the public counsel is to represent consumers before the State Board of Insurance. Robert Blevins, executive director of the Texas Life Insurance Association, criticizes this aspect of the bill, saying it gives the public counsel "unbridled discretion" in consumer disputes. But Lightsey says, "The governor's position is that where the insurance industry has a voice in the process the consumers should also have a voice."

Staff in the governor's office played a key role in the drafting of the legislation according to Eckstein. "We worked with the staffs of the House and Senate sponsors of the bill. I think we put a good initial product on the table. There are still some rough edges that could be smoothed out, but I think the concepts and principles are real solid."

IF THE BILL is indeed a consumer dream bill, what are its chances for passage? Representative Eddie Cavazos, Democrat of Corpus Christi, Chairman of the House Committee on Insurance plans to introduce the bill in the House sometime in early April. All parties agree there will be changes.

Terry Frakes, staff member of the House Insurance Committee, says, "I'm not sure the bill stands a good chance of making it through the legislative process, but I know from talking to Representative Cavazos that any bill that passes will have some provision for independent data collection." Eckstein says, "The governor is very committed to the independent collection of data. If that is not in the final bill, then I don't think we will have a bill." Clearly the mood among the bill sponsors and supporters is for real reform on at least this one issue.

Consumer groups are also adamant about the bill's provisions that remove anti-trust exemptions for the insurance industry. While some industry advocates grumble at this, they do not appear poised for a major fight over the issue. Blevins says, "Frankly that is not a big concern for us."

Eckstein thinks the provisions to guard against insurance company insolvency will probably change. The bill increases the capital surplus requirements for all insurance companies. At a time when some are pointing to ominous parallels between the current status of the insurance industry and the state of savings and loan institutions before that business went bust, the issue of stability is of particular interest. "We are going to have some dicey periods in the next couple of years," Eckstein warns. "We have put some provisions into the bill to make sure that companies start healthy and stay healthy." Previously a $1 million capital surplus was the only capital surplus requirement. The new bill calls for a surplus of $2.5 million or 10 percent of a company's liabilities, whichever is higher. "We are still working to refine that part of the bill," Eckstein says.

Insurance lobbyists generally work for big companies that will not be affected by the increased capital requirements since they already have cash surpluses well in excess of the new minimum. Even so industry advocates argue that when it comes to the stability of a company, dollar amounts are really not the issue. It is liability. How much insurance has a company sold? An industry spokesman said, "We might be more comfortable with a bill that increases the capital percentage of liabilities —10 percent is low, really. But a $2.5 million surplus requirement is unreasonable for very small companies."

Lightsey acknowledges industry concern over capital surplus requirements and predicts that portion of the bill will, in fact, be rewritten more to the insurance companies' liking. She accompanied the Governor on a recent insurance fact-finding trip to New York and says, "We learned a great deal from New York in how they regulate solvency. Probably there will be formulas rather than the flat minimum of $2.5 million. These formulas will take into account things like the size of the company and the riskiness of their business and the riskiness of their investments."

The Legislature, starting with the House, will get down to business on the insurance bill after the dust settles from the battle over public school finance. It is a reform effort hardly less daunting. The biggest gun in the insurance lobby arsenal is the claim (true or not) that this bill will cause consumer insurance rates to rise.

Robert Blevins sums up the industry position on this nicely, "Let's face it, the policy holders pay for all of this. The unfortunate part of this is that they are going to expect lower premiums after such an insurance reform package passes, and what they are going to get is much higher premiums."

The bill's defenders claim that this is always the last best defense of the industry against real reform. Nevertheless they will have to convince lawmakers and the public otherwise in order to translate tough reform talk into reform law. ❑

Risky Business

Will Consumers Bail Out the Insurance Industry?

BY ELIZABETH TRAVIS ROBERTS

TRUE TO HER campaign promise, Governor Ann Richards outlined proposed legislation for insurance reform in Texas at a February 21 press conference. According to Speaker Gib Lewis, the bill may pass the House of Representatives in only a few weeks. The reform package addresses a number of issues, but the most pressing of the many problems festering in the state's insurance industry is the growing number of insurance company insolvencies. Texas leads the nation in such failures, and, as Richards said last month, "There are going to be insurance companies that fail in the state of Texas ... and there is not one single thing I can do about it."

Richards believes these failures are an indication that the State Board of Insurance (SBI), the state regulatory body that's supposed to protect the public interest, has failed miserably. Accordingly, last month she pressured two members of the SBI (both appointed by her predecessor, Republican Governor Bill Clements) into resigning, effectively giving her control over the board.

Texas isn't the only state suffering from bad management of its insurance companies. A recent *Newsweek* feature story warned of a coming national insurance crisis, with hundreds of companies in danger of failure; last year, the story said, 41 big insurers collapsed.

Elizabeth Travis Roberts studies insurance in Austin.

The failure of states' boards to protect the public interest in insurance regulation was the subject of an investigation by *20/20* on ABC television in January. The program focused on Florida's SBI and its role in the failure of the International Forum of Florida (IFF), which bilked thousands of unsuspecting policyholders out of millions of dollars that were siphoned into other companies owned by the same IFF. While premium dollars were flowing out, the Florida SBI did nothing. Florida's Insurance Commissioner explained simply, "nobody told us about it" — not until a huge number of claimants clogged the telephone lines trying to learn what to do about the disappearance of their life savings.

Barbara Walters closed the *20/20* program with a warning: "always to be sure to buy insurance *only* from a company which is a member of the Insurance Guaranty Fund."

But a number of states, including Texas, have no real guaranty fund. Even the Texas SBI admits, "Guaranty funds are not true funds in the sense of accumulations of money held against a rainy day." Instead, the Insurance Guaranty Fund is nothing more than an elaborate boondoggle, in which Texas taxpayers subsidize insurance companies.

TO MAKE MATTERS worse, the insurance reform package now before the Legislature actually exacerbates the scam by making Texas insurance *consumers* pay for the sins of the insurance monopoly. Such an arrangement could cost taxpayers and consumers millions of dollars in the near future, as many Texas insurance companies teeter on the brink of collapse. (From 1985 to 1988, Texas assessments against the solvent insurers to pay the claims of the bankrupt companies rose 499 percent.) If the Legislature and the Governor are serious about protecting the public from insurance insolvencies, they will have to take strong measures to protect taxpayers by shoring up the Guaranty Fund.

The Guaranty Fund Boondoggle

SO WHAT IS the insurance guaranty, if not a fund? In theory, the Insurance Guaranty is a plan whereby the SBI assesses the solvent companies to pay the claims made against the insolvent ones. But then, Texas permits its solvent companies to deduct (over five years) 100 percent of their assessments from their state taxes. In essence, therefore, the claims of the defunct insurance companies are paid out of the state's general revenues — in other words, by the taxpayers.

The total cost to taxpayers could be enormous. According to one SBI spokesman, the insurance guaranty fund assessed solvent insurance companies $61,962,231 for 1990 claims against 21 life/accident/health/and annuity companies, another $60 million for a recalculation of 1989 claims, plus $41,750,024 for 1990 claims against nine property/casualty companies. Even the nonmember assessments came to $1,014,290, according to the SBI Annual Report, and title company claims reached $5,560,457. That's a total bill of over $100 million. The assessments were needed for 30 of the 162 insurers that are in receivership. Meanwhile, loans from Texas Commerce Bank provided the cash draws to operate the insurance guaranty fund between the time that estimates of needs are made and assessment receipts are received.

In addition to assessments for claims against the liquidated companies, there are costs for auditing, legal fees, consulting fees, and all other expenses of the Liquidation Division of the SBI. Disbursements of the Liquidation Division for the last fiscal year reached $146 million, including $70 million for claims paid. This money, of course, comes out of the pockets of every Texas taxpayer. (A similar phenomenon is happening across the country; according to the National Conference of Insurance Guarantee Funds, payments to policyholders from state guarantee funds have soared over the past seven years, topping $700 million last year.)

If anything, the future of the Texas insurance industry looks even bleaker than the recent past. As Kay Doughty, the former state insurance consumer counsel who now advises Gib Lewis on insurance issues, said: "Hang on to your hats; the cost of insolvencies is still going up." Just last month, United States Fidelity and Guaranty Company announced that, after over 70 years of writing insurance in Texas, it would shut down its Texas offices

Receiverships By Fiscal Year: New Receiverships and Receiverships Closed

Fiscal Year	Balance Receiverships Beginning	New Receiverships	Receiverships Closed
1980	52	1	4
1981	49	8	7
1982	50	11	19
1983	42	13	0
1984	55	3	3
1985	55	20	1
1986	74	19	2
1987	91	18	1
1988	108	25	2
1989	131	40	14
1990	157	33	28

As of August 31, 1990 -- 162 Active Receiverships

Lawsuits Pending - Liquidation Division: 1980 - 1990

Fiscal Year Ending	New Lawsuits	Closed Lawsuits	Pending Lawsuits
1980	111	70	406
1981	8	106	308
1982	29	120	217
1983	69	17	269
1984	31	26	274
1985	150	119	305
1986	203	89	419
1987	167	148	438
1988	227	131	534
1989	296	254	576
1990	382	270	688

SOURCE: TEXAS STATE BOARD OF INSURANCE 1990 ANNUAL REPORT

and suspend most of its operations in the state.

In fact, the costs could accelerate in the near future, as holding companies turn their captive insurers into cash for themselves and financial disasters for the state by converting liquid assets into dividends.

Merger Mania

THERE ARE VAST advantages to owning aninsurance company. Unlike most corporations, the assets of insurance companies are not tied up in merchandise or heavy manufacturing equipment. Their stock is promises — promises backed by money. While the unscrupulous companies over-invest their liquid assets, often in risky loans or real-estate investments, the principled ones are highly liquid, and liquidity makes them attractive prey for corporate raiders. When the holding company of a corporate conglomerate takes over an insurance company, it can drain the liquid resources from the insurance reserves. It can quash the insurer's affiliates and subsidiaries to finance its own operations or other takeovers.

During the height of the merger mania of the 1980s, the practice of capturing well-managed insurance companies grew until many century-old businesses became pawns of powerful corporate raiders. Furthermore, the holding companies can eliminate competition in insurance for their captives by having their own source for insurance as well as their own customers — themselves. Even when a takeover is unsuccessful, the cost to the insurance company can be tremendous and protection against takeovers is a part of the necessary cost which made premiums soar in the 1980s. A strong and solvent company may be captured and then dismantled by its owner.

Examples abound: A West Coast conglomerate, National General bought up 99 percent of Great American and awarded itself a $172 million dividend — an amount three times the value of the parent company before the acquisition; IT&T owns 25 insurance companies, including the Hartford Group; Gulf and Western owns 18; Teledyne, 15; Control Data, 14; Beatrice Foods, four; American Express owns the Firemen's Fund companies; and General Motors and General Electric own insurance companies. Nearly every large corporation owns an insurer. As renowned insurance plaintiffs lawyer Gerry Spence wrote in his 1989 book, *With Justice for None*, "American corporations seem to lust for them."

THE INSURANCE industry and its corporate owners will doubtless claim that the impending shakeout of Texas insurance companies will hurt the state by depriving consumers of competition. Yet more insurance companies do not result in better service or protection for the public, but less, according to Halsey D. Josephson, writing in *The Case Against New Life Insurance Companies.* When the McCarran-Ferguson Act (which gave the insurance industry its exemption from federal antitrust laws) was passed in 1945, America had one life insurance company for every 300,000 people. By the 1960s, it had grown to one for every 120,000. Britain had one life insurance company for every 400,000 people; France, one for 750,000; Italy, one for 2,000,000.

Today, with a population of 15 million, Texas has 2,451 insurers, or one insurance company for every 6,120 people. According to an October 1990 report by State Auditor Lawrence F. Alwin, 283 of those companies are "at risk" with a premium volume of $3.1 billion.

GIVEN THIS GRIM picture, insurance consumers are counting on the reform proposals advanced by Richards and state Representative Eddie Cavazos, both considered pro-consumer. In fact, however, under the reform measure, the existing 100-percent tax credit (which the solvent companies are presently allowed for paying the claims of the insolvent) would be reduced to 40 percent, while the other 60 percent would be recovered through increased insurance rates. This means that the taxpayers foot only 40 percent of the insurance industry's bad debts, down from the present 100 percent. But the other 60 percent is picked up, not by the insurance companies, but by the individuals who buy insurance policies. The effect is to shift the cost to the insurance consumers instead of the state as a whole.

Such an arrangement is even less fair than the untenable system that currently exists. Consumers should not be responsible for errors and omissions of the SBI, or bad investments by the corporate raiders, particularly since the coverage they buy is often not purchased voluntarily. Insurance policies, by and large, are mandatory: Automobile liability policies are required by state law and any property with a lien is required by the lender to be insured. And even when they do have a choice, consumers seldom have adequate information to make an informed choice. Burdening consumers with 60 percent of the assessments caused by mismanagement by including it in their rates is no solution to the approaching tide of insolvencies.

And the reform package's proposed $450 million pre-funding would pay off only the $491 million in claims payable at the close of the last fiscal year, according to the most recent SBI Annual Report. The Richards proposal does not provide funding for future insolvencies. In fact, Richards's "reforms" could backfire politically if they result in large rate hikes before the next round of elections.

What Should Be Done?

TEXAS DOES NOT have to squeeze consumers in order to preserve the artificially swollen number of companies that exist today. The first insurance reform measure passed by the Legislature should be the abolition of the companies' 100-percent tax credit, coupled with a rate freeze. Insurance industry apologists will argue that the well-managed companies will leave the state if they are required to pay for claims against insolvent companies. That argument ignores empirical evidence to the contrary.

In New York, insurance companies pay into a special fund for insolvencies without the crutch of a 100-percent tax credit like their Texas counterparts. To date, New Yorkers can still buy insurance. A mass exodus of insurance companies from Texas is an idle threat by the industry, an attempt to intimidate legislators from cracking down on an industry that surely needs it.

The second reform needed in Texas is a reduction in and limit on the numbers and kinds of companies which the State Board of Insurance licenses and the contracts it approves. Regulation is meaningless when the number of companies and forms authorized exceeds the agency's capacity to examine and regulate. And if the insurance industry, rather than taxpayers, is required to pay for insolvencies, then the well-managed companies might become political allies in the effort to remove the at-risk companies (read: their competitors) from the Texas insurance market. Reducing the number of companies would enable the regulatory board to do a better job in identifying dangers ahead, since it could focus its limited resources on fewer, healthier companies.

Third, the state should better control the kinds of policies written in Texas. The thousands of policies submitted for approval, each with different innovations, special offers, gimmicks, and frills, seldom promote the general welfare. They are time-consuming paper-shuffles which confuse consumers and, doubtless, the SBI. The mass of possibilities approved by the state board baffle even the most informed observers.

With the explosion in the numbers of licensees, kinds of contracts, and unaudited data, the liquidation division of the SBI will continue to expand until the supervisions, conservatorships, and receiverships overpower the system handling it. Perhaps it already has. With the exception of risk retention groups, purchasing groups, and the self-funded plans (none of whose claims are processed through the guaranty fund method), the State Board of Insurance should implement a policy of "No New Companies," and for those already licensed, "No New Gimmicks." And a "Cease-Sales" order should be implemented for those decep tive policies already on the market.

SUCH CONTROLS COULD start Texas on a path to progress in regulating insurance, reduce the enormous staff presently doing paper-shuffling, and attract more stable segments of the insurance industry to the state. When all players in the field meet the stringent criteria of the most dependable members, none should object to contributing to a fund to protect all — and they would not need to be repaid by the taxpayers or add it to the rates to be paid by future consumers. Failures would stop.

When confronted with regulatory questions that involve the public interest, the SBI merely refers to the Texas Insurance Code: "We don't make the Code; we only implement it." If the insurance code does not provide the state's regulatory agencies with discretionary powers to protect the public interest, then only the Legislature can correct the predicament that is leading to the collapse of one of the largest industries in Texas. It should start by amending the present inadequate reform package to truly protect the taxpayers and policyholders of this state. ❑

Disaster

Continued from page 3

As vice president, Bush chaired a task force on deregulation. That panel's proposals were the impetus for the Garn-St. Germain Act which deregulated the thrifts with such disastrous consequences. Bush also chaired a 1985 task group on deregulation of financial services, which suggested many of the "reforms" now found in the administration's current proposals. Bush's chief staff person for this task force was none other than Richard Breeden, the current head of the Securities and Exchange Commission. Breeden has lobbied hard for repeal of Glass-Steagall.

Democrat Donald Riegle of Michigan, chairman of the Senate Banking, Housing and Urban Affairs Committee, is a sponsor of a set of banking reform proposals in the Senate and has already held eight months of hearing on the subject. Riegle, along with four other senators collectively known as the Keating Five, intervened with regulators to stop them from closing down Charles Keating's notorious Lincoln Savings and Loan. Alan Greenspan, chairman of the Federal Reserve, last fall allowed J.P. Morgan to enter the securities markets, an act that for most banks would violate Glass-Steagall. Greenspan, like Riegle, was hired by Charles Keating to intervene with federal regulators on his behalf. In a letter to the FHLBB in 1985, after Keating had begun his most egregious projects, Greenspan called Lincoln Savings "an association that has, through its skill and expertise, transformed itself into a financially strong institution that presents no foreseeable risk to the Federal Savings and Loan Corporation."

The S&L scandal will haunt us for decades to come. With Texas banks dropping like dung in a feedyard we cannot allow the same cast of characters to repeat the mistakes of the past.

— S.H.

Set in Concrete

More of Mark Stiles's Questionable Deals

BY JENNIFER WONG

Last month, the Observer *reported that companies owned by Representative Mark Stiles have done more than $47,000 worth of business with the highway department since Stiles was elected state representative, in apparent violation of the Texas Constitution ("The Highwayman,"* TO *3/8/91).Through additional research, the* Observer *has discovered that this finding was only the first chapter in the dubious tale of how Stiles conducts business, both at home and at the Capitol.*

REPRESENTATIVE MARK STILES, a four-term Democrat, is executive vice president and general manager of Transit Mix Concrete Company, the largest concrete company in Beaumont. He also owned stock and sat on the board of directors of American Builders Concrete, which went bankrupt last month.

Although both Transit Mix and American Builders did business with the state, Stiles says his involvement with the companies does not constitute a conflict of interest. He maintains that since he did not manage the American Builders' daily affairs, he could legally do business directly with the state. In fact, American Builders has had contracts with the highway department totalling more than $47,000. Stiles has said he wasn't aware that Transit Mix had contracts with the state.

Despite his claims to the contrary, documents obtained from the highway department indicate that Stiles played an integral role in the daily management of American Builders. The *Observer* has also learned that Stiles used American Builders to win state contracts that, under federal law, had been set aside for minority-owned businesses.

For more than five years, American Builders was listed with the highway department as a Disadvantaged Business Enterprise (DBE) through a federal certification program for businesses owned by women and minorities. The designation gives businesses a competitive advantage, since all federal construction projects must contract at least 10 percent of the project out to DBE companies.

To win the valuable DBE status, Stiles, who is white, and his white business partners simply created a minority-owned business out of an already existing company. On July 1, 1985, Vidor Ready-Mix, Inc. amended its articles of incorporation to become American Builders. The Vidor Ready-Mix/American Builders shareholders were many of the same people who sat on the Transit Mix board of directors and later assumed executive positions with the company. They include: Warren Goehringer, president; Mark Stiles, vice president; Walter J.Crawford, chairman; and D.P. Wheat Jr.

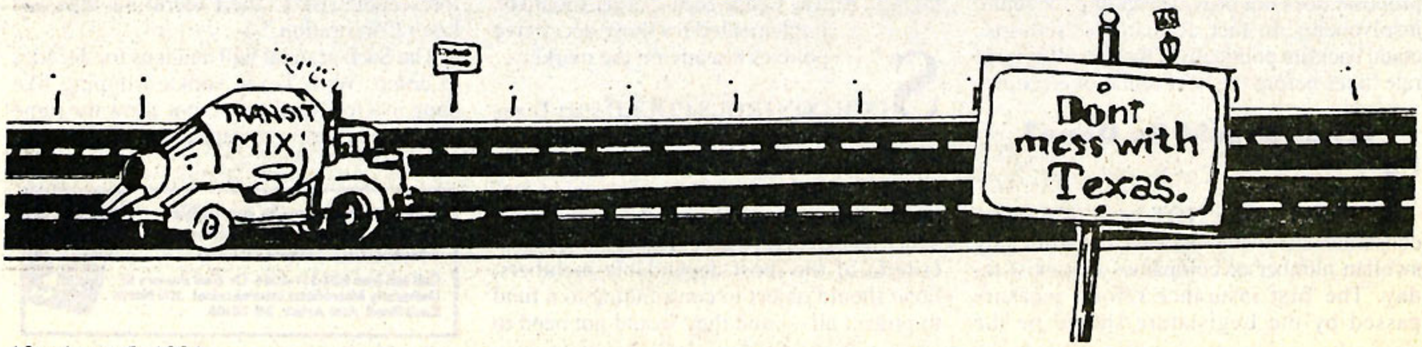
Three-and-a-half months earlier, on November 14, 1985, American Builders' board of directors voted unanimously to give the majority share of stock to Joshua Allen, a black Beaumont property manager and real-estate developer, and Famous Byers, a Native American Church of Christ minister and counselor. Not only were Allen and Byers awarded stock, but they were voted in as president and vice-president of the board, respectively. Neither Allen or Byers had ever worked for Transit Mix or Vidor Ready-Mix/American Builders.

On November 15, 1985 — the very next day — Allen submitted an application for DBE status. In his cover letter, he said it was "imperative" that the application be processed as soon as possible so the company would be eligible for the December bidding for highway department contracts. Seven days later, American Builders was duly granted DBE certification.

American Builders' DBE application includes the resumés ofAllen and Byers, as well as a personal statement from Stiles saying he would "be responsible, along with Josh Allen and Famous Byers, in the estimating activities" of the company. As evidence of the company's expertise, Stiles's 14 years experience in the concrete industry was cited. In identifying "those individuals who are responsible for day-to-day management and policy decision making," Stiles was listed in four out of six areas: estimating, marketing and sales, purchases of major items and supplies, and supervision of field operations. The only other people mentioned under this management category are Allen and Byers. In annual recertifications of the company, Stiles was named in at least half of the management areas. When questioned about his inclusion in these categories, Stiles said it was the first he had heard of it.

On December 31, 1986, the U.S. Department of Transportation's Office of Inspector General received an anonymous letter of complaint. The letter accused American Builders of acting as a "front" organization that "somehow passed through the certification procedures" of the highway department because it listed its plant at 2525 Dollinger, which is the address of one of the Transit Mix plants. "This DBE company has received a contract to provide concrete on the Interstate 10 project in Beaumont ... [worth] $4 million," the letter stated. The U.S. Department of Transportation referred the matter to the state highway department in January 1987.

Three months later, highway department inspector Daniel J.Madison, tried to call American Builders Concrete, Inc. to set up a DBE review. In a memorandum, Madison said he was connected with an answering service which answered "Highland Business Offices." The service then transferred him to Katherine Blanchett, who explained that she "handles things for Mr. Allen when he is out of town." Allen returned the call later that day and confirmed the review date, but asked that the meeting be held in his office rather than the job site. Madison explained that he still needed to inspect the plant, and Allen deferred.



Madison and another highway department employee visited American Builders on April 29, 1987. They reported that "Mr.Allen does have the knowledge and ability to successfully operate the company. He currently owns and operates several successful businesses in or related to the construction industry." The inspectors foundthat even though American Builders leased all of its trucks and facilities from Transit Mix, occupied adjoining offices, used the same plant site, and bought most of its supplies from Transit Mix, it was a legitimate operation that deserved DBE status. "We can find no information to support the Hotline complainant's contention that this company is a front," the report concluded.

In another visit paid to the American Builders office the following year, in September 1988, highway department inspectors Deborah Blue and R.D. Brown reported that all three employees present said they worked for Transit-Mix. When the officials asked to speak to somebody about American Builders, they were referred to Warren Goehringer or Mark Stiles.

Although Stiles seems to have actively participated in the affairs of American Builders, he claims not to know either how much stock he owns in the company or whether it did business with the state. Moreover, according to American Builders' records, on February 13, 1987, the company's board of directors approved Stiles's motion to give himself a $2,000 "consulting bonus." It is also worth noting that the demise of American Builders in February of this year occurred shortly after Allen liquidated his majority stock holdings, causing the company to lose its DBE status.

Stiles's dealings may amount to a flagrant disregard for ethical propriety. But his activities point to more pervasive problems with the Texas code of ethics. Surprisingly, this is one issue this session's ethics legislation doesn't even address. Then again, there are probably many more legislators who do their business and politics in Stiles's style. ❑

Lord of the Highways

The State Agency the Legislature Can't Control

BY JENNIFER WONG

THERE ARE SOME state agencies that are bigger than the Legislature," a long time Texas political observer once remarked. Consider, for instance, the State Department of Highways and Public Transportation, the third-largest state agency, which recently emerged from its first Sunset evaluation virtually unscathed.

Other agencies have been abolished, merged, or overhauled as a result of Sunset scrutiny. But the highway department is special. It's the only agency with constitutionally dedicated funds — close to $2 billion in gasoline tax and motor vehicle registration fees a year. It has its own lobby, Texas Good Roads/Transportation Association (headed by former Highway Commissioner Bob Lanier), a potent coalition of the business interests that benefit from the use and construction of highways, which includes everything from oil companies to highway contractors, engineers to land developers. It boasts its own PAC, Texans for Better Transportation, for which Good Roads' chief lobbyist, Lawrence Olsen, is treasurer. And it claims many friends under the dome — politicians savvy enough to curry the favor of what may be the most powerful government institution in Texas.

During a process meant to provoke criticism, many legislators left highway lobbyists in the dust in their eagerness to sing hymns of the department's praise — those familiar strains of "good, safe, and cheap highways" and "finest system in the country." Citizens who came to testify against the Sunset bill and criticize the department's poor environmental record were often ignored and intimidated, sometimes yelled at, and once even called liars by a former Highway Commissioner, Ray Barnhart. "If it ain't broke, don't fix it," was the standard reply to those impolite enough to complain. Apparently, the consensus at the Capitol is that highway department works.

BUT THE QUESTION is, for whom? Environmentalists contend that Highway Commissioner Robert Dedman, a billionaire real-estate developer, has used it to his benefit and that of his developer friends. Transportation advocates are outraged that the Department of Highways *and* Public Transportation spends less than 1 percent of its budget on desperately needed mass transit. They say the department is in the business of building highways — the more, the bigger, the better. In addition, the U.S. Department of Transportation recently found that blacks are "significantly underrepresented" in hiring and promotion within the department and has issued an ultimatum: Stop discriminating, or lose federal funding — more than $900 million.

Highway department officials calmly deny all charges. Of course, they give the occasional display of reform and repentance. Highway Commissioner Ray Stoker told the Senate Economic Development Committee, "I see this as a new beginning for the department. The Sunset process was arduous, and opened the eyes of the department as well as the eyes of the commission." But at this same meeting, Arnold Oliver, the department's engineer-director, joked to a district engineer that from the nature of the debate he had seen so far, they were going to come out of the Sunset process "smelling pretty good."

Austin Senator Gonzalo Barrientos, the sponsor of the highway department sunset legislation (Senate Bill 352), touts it as a "compromise bill," a product of both environmental and development concerns. While it's true that the highway lobby has conceded to some changes, cracking the door open for a little public inspection, these modifications will ultimately do little to hold the department accountable for its actions. Also, many of the department's critics worry that House mem-

bers, all too willing to carry Good Roads amendments, will ravage the bill. At press time, the bill was on its way to the House.

Throughout the slow evolution of this bill, from Sunset Advisory Commission to Senate floor, the highway department has put up strong resistance to the smallest of changes. For instance, they successfully lobbied both House and Senate committees to continue defining the administrative head of the highway department as the "engineer-director" rather than "director," although the Sunset Commission recommended that administrators who aren't registered engineers be allowed to serve in this largely bureaucratic position. An amendment proffered by El Paso Senator Peggy Rosson, which required the Highway Commission to adopt rules describing its priorities when selecting highway projects, barely squeaked by the Senate Economic Development Committee, 5-4.

NOT SURPRISINGLY, a challenge to the structure of the Highway Commission (the three-member, governor-appointed board that sets policy and administers funding) was squelched. Barrientos, in an attempt to unite proponents of both minority and rural representation, pushed for an amendment to double the size of the commission and designate the added positions for citizens from smaller cities and rural areas. In the 70-year history of the highway department, Barrientos told the Senate on March 18, no woman or minority group member had ever served on the commission, and "vast areas" of the state had gone underrepresented because commissioners typically came from Dallas or Houston.

He added that a three-member board with two-member quorum made it hard for commissioners to comply with the open meetings act, which would be violated every time two of them met and discussed highway matters.

Senator Temple Dickson of Sweetwater, chair of the Economic Development Committee, rose to criticize Barrientos for waiting until so late in the process to bring up the amendment, and used this argument as a basis for tabling it. After Dickson was interrupted in the debate, Lubbock Senator John Montford, who sponsored two Good Roads bills last session, formally carried out the motion, after eulogizing Texas highways and ridiculing the Sunset process. "Let's not politicize this," said Montford. Yet in an almost complete political split down gender and race lines, the amendment was tabled, 17-11 — 17 white men on one side, and 11 women, Latinos, and blacks on the other. The only white men who voted against the motion to table were Steve Carriker of Roby and Port Arthur's Carl Parker.

Rumors abound over what happened behind the scenes to kill the amendment. One Senate aide said that the highway lobby tried unsuccessfully to convince Barrientos to shelve both the proposal to double the commission's size and the one that would create a permanent environmental advisory committee. When Barrientos refused, they left his office to go talk to Lieutenant Governor Bob Bullock (whose brother is Tom Bullock, chairman of the executive committee of the largest road design and contruction management firm in the country, CRS Sirrine). The aide claimed Bob Bullock pressured Dickson into tabling the bill. (During the debate, Barrientos told Dickson, "Senator, I don't think your heart is in this.")

However, Rafe Greenlee, a spokesperson for the lieutenant governor, said that while Bullock's office was involved in negotiating the bill, it was not responsible for the amendment's failure. According to Greenlee, environmental and highway lobbyists agreed on a compromise: keeping a three-member commission in exchange for a permanent environmental advisory committee. This account would explain why Senator Carlos Truan's amendment for the latter was accepted without discussion. But the Sierra Club, the environmental organization most actively involved in the drafting of the bill, agreed to no such compromise. "There might have been an arrangement, but it definitely didn't include us," said Sierra Club director Ken Kramer. "We were still pushing forexpansion on the commission."

A FEW WEEKS before his bill reached the Senate floor, Barrientos looked as though he would take on Commissioner Robert Dedman himself. In an earlier draft of SB 352, members of the Highway Commission would have been disqualified from serving if property they owned was "enhanced in value" because of a road the highway department built through it. Under this provision, Dedman, who has publicly bragged he is the largest landholder in Austin, would have been barred from the Commission. So would Commissioner Wayne Duddleston, a developer of more than $1 billion worth of property.

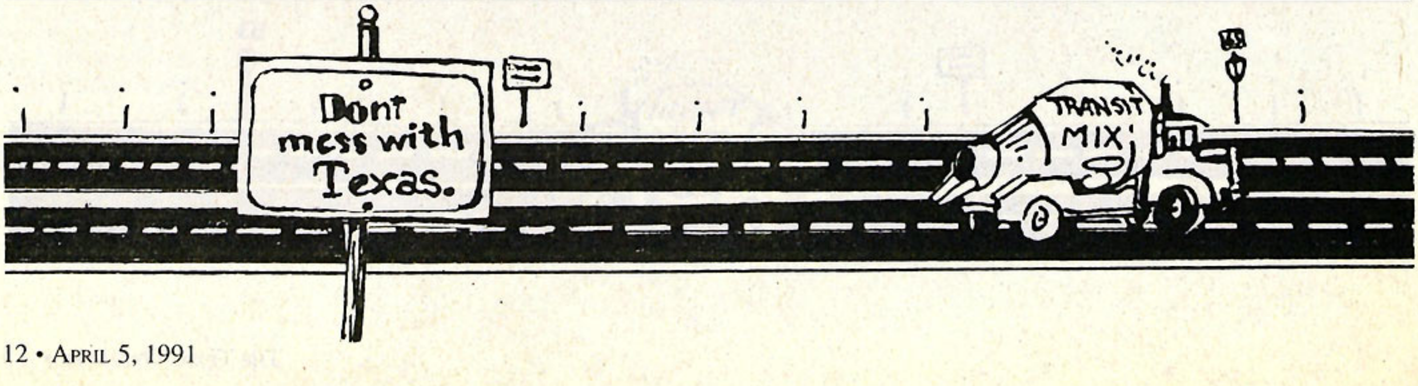
Barrientos, however, withdrew the language. "We tried to make it stronger, but we were in danger of barring everyone who owns a piece of property in Texas from serving on the Commission," he said. While the bill includes added conflict-of-interest language, it doesn't address the presence of real-estate developers on the Highway Commission, the most fundamental obstacle to the reform of the department.

In Senate floor debate, Barrientos made a good show of being the people's crusader. But history shows that he's acted as the developers' ally. According to a March 13, 1986 *Austin American-Statesman* article, Barrientos was a board member of the MoKan Corridor Association, a corporation formed to promote a freeway between Georgetown and Austin through sparsely developed land east of Interstate 35. The *Statesman* reported that Barrientos resigned when his conflict of interest became an issue. And according to a July 1986 *Austin Challenger* article, Travis County Commissioner Bob Honts insisted that Barrientos was a member of the board of directors of the Northwest Outer Parkway Association, another development corporation. Barrientos denied the claim.

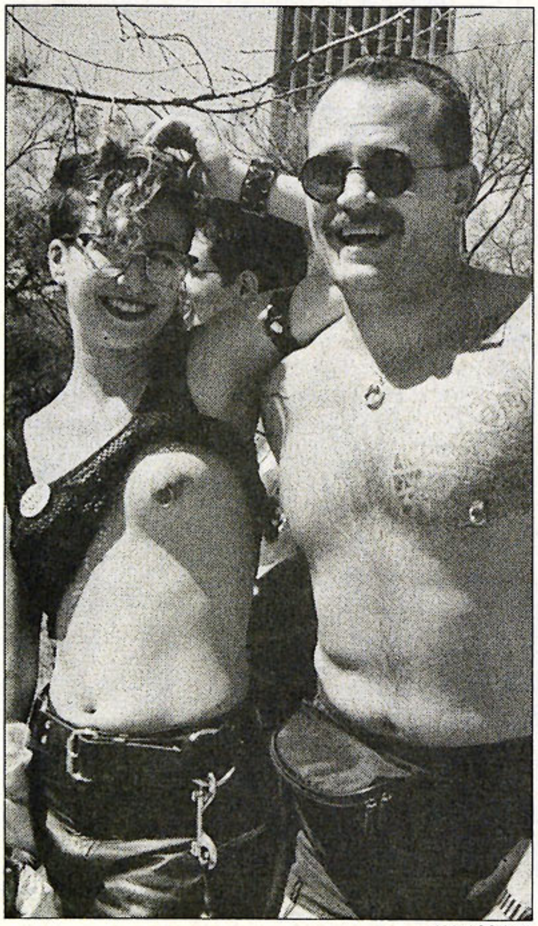
Barrientos has frequently pitted himself against his own constituents in the name of big business. He served as chair of the Austin Transportation Study (ATS), a governmental panel on roadway planning that was found guilty in state court of violating the Open Meetings Act on 33 occasions. Citizens groups won more than $146,000 after contending that they were barred from discussion of the ATS plan to turn Koenig Lane into a major freeway. During the last legislative session, Barrientos sponsored a bill allowing developers to circumvent Austin's environmental ordinances over watersheds outside its city limits — a loophole that jeopardized Barton Creek, the source of the city's celebrated natural spring.

If campaign contributions serve as an indicator of a politician's bent, Barrientos during the last election received $500 from Good Roads, $1,000 from the Texas Motor Transportation Association (TRANSPAC), and $750 from Ben Barnes, former lieuten-

See HIGHWAY page 24



Flashing for Equal Rights



ALAN POGUE

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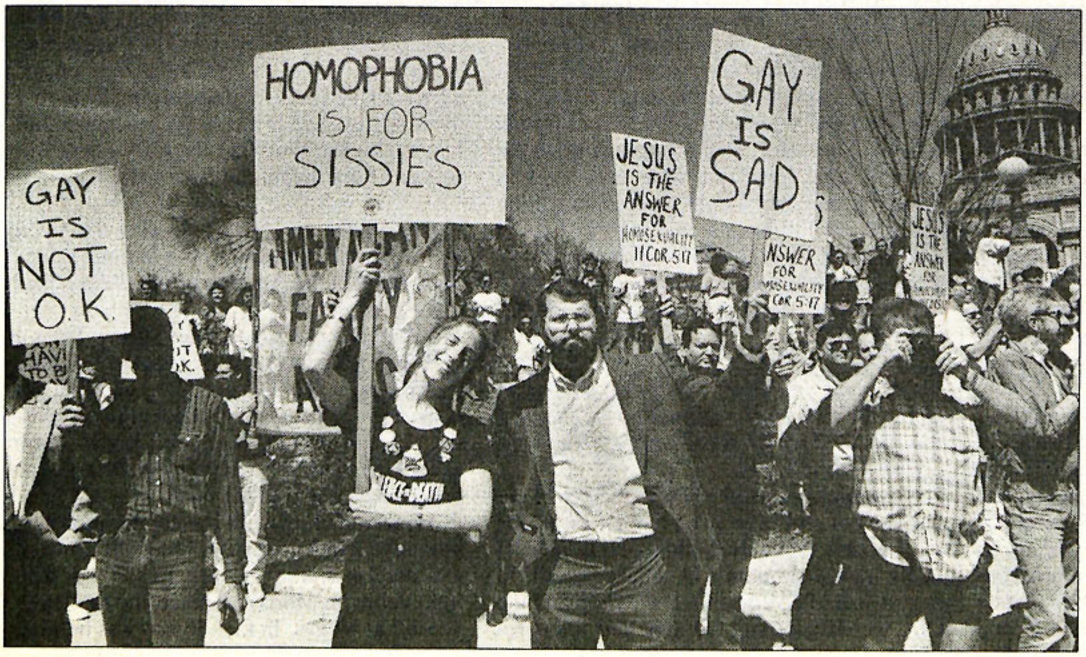


ALAN POGUE

ON SUNDAY, MARCH 17, over 25,000 people marched up Congress Avenue to the State Capitol in Austin to demonstrate their support for laws that guarantee equal rights to all citizens regardless of gender or sexual preference. Austin documentary photographer Alan Pogue captured these images of the march.

Top left: Macho sluts work on their tans.

Top right: State Representative Glen Maxey, the first openly gay person elected to the Legislature, leads the march.

Lower right: Members of ACT UP, a militant anti-AIDS group, get their spirits up.

Lower left: A study in contrasts: a happy gay-rights advocate stands next to a grim-faced anti-gay-rights crusader.

Brewton
Continued from page 1

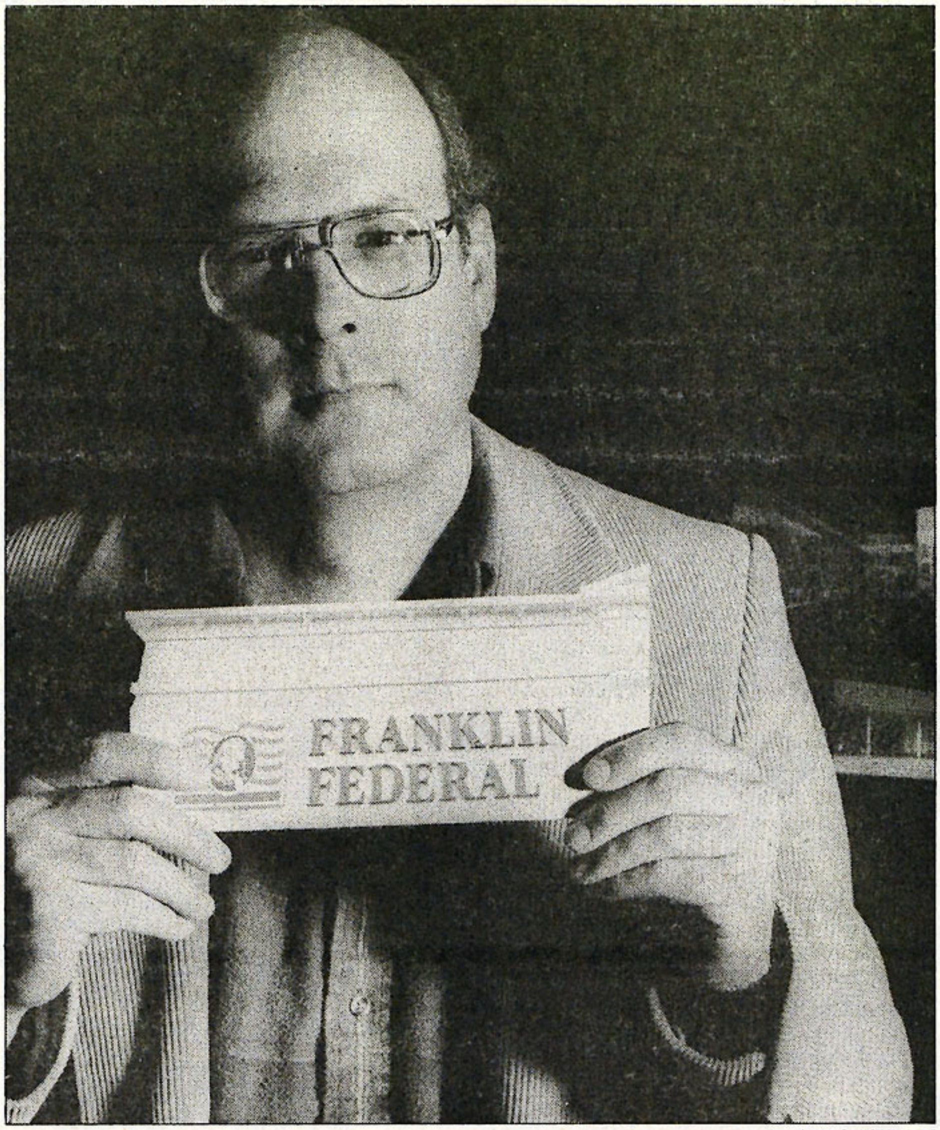
Mainland lost all this money in these terrible deals. These apartment projects were falling down. Most of the notes that Mainland bought were like second and third mortgages. They weren't even first in line. And Mainland probably lost $50 million or more dollars on just those deals. And we questioned "who are these guys." We just kind of sat around scratching our heads wondering what to do.

Then I got a call from a person at the GAO, the General Accounting Office in Washington, D.C., who told me that Mainland was mentioned in an indictment in Brooklyn. So I said 'Send it to me' and it had to do with Mario Renda and Martin Schwimmer. The Organized Crime Strike Force in Brooklyn had filed these and brought these indictments and Mainland was one of the S&Ls that they were brokering this Union pension fund money into. And these people were tied into the mob. So that lead to the next story, "Mob Figures Dealt with Mainland."

We continued to pursue Mainland for awhile. There were other stories that didn't have to do with the mob. Dirty deals that Mainland did and in the course of that we ran into Herman K. Beebe, who is a mobster from Louisiana. I started researching Beebe and I found all of these places where Beebe and Renda were at the same time and the same place and I did a big story on that. That was in February of '88. I found connections out in California, Texas, which showed me something big was going on here. Here was Renda, a mob associate in New York, and Beebe, a mob associate in Louisiana, and you find them at all the same places. Mainland Savings is one of the places we found them together.

I just pursued that angle for awhile with more stories following Renda and Beebe — where they were and what they had done, who they were dealing with. Then I got a tip from a person here in Houston that Robert Corson, who had a savings and loan in Kingsville, was a CIA contract agent. [Also], there was a prosecutor in Kansas City with the Organized Crime Strike Force who had been involved with Renda, so I knew him through Renda. His name is Lloyd Monroe. I would send Lloyd my stories. "Hey Lloyd, look at this, isn't it great." And he would always answer, "Yeah this is okay, but you are missing something." There is something even bigger and he would not tell me. Just, "this is a good story but you are missing a big part of it, a broader part of it."

And when this person in Houston told me about the CIA, I went to see Lloyd because I thought maybe that is it. Sure enough, it was. Lloyd ended up leaving the Justice Department at the time that [Attorney General Rich-ard] Thornburgh abolished the Organized Crime Strike Forces. A lot of good prosecutors left because of that, including Bruce Maffeo in Brooklyn who prosecuted Renda and Schwimmer. This is mid-1989, summer-fall of '89, and Lloyd finally went on record about some of the stuff involving Farhad Azima, a CIA operative in Kansas City, who was involved with a bank there that Renda was involved with. So I wrote a memo to the city editor, who at that time was Morgan Downing, and said "I think there is something here and could I have a couple of months to look at this." She said fine and this couple of months turned into eight or nine months. We finally started printing the stories in February of 1990.



SHARON STEWART

Pete Brewton

You were essentially following leads that any of the other papers could have followed. What kind of reaction did you get from your editors? Resistence?

No, I think the people here at the *Post* were just kind of sort of amazed like I was. It was an amazing thing. Now that I know what I know now, I shouldn't be amazed at all. In fact, it would be amazing if the mob and the CIA weren't looting savings and loans together. I mean look at all the things they have done together in the past. I didn't know that at the time. I had to educate myself on the CIA just like I educated myself on the mob. I mean really there is lots of precedence in our history for the mob and the CIA doing improper, if not illegal, things together.

One of the very first places where you discovered this CIA link was at Indian Springs State Bank in Kansas City. What did you find there?

I think we can say [Indian Springs] was a mob-controlled bank. A guy named Anthony Russo who was a disbarred lawyer — he got disbarred for interstate trafficking and prostitution and bribery — a well-known mob associate, was essentially in charge of bringing business to the bank.

He would bring in mob accounts; mobsters not only from Kansas City but from Chicago and maybe even St. Louis. Russo was also involved with Morris Shenker, the mob lawyer in Las Vegas. In fact, Russo was helping a Shenker associate broker gas to Azima's airlines [Global Airways]. Russo was also working for Azima. Russo brought Azima to Indian Springs State Bank. He also brought Renda [there].

Renda was brokering deposits in exchange for loans to his associates. These were loans primarily on land and condos in Hawaii. The bank lost about $5 or $6 million on the Renda deals which would be enough to put it under. It was a very small bank with assets of about $30 million. Azima was the fourth-largest stockholder of the bank. He was one of the biggest borrowers. He, or his companies, borrowed over a million dollars from Indian Springs State Bank. They paid back a lot of it. I think what the bank got stuck with is in dispute. It may be anywhere from $50,000 to $500,000 depending on how you look at the numbers. But according to an attorney who investigated this, Global and Azima definitely contributed to the failure of the bank. They had large overdrafts. These were going to support their operations, which in many cases were CIA operations.

Global had some interesting connections of its own.

Some people believe Global was not only working for the CIA or basically a CIA proprietary, but actually owned by the CIA. They definitely were transporting arms, equipment, all over the world and they took the dictator of Liberia, Sergeant Dow, on a trip around the world for the CIA. Russo got $25,000 out of it. One of the cases he was tried on was the income tax case regarding that payment. The jury ended up hung. But in that case, he let it slip that this was a CIA deal.

It's been suggested that is why the jury couldn't come to a decision.

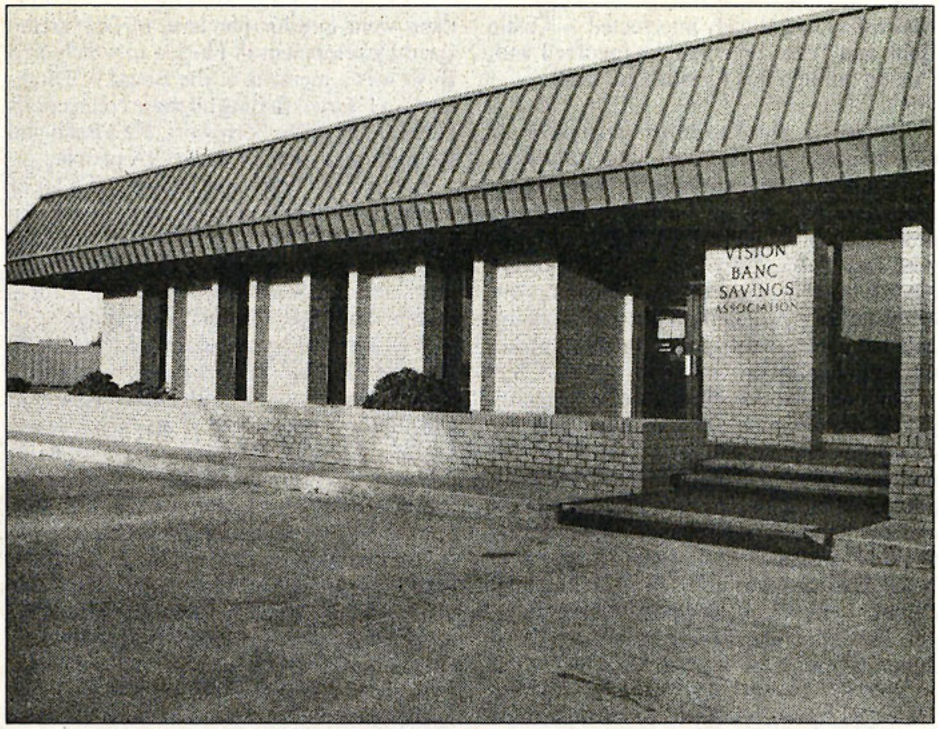
Right, that's possible. During that case, [Azima] was scheduled to testify in a certain order and he had his testimony taken out of order so that he could attend a fund-raising banquet at the White House. He was a big donor to the Republican Party.

As a result Russo's still walking around loose, engaging in many of the same activities you found him involved in several years ago.

That is correct. [Russo] was never prosecuted for anything. He was investigated. The IRS was investigating him. The IRS went to the Justice Department to ask that the FBI be brought in. The FBI came in and reported back to the Justice Department that Azima had a get-out-of-jail-free card from the CIA and that stopped the investigation.

Why was Azima essentially immune from prosecution?

I think the FBI and the CIA have an understanding that the CIA can go to the FBI and say, "there is national security involved here, don't do it, back off." And the FBI will generally do that. It's the left hand and the right hand. And having the FBI investigate the CIA is like having the left hand investigate the right hand. It's nonsensical. They both work for the same person— the President of the United States. And the FBI will naturally stay away from this unless you have got some particularly hard-nosed investigator. Usually it's the IRS. The IRS will go into places that the FBI won't and run afoul of the CIA.



SHARON STEWART

Vision Banc Savings in Kingsville

In the case of Azima, it was an IRS investigator that started the whole thing. In fact, I believe after the FBI had been told to back off, the IRS investigator continued to push at the Justice Department but nothing happened. It's interesting that Azima moved to London and I don't think you can be extradited for IRS charges from London to the United States. There have been a couple of other *federales* who have looked into this and they have met resistance. I think there is just a natural reluctance on the FBI's part because they know what a tar baby it's going to be.

One of the CIA figures you mentioned was Robert Corson. What was he up to?

Corson was sort of a small-time, almost two-bit developer here in Houston. In 1986, he bought this little savings and loan in Kingsville, Vision Banc Savings; $70 or $80 million in assets, very small. He busted it out basically with one land deal in Florida where Vision Banc loaned about $20 million on a huge 21,000-acre land deal in which one of Corson's associates, Mike Atkinson — who had almost driven the Meyerland Shopping Center into the ground after he bought it — bought 21,000 acres from St. Joe Paper Co. in the Florida Panhandle. Hill Financial Savings in Pennsylvania loaned $70 or $80 million on it. The attorney in Florida that put the deal together, drew up the papers, and whose company was going to buy the property, was Lawrence Freeman.

So I started looking into Lawrence Freeman and it turns out that Freeman was not only laundering money for the mob — Santos Trafficante, the Mafia leader in Tampa, Florida who died in 1987 — he also had very strong connections to one of the biggest CIA operatives in the country, Paul Helliwell. Helliwell originally was an OSS [Office of Strategic Services] member and head of Intelligence in China who came after the [Second World] war to Miami and began a law practice. He worked with the CIA for years after that setting up proprietary companies. He has even been called the pay-master of the Bay of Pigs operation. He was involved with setting up Sea Supply with a Burma company that funnelled arms to the Chinese Nationalists in Burma, and there were lots of narcotics trafficking allegations out of that.

Helliwell set up Castle Bank and Trust, a bank in Nassau, Grand Bahamas, that was used by the mob and the CIA to launder money. And the CIA got the IRS to back off of an investigation saying that "some of these accounts are ours and you can't go in there and do that." Helliwell set that up.

Now in 1971, Castle Bank had an in-house attorney named Lawrence Freeman. Freeman had started working for Helliwell's firm when he got out of the army and was transferred to Castle Bank and Trust. He left there after a year-and-a-half and set up his own business. Then we find him later in the late '70's laundering money for the mob. So he has connections to the mob and the CIA in areas where they had already intersected — Castle Bank and Trust. Freeman got involved with Corson through this Florida land deal.

So, clearly, there's historic precedent for CIA involvement with financial institutions.

I think that there are some people that say that there has always been this renegade cowboy element in the CIA that would deal with the Mafia. They would deal with the devil to fight whatever it was, communism, or whatever it is they think they are fighting and that it's not really part of the basic structure and identity of the CIA.

There are other people that believe that it's just in the nature of the CIA to do this because they operate outside the law. They are not required to answer to anybody. They are not required to show anybody their documents and so that they would naturally gravitate toward a similar style of organization, which is the Mafia, and to do business with them. I'm not sure which viewpoint I agree with yet. There is probably some truth to both of them.

You also found evidence of CIA and mob involvement at Silverado Savings and Loan in Denver.

When I was looking into Corson, I found him in a joint venture here in Houston with a company out of Albuquerque called Bellamah. I started investigating who these people were. In the course of that I found out that Bellamah was dealing with Silverado and had lots of deals with Silverado Savings. This was about the time where people were beginning to discover Silverado and the fact that Neil Bush, the President's son, was a director.

So I started looking at Silverado — who were the big borrowers? That is the first thing that you look at. Who are the big borrowers? And there was Bill Walters and that kind of rang a bell. There was also a guy named Richard Rossmiller that I was very familiar with because Rossmiller was an associate of Herman K. Beebe. They were associated with each other in the old Texas rent-a-bank scandal in the mid- '70s. It was really a precursor to the S&L scandal, almost the same sort of thing and the some of the same people.

That was when it first came out that there were some connections between Beebe and the mob. Rossmiller was involved with Hill Financial, which was involved in the [abovementioned] Florida land deal. In the course of [looking at] that, I found out that Rossmiller had a partner named Bill Walters who was involved with him down in the Texas bank in the mid '70s. It was the same Bill Walters [who] was the biggest borrower from Silverado [and had] set Neil Bush up in business. So then I knew I had a good story.

Then I started looking at Bush's other partner, Ken Good. Ken Good turns out to have done a lot of business in Texas and had borrowed big bucks from Western Savings in Dallas which is part of the Beebe circle of S&L's. In fact, the money he borrowed from them went into his purchase of Gulfstream Land Development in Florida in which Neil Bush was a member of the Board of Directors. So I started finding all these connections between these big borrowers, Neil Bush and the mob, and some of these CIA people.

Another big borrower, and he did a lot of business with Silverado, was Larry Mizel who was head of a company called MDC Holdings. It turns out Mizel had a bunch of family trusts and this is a way a lot of these people secrete their money from the regulators.

Well Larry Mizel and Ken Good had trusts. Who set these up? Well these were set up by attorneys who worked with Burton Kanter in Chicago. Burton Kanter is a very close associate of, and business partner with, Lawrence Freeman. Kanter is all over Freeman's documents and vice versa. So here you have got more connections to this circle — this CIA-mob circle. Kanter is a cofounder, with Helliwell, of Castle Bank and Trust. Kanter's partner, Calvin Eisenburg, set up Larry Mizel's trust and I believe for Ken Good.

There was another instance — actually Associated Press scooped me on this, the only time I have ever been scooped on this story — they found a guy named E. Trine Starens, who was the third-biggest borrower at Silverado — $77 million — who was also a big donor to the Contras. He donated to Spitz Channel's National Endowment for the Preservation of Liberty [NEPL]. He was in the top 20 biggest donors and he made the contributions like six months before he got all these loans from Silverado. Starens also was a big borrower from some Beebe-financed S&Ls in Texas. So you have got so many connections of the biggest borrowers of Silverado; all the people that I've been looking at, Corson, Bellamah, Lawrence Freeman, Burton Kanter, Beebe.

I can't even conceive the pressure that it would take to force them to track this money because ... if they think it's going to come back on them, they are going to resist that mightily.

There was also another Contra connection to Silverado. Tell us about that.

I ran into a guy named Wayne Reeder when I was investigating Beebe. Reeder was a California developer who Beebe met out in California. They would loan each other money back and forth and talked about doing deals together and I think Beebe actually got Reeder into the insurance business where he is now under investigation in three or four different states. Reeder was one of the big borrowers at Silverado. He borrowed $14 million on a project in Southern California that I think fell through and the loan, I believe, is now in default. He certainly hasn't paid it back.

Reeder also was involved with a guy named [John] Nichols. They had this scheme to manufacture machine guns on an Indian reservation in California to sell to the Contras. I believe that they even met with Eden Pastora, the Contra leader, to discuss this. So there again you are back into this never-never-land.

Neil wasn't the only Bush sapling involved in shady deals. What else did you find when you shook the Bush-family tree?

Sometime in September [1990], Dave Burgin, [the *Post*'s editor-in-chief] called me into his office and said that he had heard that Neil Bush had some oil interests in Kuwait and told me to check it out. I didn't want to. I was working on CIA-S&L stories and I didn't want to do that and he glared at me and gave me the understanding that I was going to check it out.

So it took me less than an hour to find out that it was actually George Bush Jr., Neil Bush's older brother, and it wasn't Kuwait, it was Bahrain. And in January of 1990 Harken Energy in Dallas was awarded the exclusive right to explore for and market oil from Bahrain's off-shore territories; a very lucrative contract.

Forbes magazine wrote a story about this in which they talked about how incredible it was that this little energy company in Dallas got this big, major contract. One of the things they neglected to point out in the *Forbes* article was that George Bush Jr. was a director, major stockholder and $120,000-a-year consultant to Harken Energy. Harken had purchased his Midland oil company two or three years earlier but he was still a major player at Harken Oil. His oil interest was essentially being protected by American troops in Saudi Arabia. And so we wrote a story about that the next day.

I talked to George Bush Jr. and he is a lot like Neil. They are kind of ha-ha guys and everything is kind of ha-ha. They don't seem to take any of this too seriously and it's all a kind of a joke that we are looking into this. In fact when I started asking him about some of the S&L players that might be involved in this, he said: "Are you trying to tie me to the S&L thing? You've got the wrong Bush," referring to his brother.

One of the people involved in this Bahrain contract is Robert Bass, one of the Bass brothers from Fort Worth. They are going to put up all the money to drill the initial oil wells, every dime. And Robert Bass got a very lucrative government contract when he purchased American Savings and Loan in California. He got a lot of tax breaks and a very good deal.

It's interesting to note, six weeks before the invasion, where Iraq invaded Kuwait, George Bush Jr. sold a big hunk of his Harken Energy stock. It turns out it was June 23. I didn't know that at the time and couldn't find out because the SEC couldn't find ... the disclosure filing that he was supposed to file when he sold all of his stock. A guy in Minneapolis called me up later and said he had figured it out from looking at the trading of Harken Energy stock. It normally traded 10 to 12 thousand shares a day until it hit June 23, and then it was like 230,000. So it looked like he sold it June 23 when the stock at that time was selling at about $4 a share. After the invasion, it went down to $3 a share. So if Bush had waited seven weeks, he would have lost $225,000.

Obviously your investigations have not been strictly limited to S&Ls. There were also banks that you discovered had CIA connections. Palmer National Bank in Washington, D.C. is a particularly good example..

Actually I found Palmer was sort of one of those "Eureka!" kind of discoveries. I was rereading the *Iran-Contra Chronology* put out by National Security Archives and they start talking about Spitz Channel and his National Endowment for the Preservation of Liberty; these checks that they were paying to another company that was paying them to another company and ending up in Lake Resources account in Switzerland — the same account that Oliver North and [Ret. Maj.-Gen.] Dick Secord were using to pay the Contras. And also the Iran arms money was going into Lake Resources. That money started out at Palmer National Bank in their [North and Secord's] account. When I read this, I said, "that sounds familiar. I know I have seen Palmer National Bank before."

When I had been investigating Beebe and Renda, I went out to San Diego and there was a lawsuit there that Beebe was involved in and also an Oklahoma con man named Charles Bazarian who was tied in with Renda in a Florida deal. They both got convicted and this was one of the first clues I had that there were some connections between Beebe and Renda. Here Beebe was with Bazarian in California and Bazarian was with Renda in Florida. You know there was something big going on. Anyway, they talk about this beach house in Solana Beach, California, that Don Dixon [of Vernon Savings] was using for parties and all that. That was what the lawsuit was about. Beebe was involved and his insurance companies financed part of it.

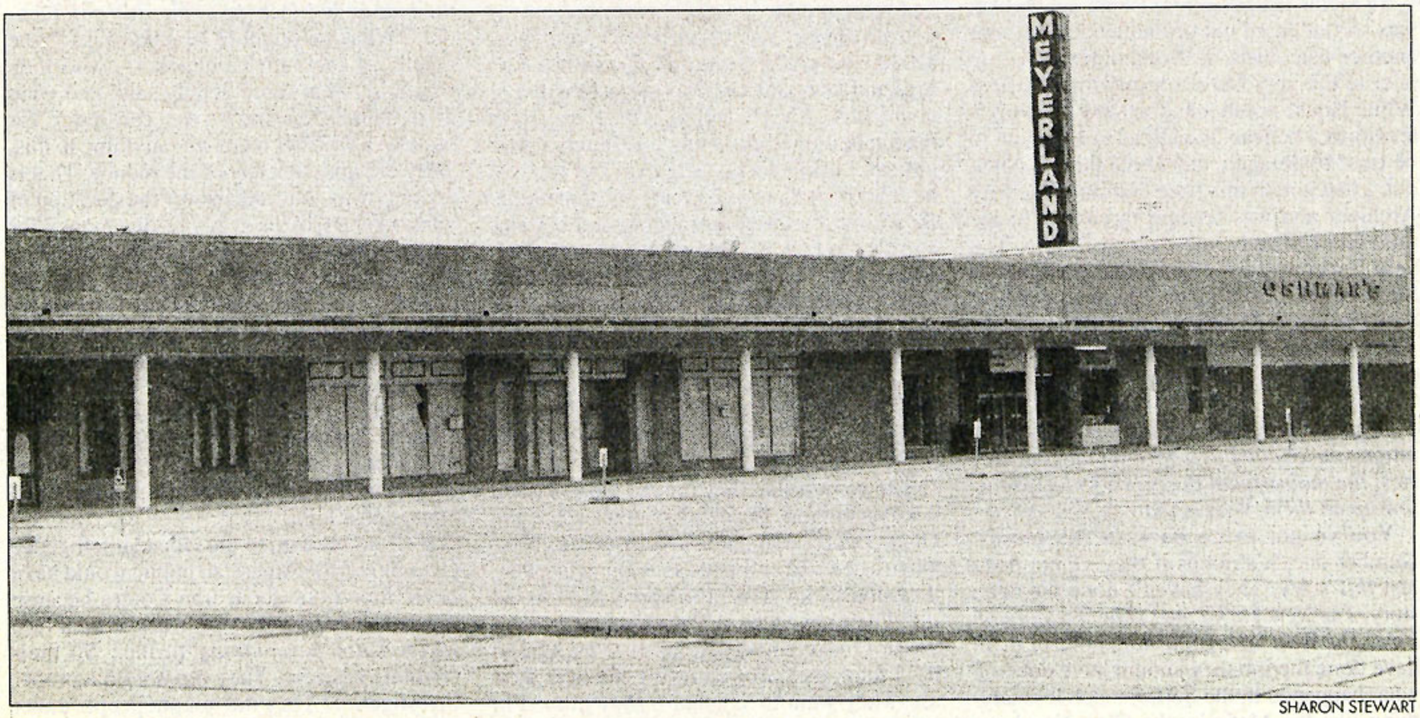
And then they had the deposition of Harvey McLane who was a very close, long-time associate of Beebe in Shreveport, who owned Paris Savings and Loan in Paris, Texas. Paris Savings and Loan had taken part of that loan from Beebe's S&L. This was about the time Beebe was getting in trouble with SBA [Small Business Administration] loans and Dixon wanted to put some distance between them. Well, part of that loan went to Paris Savings and Loan and part of it went to Palmer National Bank in Washington, D.C., that Harvey McLane had talked about being the owner of.

When I read that in the *Iran-Contra Chronology*, I started thinking and it dawned on me and I went back and looked at my notes and sure enough, there it was. Then I looked at the Comptroller's Report on Beebe. The Comptroller of the Currency did a big report on Beebe in 1985 and it talks about Palmer National Bank. Not only did Harvey McLane own it, Beebe had provided the financing to set up Palmer National Bank. "That's nice but who else is in Palmer," I was thinking. Well the other co-owner with McLane was a guy named Stefan Halper. So I started looking into him and there is lots of stuff on Stefan Halper. Stefan Halper is tied into the intelligence community big time. His former father-in-law was Ray Cline, the former Deputy Director of Intelligence with the CIA. Cline was in the OSS, one of the original members of the CIA and was still involved in intelligence operations. Ray Cline was one of the policy consultants to the Reagan-Bush team in 1980 and he brought in his son-in-law, Stefan Halper.

Halper was in charge of what they call the October Surprise in the Reagan-Bush campaign of 1980. The Reagan campaign worried that Jimmy Carter was going to get the [American] hostages out [of Iran] before the election. I could go into a big story on that. There is a lot of evidence that members of the Reagan-Bush team met with the Iranians to try to get them to hold off releasing the hostages and one of the things they allegedly promised them was that they would send them arms if they did hold off releasing the hostages.

Halper was also involved in the Debategate scandal.

Halper was one of the central figures of Debate-gate, where the Carter debate notebooks, briefing books, somehow ended up in the hands of the Reagan-Bush team. [Then Reagan-Bush campaign aide] James Baker was part of that chain, as was William Casey. Casey was a campaign manager at the time. Halper was involved and named in numerous



SHARON STEWART

Meyerland Shopping Center in Houston

New York Times articles.

After the election, Halper went to work for the State Department for a couple of years, in the Political Military Affairs Division, which is sort of a semi-spook area. Then he dropped out of there and he got [hooked up] with this guy named Harvey McLane and they started a bank. They got the idea, they said, on a trip to China. Somewhere over the Pacific, they dreamed about this bank. Most of the money to start the bank came from Herman K. Beebe's bank in Shreveport, Louisiana. Now after Beebe was convicted on Small Business Administration fraud, they moved that loan out of there in a hurry to Jefferson Savings in Beaumont. After that, I couldn't track it any further. But Palmer National Bank was used by not only Spitz Channel but a lot of very conservative Republican organizations like NCPAC. They loaned money to conservative candidates. They made loans to Spitz Channel and NEPL and that's where NEPL had their bank accounts.

It's interesting to note that the president of Palmer Bank wrote me a real hot letter after the story came out saying that "NEPL had accounts all over Washington and we just happen to be one of them." ... He didn't know that the National Security Archives had NEPL's bank records and the only bank they had money in Washington, D.C. was Palmer National. That was the *only* one. He was wrong. He figured he would be right and there would be no way to prove otherwise. Well, the records show that he was wrong. Here Palmer was loaning money on this Beebe, Don Dixon, party house. That's the one where the prostitutes were brought in to entertain officers and borrowers and I think even some state regulators. So Palmer was very tight in the intelligence community.

So Stefan Halper, after Debate-gate broke, was sort of eased out of Palmer and put into another sister bank in Virginia. He shows up later as the very last entry in Oliver North's White House notebook. The very *last* — after North, I believe, has already or is about to be fired by Reagan, the whole thing's come out. I had gotten this from National Security Archives and was reading through it at the time and I already knew about Halper. The very last entry says: "Legal defense fund — Stef Halper." So Halper was still involved with these people. When I called him up, he starts talking about how his daughter took pony lessons with Oliver North's daughter.

Despite the massive amount of documentation you've compiled backing up your stories, the mainstream press has failed to follow up on them. Why is that?

You've got to go back to the basics. Number one, it's not as if they've not done just *this* story. They haven't done the S&L story. *The New York Times, The Washington Post, The Wall Street Journal,* none of them have done the job they should have done on what happened in the S&Ls, much less anything like the Mafia or the CIA. You have got to know, and do, S&Ls before you can go up the ladder a little bit. They haven't done that. They don't have anybody that I am aware of at their papers that are genuine experts on savings and loans. They have done some big [stories] but it's all rehash of stuff people in Texas and California dug out. Like the *Dallas Morning News* has done some very good reporting. They stopped when they got to first base. I was disappointed in that. But their reporting going from home to first is great. The *Washington Post* just rehashed a lot of that. They did huge story just rehashing all that stuff. So when they haven't done S&Ls it's hard.

Is it because they're too far removed from the problem?

That's one of the things. Number two, the documents are just not readily available. It's not doing the HUD scandal where you just go to the government and you get all the documents. The S&L documents are secret. We can't get them, so it's hard. It's sort of hit and miss and the way you get documents is you have to go to a lot of different courthouses all over the place. You can't just go to a savings and loan and say, "let me see the list of your loans." They'll laugh at you. If they have been taken over, the Feds just laugh at you and say, "it's under investigation and you will be able to get them in 20 years" or something. So it's hard to do it thoroughly and systematically. In fact, it's impossible to do it thoroughly. The best reporting has come from local regional papers digging into a local S&L that failed.

The New York Times, the Wall Street Journal, and The Washington Post should be ashamed of themselves for the lack of resources they put into this story.

Nevertheless, the Times, *the* Post, *and the* Wall Street Journal *certainly have the resources, if they decided to commit somebody to the project.*

The point is that they missed the story and it's the biggest financial scandal since the Great Depression and they missed it. Now when a newspaper misses something like that, they don't say, "Gee, I'm sorry. We missed it." They say, "there's nothing to it so it doesn't make any difference that we missed it." I think they are just trying to cover their ass. They want to say that if they missed it, it's not because they are incompetent, it's because there is nothing there. ... *The New York Times, The Wall Street Journal,* and *The Washington Post* should be ashamed of themselves for the lack of resources they put into this story.

Unfortunately, they've been vindicated in taking that position by a report issued by the House Intelligence Committee at the end of last year claiming there was nothing to your stories. Tell us about the background of that investigation.

The day after my first story came out, on February 4, 1990, Frank Annunzio, a Democratic representative from Chicago, jumped on it immediately. ... His people went out and did some investigation and confirmed what I had found and asked CIA Director William Webster to appear before their committee. He refused, saying this was a matter for the Intelligence Committee. So Annunzio kicks it over to the House Intelligence Committee and says, "we have done some work on this and at least some of the *Post* findings have validity and we think this is serious and we want you to do it."

So the staff at the House Intelligence Committee does what they call a preliminary inquiry to determine if they are going to have a full-blown investigation. The preliminary inquiry lasted like eight months — some preliminary inquiry — and they came out with a report. It wasn't really an investigation, it was a two-page letter back to Annunzio saying basically there is nothing to this. But if you read the letter carefully, the CIA admitted that five of their operatives were involved in these institutions and that they used four of the institutions [named in the *Post* series], but it was for "normal" financial practices.

Okay, you try to call the Committee to get the names and they say, "No, it's confidential." What we ought to be able to get is the results of their investigation — who they talked to, what those people said, and what documents they got, so we can judge for ourselves whether there was anything to this. They did not track any of the money. That is the only way you can answer the question of whether the CIA used any of this money for covert purposes is to track it. Apparently they took William Webster's word for it — he probably wasn't even under oath — that there was nothing to this. This is same committee, if you will recall, that Oliver North and, I believe, [former Reagan National Security Advisor John] Poindexter and maybe [former Reagan National Security Advisor Robert] McFarlane came before and lied to with impunity, and they [the committee] sat there like bumps on a log.

If it had been up to the House Intelligence Committee, the American public would have never found out about Iran-Contra because they accepted Oliver North's lies on their face and did not do anything further. So their credibility is zero. They did not do a proper investigation: They did not put people under oath, they didn't subpoena records, they didn't track the money.

One of the reasons may have been that the staff director was a guy named Dan Childs who was basically supervising the investigation. Dan Childs was a 25-year veteran in the CIA. He had been the Chief Financial officer in the CIA during Iran-Contra. He had testified in secret before the Iran-Contra Committees. Here we are alleging some Iran-Contra figures are involved in this, and he probably has knowledge of it, and he is in charge of the investigation.

As the CIA comptroller, he would have been in a perfect position to know if the Agency had been looting S&Ls to fund covert operations.

That's right. In fact, he testified before the Senate, I believe the Intelligence Committee, and they brought him to ask about a $2 million payment that William Casey had taken out of a secret fund and paid to the Contras and Childs basically blew it off like it was nothing, insignificant.

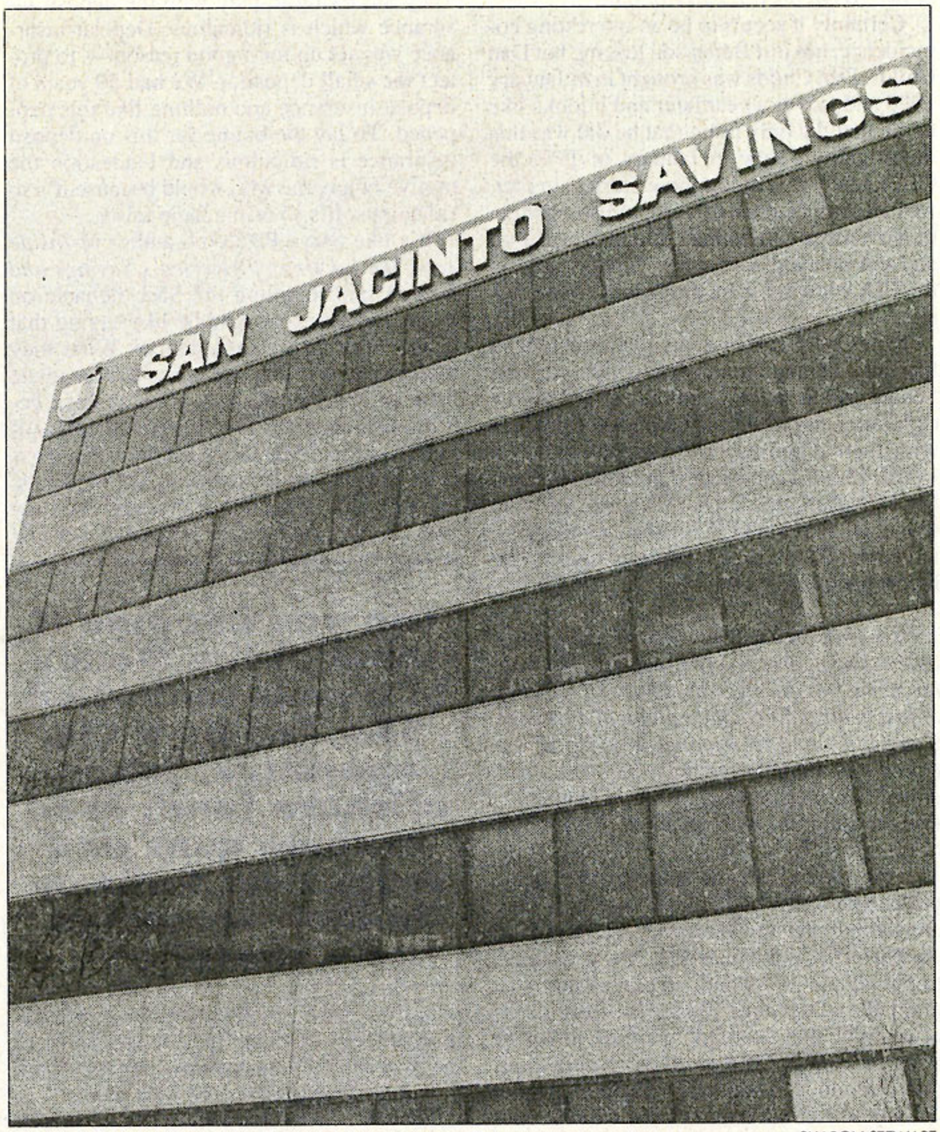
Another problem you've identified with the investigation is that they never talked to your sources.

One of the people they did not take testimony from was Richard Brenneke. Brenneke had testified under oath in Denver that the CIA was using banks and savings and loans to fund covert operations. ... The government went after Brenneke for some other things that he said during that deposition about working for the CIA and the October Surprise. Well Brenneke was vindicated. He won and he was declared not guilty by a jury. In fact, the jury came out and said we believe Richard Brenneke.

Now who do they not believe? Well, the other witness against him was Don Gregg who was George Bush's National Security Advisor when he was Vice President. He was a long-time CIA agent and now our Ambassador to South Korea. Gregg was a primary prosecution witness and the jury believed Brenneke over Gregg. Brenneke has been vindicated. Now there may be some question whether Brenneke refused [to speak with the committee]. Brenneke told me that they never came to him. Now they may have gone to his attorney. His attorney said they didn't. But if he refused, you just subpoena him. ... They have subpoena power.

Now another source was Lloyd Monroe that they talked to. Monroe says he told them the same story that he told Annunzio's people.

There were some FBI agents that knew about this. I got Lloyd Monroe's story confirmed by an FBI agent and did not print it until I got it confirmed. It wasn't just Lloyd Monroe saying it. There was a FBI agent who was involved. In fact, the term "get-out-of-jail free card" came from this FBI agent. Annunzio's people talked to him too, I believe, and he confirmed Lloyd Monroe's story. Now the Intelligence Committee people said they talked to him and he denied it. That's why they discounted Lloyd Monroe's statements. Now something is going on there or somebody is lying somewhere and the only way to get to the bottom of that is to put people under oath.



SHARON STEWART

San Jacinto Savings in Houston

The Intelligence Committee report also states that the question of whether fraud was committed by CIA assets was never explored. Yet in at least one case where a known CIA contract pilot, Heinrich Rupp, was convicted of bank fraud. What were the others?

There was another guy that was convicted of S&L fraud, actually convicted, and went to jail and the CIA tried to stop the Justice Department from prosecuting. His name was Guillermo Hernandez Cartaya. He owned Jefferson Savings and Loan in McAllen, Texas. ... During the investigation of fraud, the CIA went to the Justice Department prosecutor and asked them not to prosecute Cartaya. The Justice Department went ahead anyway. There was another case Cartaya got off on and ended up just getting his hands slapped. He went to jail for a little bit in conjunction with an IRS investigation in Florida that the CIA also interfered with. Here he is, convicted of S&L fraud, the CIA tried to interfere, and apparently they did not even look at that.

What about Corson? We've got Corson and the Justice Department saying they are investigating Corson. We've got incredible sources saying that Corson is a CIA agent. Did they look into Corson? We don't know. But for them to say that they didn't look at fraud when we've got two convictions and one investigation, ... I would like to debate some of those people. ... See, no Congressman returned my telephone calls. Of course they're under secrecy oaths. I guess they're afraid they might say something.

The chairman of the Intelligence Committee, until just recently, was Anthony Beilenson, a California Democrat. But almost immeditely after the report was released, Beilenson was essentially forced off the com-

mittee. What do you make of that?

Certainly it seems to be an interesting coincidence; not just Beilenson leaving but Dan Childs. Dan Childs was brought in in January 1990 and leaves a year later and it looks like to me that the only thing that he did was this investigation. Now in January of 1990 the CIA knew I was doing these stories. In fact, we had even planned to start publishing them in November and we had things to come up and got delayed. But when Childs came in the CIA knew we were going to do these stories.

Now Childs was brought in in what looked like in a damage control position with the Senate Intelligence Committee. During or right after the Church Committee came out with their damning report on the CIA [in 1976], Childs is brought in. It looks like he is Mr. Damage Control. That's what it looks like to me. He is brought in for this one thing — to control the damage — and as soon as the report is out, he's gone.

Now that the Gulf War is over and some other stories are slowly creeping back into the news, we discover that back in October of last year, almost under cloak of darkness, Congress voted to impanel a group of so-called experts to investigate the S&L meltdown. Given what we know of the investigations to date, do you see any hope for this latest effort?

If they don't track the money, if they don't put people under oath, I don't see how they are going to get anywhere. Are they going to do that? That is the question. Are they going to put people under oath? Are they going to grant the underlings immunity from prosecutions if they testify? Are they going to track the money? If they are not going to do that, why do it? That is the question.

I would just bet they wouldn't. Look how they shied away from all of this S&L stuff. The investigation of [former Speaker of the House] Jim Wright and all the improprieties he committed regarding S&Ls; they would not censure him for that. Look at the Keating Five, they end up just going after one — the guy who is leaving. They know that most of them are culpable and they don't want to bring any of that up. Can you imagine if some of the money in a mob-controlled S&L, led by a CIA operative, taken offshore [and] used in some guns and drugs deal turns up in their campaign chest? They would be gone and they are not going to take that chance.

Now, just as people are starting to come to terms with the magnitude of the S&L crisis, the Bush Administration is pushing ahead with its plan to introduce bank reform which is essentially a euphemism for deregulation. What sort of fallout do you see from that course of action?

If we look at history, you wonder why are they doing it, because the efforts to "deregulate" the savings and loan industry are disastrous. They just opened it up to the crooks. They are trying to play with the deposit insurance which is ridiculous. Deposit insurance was set up for a good reason — to protect the small depositor. We had 50 years of deposit insurance and nothing like this happened. To lay the blame for this on deposit insurance is ridiculous and I question the motive of anyone who would because it's so ridiculous. It's so prima facie false.

It's like Steve Pizzo [co-author of *Inside Job: The Looting of America's Savings and Loans*] said: blaming the S&L debacle on deposit insurance would be like saying that health insurance causes cancer. What they ought to do is if they are going to deregulate bank or S&L investments is not to have deposit insurance and they [the financial institutions] should bear the risk. I think Pizzo has even suggested having two different funds: one has deposit insurance that you can only put in home mortgages or Triple A Bonds and securities, and one without deposit insurance. If anyone wants to put their money in there they can and they can use anything they want to with it. That to me is the right idea.

Can you imagine if some of the money in a mob-controlled S&L, led by a CIA operative, taken offshore [and] used in some guns and drugs deal turns up in their campaign chest?

They also need to open up the records of these S&Ls. If our tax dollars are going to stand behind it, we should be able to see every piece of paper they got. That would go a long way to stopping some of this abuse. If somebody knows that their documents are subject to public scrutiny, their appraisals, and their financial records, the loan documents, the closing statements and who gets the money, if they know that the public can see that, I would think they're going to be a lot less likely to steal it. Although you never can tell. I think a lot of public scrutiny does wonders; it disinfects this kind of thing. There is no effort at all. I don't see anybody trying to deregulate the records.

Originally, the idea of deposit insurance was to protect the small investors. Now of course we know that the FDIC has been paying off even on accounts that exceed the $100,000 federally insured limit.

As long as you are going to have deposit insurance, the big investors are going to find ways to take advantage of it. They will just cut up their money into smaller chunks. That is not the way to attack it. If you are going to have deposit insurance, you can only use it for home loans and Triple A investments. That's the way to attack it. Not to try and limit it in some way.

A lot of people say, "well this was so bad when they [insured deposits] went from $40,000 to $100,000. That just opened the flood gates and the Mario Rendas came in." If it had been $40,000 instead of $100,000 Renda would have just cut the money up into $40,000 chunks. It would be more paperwork for him. They would have still done it. You have got to introduce some sort of market discipline. If they're going to invest in anything they want to, the taxpayers shouldn't have to pick up the tab. The stockholders of the bank and the savings and loan should be required to [pay for it.]

One of the unrecognized aspects of the crisis is that a lot of these mobsters and con men looted these institutions in the first place are now buying up the failed properties at pennies on the dollar from the Resolution Trust Corporation.

We're seeing some of that. James Fail, the guy out in Arizona who had the previous SEC [Securities and Exchange Commission] conviction got a sweetheart deal buying Bluebonnet Savings. His advisor was Robert Thompson who was a former aide to George Bush. I think if you give it some close investigation, you could probably find connections between the original looters and some of these people.

Do you see this as setting the stage for a second wave of S&L looting?

I have always said investigative reporting was kind of like using insecticide on cockroaches. All you do is speed up their evolution and kill off the weak ones. The next time they do it they are going to know a little more about it.

Other investigators have pointed out that some of the same crooks who were looting the S&Ls are now moving into insurance companies and pension funds. Have you seen any evidence of that?

Herman K. Beebe, he was into insurance big time. And Wayne Reeder went into insurance. I think insurance is what they're probably looking at. If you're a crook, you're not going to stop, you're going to look for other ways. It's just natural to assume that they are going to go where the money is — in insurance, banks, whatever.

What do you think Congress should be doing at this point?

I think they ought to go find out where the money is and get it back. That's the best protection and nobody is doing that. Why don't they just take five big S&Ls, take Lincoln, Silverado, Vernon, Mainland, and maybe Hill Financial, that's all across the country, and track every dollar. They could do it. It's like $10 billion and it would not be impossible.

They could see where it went and who got it. If you can show fraud, then you are entitled to get that money back and you can show fraud easily — falsified appraisals [and] financial reports.

The American public is entitled to that money. Otherwise we are going to have to pay. It's just amazing that if a bank robber went in and robbed a bank with a gun of $10,000, one of the first things you do is go find the money and get it back. Here we are talking about hundreds of billions of dollars and nobody is interested in going and finding out where it is and who got it. If you can show fraud, get it back.

You don't think it's offshore already?

Yeah, it's offshore but we can get it if it's offshore. It's harder, but you can get it or you can wait for it to come back in. A lot of it's in trusts offshore.

Some of it, from what you have shown, has gone off to fund covert operations and that, certainly, is not recoverable.

Well, that would be very difficult. But if you can show fraud, then you can get the people who borrowed it.... Instead what they are doing is they are filing these civil law suits against the officers and directors and these people didn't take the money. They were accessories to it. They were participants. But to sue Don Dixon for $500 million is ridiculous. He got 1 or 2 percent. He got $10 or $20 million. What you do is you go find out who got the money and then you go sue them.

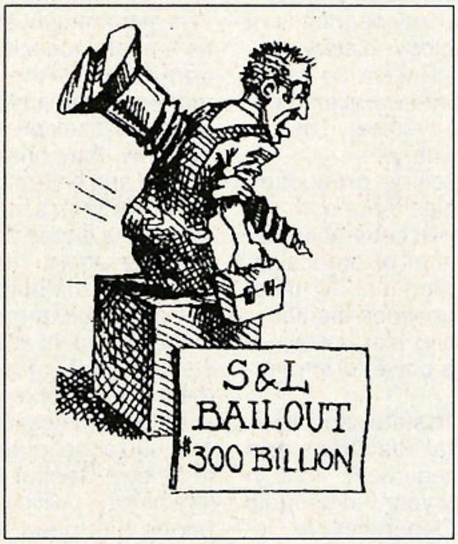
But even when they can show fraud and try to recover the money, there are incredible obstacles. Mario Renda is a perfect example.

This is an Alice in Wonderland story. You just can't believe it's true. When Renda was convicted, he agreed to pay restitution of like $9.9 million in addition to a criminal penalty of $4.2 million. Apparently ... the FDIC made an agreement with [the] Justice [Dept.] that the $4.2 million would come out of the $9.9 million. Renda was just recently released from jail before he made restitution. They had him in jail and they could have said, "you will stay in here until you make restitution." We will probably never see a dime of restitution. Apparently the right hand didn't know what the left hand was doing and the correctional institution [released him] without determining from the FDIC that he had made not made restitution.

Apparently one of the assets that they have is some yacht valued at $800,000. Well it turns out that there are three or four prior mortgages on this yacht and after they sell it they are going to end up *losing* money. It's going to come out of our pocket just to sell this thing. Renda has just screwed us another way. He did less than two years in Club Fed, probably in minimum security. He probably worked on his golf game and lost some weight. He didn't have to pay a dime of restitution, not a dime of criminal penalty, and he's out probably [working] on some new scam.

Given these problems, how do you go about nailing these characters, many of whom, as you have noted, have these high-level political and intelligence connections?

You have to have the will and it can be done. The Justice Department has done this before. They did it in an operation called Polar Cap where they were trying to track the Medellin cartel's drug money and they did it. They tracked it from cash in the United States, offshore, and then coming back into the United States. One $100,000 CD ended up at Silverado Savings. They tracked it. They can do it. This was the drug war and this is real



MATT WUERKER

important so they can do it. They did it. And S&L money is easier to track than drug money because S&L [transactions] start out as a wire transfer or check. The drug money starts out as cash so it's harder to track the cash. And this money went all offshore to Panama, the Cayman Islands, and the Justice Department tracked it. So I don't buy the saying that it's too hard to do. They can do it if they have the will to do it.

Doing that would require huge sums of money. Many people argue that the funding to track these crooks doesn't exist.

That's just hog wash. They are spending hundreds of millions of dollars a year for private attorneys to file these civil law suits against officers and directors and they are hardly getting any money back. The only money they are getting back is when they get the law firm or the accountant's insurance firm to pay off. These officers and directors don't have the money.

Now the way you do it is you hold 30 years in prison over their heads so that they will tell you where it is. They know where it is. They got some of it, yeah, but they didn't get the bulk of it. We shouldn't be spending all that money suing the officers and directors. We should be spending it on finding the money. You just start looking. You take an S&L and you look at the loans and you get the loan documents and say, "here is the money we loaned and the closing statements show who got it and they show the draft number of the check." So then you take that and you find it. ... It's easy to do theoretically. It's not physically impossible. To me it would be a lot of fun. Seems like they would get a kick out of this. It's like building a jigsaw puzzle but they just haven't done it.

What do you think it would take to initiate that sort of an investigation?

It's going to take a lot of public pressure to force Congress and the executive branch. In fact, I can't even conceive the pressure that it would take to force them to track this money because if they have any idea at all where it went and if they think it's going to come back on them, they are going to resist that mightily.

The only hope I have is that some reporter will find the smoking gun. I think we got a lot of semi-smoking guns. I'm not even sure that there is a smoking gun, that there is that document somewhere that says, "Yes, the CIA looted money to fund unauthorized covert activities." The CIA doesn't leave smoking guns around. And the ones it does leave around, like Robert Corson... probably had no idea what he was involved in. He might have, but I doubt it. Now Corson has skipped the country. He's in Latin America and I doubt that he will ever testify under oath. There might be something out there that some reporter finds.

Is it frustrating for you to turn up all this information that you know is solid, yet have it ridiculed and ignored?

I'm used to it. I mean living and working as an investigative reporter in Houston, you get used to that. Nobody paying any attention to it, not having any effect, being criticized, being downplayed, shot at. Like I say, I got a lot more flak on the U. of H. football scandal than I did on this. This is nothing. The fact that some people are taking it serious and paying attention is great. So I don't care about that, I'm just trying to figure it out. I play for the game, the puzzle to figure out. The satisfaction comes in figuring out the puzzle, not with someone else saying, "Oh, there is something to that." I don't care about that. ❑

Military State Capitalism

by
Seymour Melman

John Dewey reminded us, "Every government should have a minister of irritance." It is in that spirit that the views of Seymour Melman are presented through these pages of the Texas Observer.

Behind the U.S. war in the Gulf lies a transformation in American political economy. This war and others on the Pentagon's drawing board stem from the normal operation of a military form of state capitalism. It has been made the dominant form of political economy worldwide, independently of variation in economic superstructure, ideology, history, culture. With the United States and Soviet Russia as prime movers, their allied states were modelled after and incorporated into the competing state managerial systems. The operative categories are capitalism, state, military.

Capitalism. This is the way of controlling production and other aspects of economy that embodies three core social-relational features: First, an occupational separation between the work of decision-making and that of producing; second, a hierarchical organization of decision-making; third, an imperative among the managerial occupations toenlarge their decision power both within and among hierarchies — the mores of the managerial occupations, a powerful imperative.

By *state* I mean the central government. In state capitalism, the state has primary control over capital resources and houses the most important industrial management. Thus in the United States from 1951 to 1990, every year the budgets of one Executive Branch department, the Department of Defense, exceeded the combined net profits of all American corporations. Also, from 1949 to 1989, the combined budgets of the Department of Defense in 1982 dollars amounted to \$8.2 trillion. This compares with the money value of all U.S. industry's plant and equipment, plus the U.S. infrastructure, which amounts to \$7.3 trillion, again in 1982 dollars. The federal government has expended resources on military account in excess of what would be required to replace most of what is human-made on the surface of the United States. Further, the Pentagon includes the largest management organization in the economy.

In *military* state capitalism, the military activity — building and operating armed forces and their industrial base — becomes the dominant activity of the state. In the U.S. the Pentagon uses 75 percent of the federal government's R&D funds, has more employees than the rest of the government together, and has machinery assets that dwarf the capital of any one or grouping of corporations. These core characteristics of the military form of state capitalism have led to sustained international violence as the state managers apply their military assets to their normal drive for extending managerial control.

During the long Cold War, especially since 1961 (when McNamara installed a formal Central Administrative Office organization in the Pentagon), the American government has been performing as a military state capitalism. (Thus the U.S. war in Vietnam is inexplicable by classic criteria of capitalist imperialism: no trade or investment to speak of. That war was an exercise in state managerial power extension.) In the United States the consequences from the establishment of military state capitalism include: Alterations in ruling class, government and economy.

The Ruling Class. American business and government were always partners, sharing power. Business used to be the dominant partner; but some time around the Second World War, government and business became equal partners. Then, as a consequence of the Cold War, plus the managerial organization of the Pentagon after 1961, the government managers became senior partner in that relationship, as indicated by their preeminence in control over capital in all forms. Thereby, the normal managerial ruling class thrust for maintaining and enlarging decision power now has its main center in Washington's state management, with corporate management as a lesser partner.

Government. The Constitution gives the President, as Chief Executive, top political power, and names him Commander-in-Chief of the armed forces. But nowhere in the Constitution is the President accorded top economic power.That capacity stems from his functional role as Chief Executive Officer of the military economy's management. Subordinate to the CEO are the managers of 35,000 prime contracting firms and about 100,000 subcontractors. The Pentagon uses 500,000 people in its own Central Administrative Office network. Recall that top military, political and economic decision power in the same hands has been a hallmark of the Leninist form of state organization. Independently of intention, that form of government has been installed in the U.S. — an automatic consequence of a military form of capitalism.

Economy. I stand by my 1974 assessment of the economic consequences of *The Permanent War Economy*: "Traditional economic competence of every sort is being eroded by the state capitalist directorate that elevates inefficiency into a national purpose, that disables the market system, that destroys the value of the currency, and that diminishes the decision power of all institutions other than its own. Industrial productivity, the foundation of every nation's economic growth, is eroded by the relentlessly predatory effects of the military economy." The predatory consequences from concentrating finite production resources in products that lack use-value for consumption or further production are dramatically visible in the decay of U.S. infrastructure and industry, and in the breakdown of production capability in the Soviet Union.

In the U.S. the burden of this plundering, a virtual war against our own people, falls most heavily on working people, minorities, children, and on all who have been made into a castoff population of homeless, hungry and untended sick. The comprehensive nature of this war waged by military state capitalist directorates against their own populations was captured by Dwight Eisenhower addressing the North American Society of Newspaper Editors, April 19, 1953: "... Every gun that is made, every warship launched, every rocket fired, signifies in the final sense a theft from those who hunger and are not fed, those who are cold and are not clothed. This world in arms is not spending money alone, it is spending the sweat of its laborers, the genius of its scientists, the hopes of its children."

The decay in U.S. civilian industry, for example, has been proceeding so swiftly as to forecast a near future of industrial underdevelopment marked by the disappearance of labor forces from the machinery-producing industries of the United States. Thus from 1977 to 1987, 50 percent of production workers disappeared from the machine tool industry, 60 percent from the farm machinery industry, 43 percent from the turbines and turbine generators industry, 42 percent from the construction machinery industry, 60 percent from the mining equipment industry, 43 percent from the textile equipment industry, 68 percent from the oil and gas field equipment industry. This avalanche of plant closings in these and other machinery-producing industries portends an inability of the U.S. economy to produce means of production.That is a hallmark of economic underdevelopment, a condition well advanced in the Soviet Union.

Ideological defenses. A formidable array of ideologies have been put in place that justify the operation of militarystate capitalism. America, we are taught, can have both guns and butter indefinitely. Military technology, it is said, yields major spinoffs that benefit civilian life. (The spinoff nonsense is also a belief of many Soviet intellectuals.) These legends are kept alive to overcome doubts that arise from the social cost of a permanent war economy, and from the $1 billion daily cost of the U.S. Gulf war. Major gain from this plundering of civilian industry and infrastructure accrues only to the top layers of government and corporate managers and their staffs.

Military Keynesianism is a legend by which Western state capitalism attempts to regulate employment and income. Leaning on America's four-year experience in World War II, and with support from economists from left to right, we are told that military spending is an efficient way to regulate market demand and hence employment and income. But if this is repeatedly applied, it speeds the depletion of resources and installs counter-productivity methods in industry. Military Keynesianism became the "crackpot realism" of American economy. American state managers, with support from the education and media industries, teach that the U.S. government is a proper moral policeman of the world, and that the racial inferiors of the Third World must be policed and occasionally whipped into line by the application of American high-tech military power.

An idolatrous secular "religion" functions in the United States, to marshal ideological support for the state managers's power extension. In America's State Religion, the State, represented by government, is a god, the President the High Priest, and the Flag the Idol. A god-like state, of course, can do no wrong. Intensive display of the Flag, and daily vows of allegiance, overtly to the Flag-Idol, are actually a commitment of loyalty and faith to the President. So too is the prayerful display of yellow ribbons, at once a pledge of support for the government, a prayer for safe homecoming of servicemen and women, and a plea for deliverance from pain and loss to family and friends. Meanwhile in American universities, alternatives to capitalist ways of organizing work are virtually undiscussed. Non-hierarchical ways of decision-making are not explored. Nor is their productivity compared with centralized managerial ways, that prize extension of control above all else. Capitalism is formulated as a condition of market, hence of exchange. Since exchange is an inevitable accompaniment of division of labor, capitalism is thereby made to appear inevitable and eternal. The idea of disarmament for systematically closing down war-making institutions has been put down the Orwellian memoryhole. Thus President Kennedy's comprehensive proposal for an international disarmament process (April 1962) has been excluded from the books and courses of American universities.

The Gulf War. U.S. and Soviet state managers long competed in the sale of weapons and weapons-industrial technology — each seeking short term money gain and political influence over the Iraqi state managers. No Iraqi seizure of Kuwait or war in Iran would have been possible without long and generous backing from both Soviet and U.S. state managers. America's state managers organized their assault on Iraq when Iraq's state managers tried to "go into business for themselves," seeking to usurp Western managerial control over Kuwait. By seizing Kuwait, they broke the discipline of U.S. and Soviet state managers. Thereupon, with Soviet approval, the U.S. methods for power wielding changed from buying in to beating down.

The ambitions of U.S. state managers include large permanent bases in the Middle East to replace the West European bases "lost" with the wind-down of the Cold War. This fits in with plans to replace East-West confrontation with a parade of North-South military-political confrontations. Note that the Iraqi aggression in Iran, use of poison gas on Iranians and Kurds, all passed without any restraining response from the U.S. and the U.S.S.R. (So much for the morals of military state managers.) Note too that large-scale military violence is no way to "protect" oil. Oil industry facilities of every sort are highly vulnerable to destruction by military munitions. After a scorched-earth assault at least a decade and enormous new investment would be required to restore income earning capability.

When confronting military state capitalism, achieving peace requires more than a pause between wars (that may be achievable by protest, dissent, disruption). Disarming the state-managed war-making institutions by a process of economic conversion and negotiated disarmament is the overarching near-term political requirement for stable peace.These processes, in turn, must be congruent with a longer perspective of replacing the managerial power-driven, repressive and counter-productivity institutions of militarized state capitalism. When those who produce also share decision-making in non-hierarchical organization, the classic managerial drive for power-extension is checkmated. Then the way is open for ways of organizing work and other aspects of life in democratic, productive and life-serving fashion. Utopia? Not at all. The main utopian illusion of our time is that life can be tolerable under continued military state capitalism.

Seymour Melman is Professor Emeritus of Industrial Engineering at Columbia University, and chairs the National Commission for Economic Conversion and Disarmament. His latest books are The Demilitarized Society *(Harvest House, Montreal, 1988),* Profits Without Production *(Univ.of Pennsylvania Press, 1987), and* The Permanent War Economy *(Simon and Schuster, 1985).*

RTC

Continued from page 5

pressed, a worry that may encourage the RTC to take whatever price the developers are offering now. "If they [the RTC] would resolve that uncertainty about how the Endangered Species Act affects the land before they sell it, they would get a lot more money and the habitat would be protected. Now, the buyers come in and say, 'You won't be able to develop this land anyway, so we'll give you a few bucks,' then they run. Then the developer turns around and ignores the Endangered Species Act or tries to minimize the restrictions," Bunch said.

MCBRIDE SAYS the speculation about land values falling at the discovery of an endangered species is just that — speculation. "There's no doubt that the properties are not worth what they were five years ago when the loans were made. I nonetheless think that any affect on value has long been recognized when they are listed (as endangered.) We really don't have the motivation to undermine the habitat plan. If the plan goes through, I think it benefits the RTC," McBride said.

The one piece of land the RTC has already sold — River Place, a 1,442-acre developed piece, to private developers for $13.75 million, parts of which are coveted by the BCCP — raised a local furor and was seen as evidence that the RTC will sell any or all of the land it owns, regardless of environmental questions.

So now, while the BCCP waits for the final questions on the habitat to be answered and the various levels of funding to be worked out, the RTC entertains offers for the prime pieces of Central Texas land it holds. And William Bunch waits for his day in court.❑

Highway

Continued from page 12

ant governor and (now bankrupt) developer. Representative David Cain, the highway bill sponsor in the House and chair of theHouse Transportation Committee, received $1000 from Bob Lanier, $500 from the Texas Aggregate and Concrete Association, and $850 more from various engineering PACs.

WITH AN AGENCY backed by as many big business interests as the highway department, Texas could have gotten a bill worse than HB 352. Along with the six-member environmental advisory committee, the legislation provides for a nine-member public transportation advisory committee, also appointed by the governor, lieutenant governor, and speaker of the House. In addition to rules describing its project selection process, it requires the Commission to adopt rules for environmental reviews of state construction projects. The bill even directs the highway department to be more sensitive to the needs of burgeoning numbers of bicyclists, provisions which Senator Ken Armbrister of Victoria unsuccessfully tried to remove.

But Texas deserves better. For a department that has repeatedly violated the spirit and letter of the law, mere advisory committees and self-imposed rules won't offset the effects of large-scale corruption. Rather than working with other agencies, the highway department has openly defied them, or at least undermined their attempts to be involved in the environmental review process of road construction. The Sierra Club has documented numerous instances where the highway department neglected to give the Texas Parks and Wildlife Department enough information to properly evaluate a project's environmental impact — no map in one instance, in another, no mention of bridges when a planned road was to cross 11 streams.

After discovering that several archeological sites were about to be destroyed at a consruction site on the Outer Loop in Austin in January 1990, the Texas Antiquities Committee notified the highway department that they had violated the Antiquities Code by not seeking prior authorization. But the highway department continued working through the weekend on the Outer Loop, until members of Earth First! chained themselves to the bulldozers. Current legislation gives the attorney general the power of injunctive relief to settle disputes between agencies, but many suspect this provision will be axed in the House Government Organization Committee.

While Austin residents desperately tried to stop the highway department's bulldozers last year, residents of Rio Grande City still wait for the highway department to expand a dangerous strip of road in rural South Texas from two to four lanes. Although more than 190 accidents have occurred on a 14-mile stretch of Highway 83 in three years, the highway department dragged its heels on the construction for years. Even now, it is forcing Starr County to shell out $300,000 to complete the project. In the Senate, Barrientos addressed the gross inequity between urban and rural areas by asking members, "How is Senator Armbrister going to explain that less money is spent on highways in his entire district than will be devoted to a one-mile stretch of Loop 610 by the Galleria in Houston, or a one-mile stretch of the North Central Expressway in Dallas?"

THE REASONS BEHIND this urban/rural disparity are even more alarming. The highway department designated certain portions of its federal projects as "state-funded" to avoid complying with federal environmental regulations, which could delay or even stop construction. Not only does this practice threaten endangered species and the environment, but it also wastes money, as Austin attorney David Frederick testified before the Senate Committee. In the case of the Outer Loop in Austin, "That's $18 or $19 million that could have been spent elsewhere, in a project that had already qualified for federal project funding," he said.

Others claim that the highway department is willing to build roads based on pure speculation. Bebe, Martha, and Mary Fenstermaker are currently fighting the highway department to save their home, the Maverick Ranch-Fromme Farm in northwest Bexar County. Their 900-acre property, a wildlife refuge and historical and archeological site, is included in the National Register of Historic Places. The Fenstermakers have discovered that the department has decided to build SH 211 through their ranch based on a developer's estimate that a nearby high-tech research park will employ 15,000 people within 15 years.

The developer is the Texas Research and Technology Foundation, whose board includes real estate investors Trammell Crow, former Congressman and present University of Texas Regent Tom Loeffler, former Governor Dolph Briscoe, former San Antonio Mayor Henry Cisneros, developer H. Ross Perot, and George Kozmetsky, chief economic advisor to the UT Board of Regents, and other big names. And TRTF wants the department to build state highway 211, an 18-mile driveway leading straight to its research park, which, besides its own facilities and the UT Institute of Biotechnology, is vacant. "SH 211 exists because land developers donated land for the road to connect it with their property speculations," Mary Fenstermaker told the Senate committee. "That moved the road up on the highway department's priority list and ends up with taxpayers' dollars being spent for the developers' personal gain."

The highway department's environmental assessment for SH 211, less than four pages long, concluded that there were no known archeological or historical sites, no negative impact to endangered species, and no degradation of the recharge zone for Edwards Aquifer, the main source of water for San Antonio. However, the Department of Parks and Wildlife and the U.S. Department of the Interior notified the highway department that their construction posed threats to Black-capped Vireo and Golden-cheeked Warbler, both listed as endangered species, as well as several other species of plants and animals.

In terms of reputation, it is true that the highway department generally ranks as one of the best in the country. But this legacy is largely attributable to DeWitt C. Greer, who served as chief highway engineer from 1940 to 1967, and despised the sleaziness of political influence. But Greer is gone, and the highway department of today rests on its past laurels, while subsidizing the whims of the rich with the money of the people. And with only a light rap on the knuckles, the Legislature is about to let this agency get away with a very lucrative form of highway robbery. ❑

THE TEXAS Observer

The Big Steal

BY SCOTT HENSON

THE GREATEST EVER BANK ROBBERY: THE COLLAPSE OF THE SAVINGS AND LOAN INDUSTRY
By Martin Mayer
New York: MacMillan Publishing Company 1990, 354 pp.

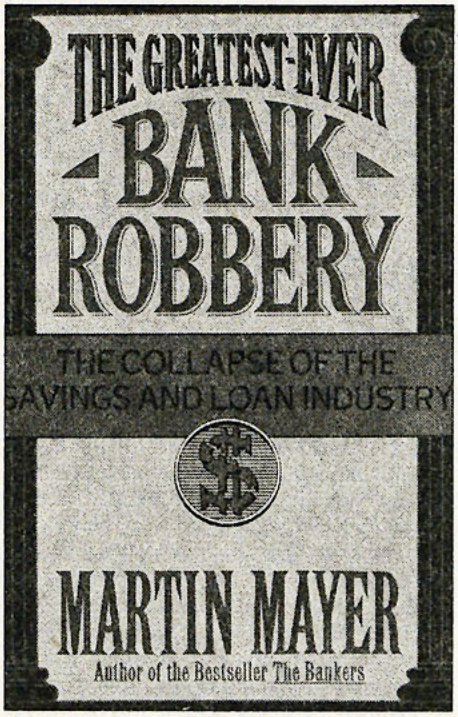
IN THE *Greatest Ever Bank Robbery*, Martin Mayer delivers a sanitized but nevertheless informative primer on the savings and loan crisis. Mayer's connections and expertise — he has written extensively about the banking and construction industries since the 1970s and served on Ronald Reagan's Housing Commission — allow him to tell the story of the regulatory side of the thrift debacle perhaps better than any writer to date. But his story must be viewed as only one element in a larger, and growing, body of literature on the topic.

Mayer writes as a man who knows intimately and personally most of the people and institutions involved in thrift regulation, and his book is filled with personal anecdotes of conversations with industry and Washington heavyweights, which give his interpretations an authority few other writers can match.

Toward the end of the book, however, Mayer's firm commitment to capitalism clouds his otherwise solid analysis. To him, the failure of hundreds of thrifts across the country was an exhibition of free markets culling out the weakest bands in Darwinian fashion. He declares that, "Whenever a substantial fraction of the banks in an area fail, reason argues (or should argue) that the area has too many banks." Here we find that "oversupply," not thieves and scoundrels, are responsible for the widespread thrift failures. This analysis contradicts other sections of the book which pinpoint individual players ripping off the thrifts. One reason there were so many banks in the first place was that regulators handed out charters like cheese samples at the grocery store.

Nowhere in Mayer's book will you find, as in the book *Inside Job*, mobsters sitting in their prison cells tracking thrift-deregulation legislation, planning and waiting for the daisy chains to begin. Nor will you find CIA or other intelligence operatives using the thrifts to fund their covert activities. *The Greatest Ever Bank Robbery* portrays the S&L culprits as greedy businessmen who simply took advantage of unfortunate changes in the law. From reading the book, one doesn't get a sense of the systematic looting of the nation's financial institutions, but of individual actors, each deciding separately to take the low road.

In the most useful portion of the book, Mayer discusses the workings of regulatory agencies, specifically the Federal Home Loan Bank Board, both regionally and in Washingtion. He pinpoints Dick Pratt, former FHLBB chair and thrift industry hack, as the primary bureaucratic culprit in the S&L calamity. Pratt authored most of the Garn-St. Germain Act, which deregulated the thrifts, and set the stage for the worst financial nightmare in history. Mayer writes, "if you had to pick one individual to blame for what happened to the S&Ls and to some hundreds of billions of dollars of taxpayer money, Dick [Pratt] would get the honor without even campaigning."



Pratt went on to cash in on the "reforms" he espoused as a bureaucrat. At Merrill Lynch, writes Mayer, Pratt garnered brokered deposits (deposits brought to the thrift by a professional broker who is paid to find and deliver depositors) for the likes of Lincoln Savings, Gibraltar Savings of Beverly Hills, and other thrifts that would eventually crash at taxpayers expense.

Mayer picked as his primary case study Charles Keating's Lincoln Savings and Loan. Keating's antics have become almost a cliche in discussions of S&Ls, but Mayer's meticulous telling of the story, filled with anecdotes and characters that make the financial issues come to life, was well worth the rehashing of familiar material. In particular, Mayer documents the roles of the FHLBB and its San Francisco branch — and the way Keating played them off against each other — to illustrate the preposterous inefficiency and corruption that permeated thrift regulation in the '80s.

While the San Francisco branch of the FHLBB tried in vain to expose Keating's criminal shenanigans, Keating pulled every string he could find (or buy) in Washington to force the regulators to back off. In fact, a 1986 audit by the San Francisco FHLBB was thrown out and a new one ordered when Keating insisted the regulators were exercising a personal vendetta against him. Senators Cranston, Riegle, Glenn, De Concini, and McCain, otherwise known as the Keating Five, were quick to come to his rescue, teling r egulators in California and Washington to let poor Charlie Keating be.

BUT SENATORS and regulators aren't the only ones Mayer accuses of complicity in the S&L disaster. The major accounting firms, he writes, are at least as much to blame as the regulators because regulators and politicians relied on the accuracy of their audits. In Keating's case, we learn that Arthur Young accountant Jack Aitchison, who wrote a key letter commending Keating to federal regulators, left his position with the Big Eight accounting firm to take on a $900,000 per year position as executive vice president of American Continental Corporation, the holding company through which Keating controlled Lincoln Savings and Loan.

Mayer's intimate knowledge of the players and issues, and the extensive source notes that accompany his discussion, make this an important resource on banking. The book records developments in the thrift industry through summer 1990, including the discredited "Southwest plan," which gave Texas Highway Commissioner Robert Dedman his Franklin Federal BancCorp. He also cites the preliminary moves to deregulate the banks along the lines of the thrifts, which culminated in the Bush banking proposals currently being debated in Congress.

If one takes care to separate Mayer's exacting exposition of the facts from his occasional free-market biases, this book will contribute to anyone's understanding of the S&L crisis. ❑

Pushing Up Daisies

BY TOM PHILPOTT JR.

THE DAISY CHAIN
by James O'Shea
Pocket Books,
1991, 296 pages

Many people find their way to the general through the personal. In that sense, biographies have their right. And, that being so, better they should be written without great distortions (small ones are quite unavoidable).

—Leon Trotsky

THE STORY OF Don Dixon's tenure as owner of Vernon Savings and Loan is the story of the S&L crisis itself. He acquired the healthy but low-profit thrift in 1981 — just before deregulation — and handed it to the federal government in 1987, in whose custody it became a $1 billion sieve. He exploited deregulation as boisterously, as intently, and as disastrously as anyone else in the business. When his high-risk, high-yield deals began to sour, and regulators started watching, he moved to buy politicians with more lust than anyone save Charles Keating himself. His S&L's money won him personal interventions against regulators from then-House Speaker Jim Wright; and it was on the Vernon-owned yacht, *High Spirits*, that then-House Whip Tony Coelho threw the fund-raising soireés that eventually cost him his job. When all of this finally crashed down around him, Dixon responded with the classic vulgarity of his era: He declared in a federal courtroom that the company car Vernon had provided him wasn't extravagant — it was a "family Ferrari, four seater, automatic transmission."

James O'Shea's *The Daisy Chain* is a biography of sorts. It traces the fall of Vernon Savings (of Vernon, Texas, population 12,500), and its celebrated owner, who now sits in a federal prison convicted of fraud for his Vernon crimes. O'Shea lays out the mechanics of Dixon's schemes with admirable clarity.

By now anybody who has have followed the S&L story knows that the Garn-St. Germain Depository Institutions Act, passed by Congress and signed by President Reagan in 1982, allowed thrifts to invest federally backed dollars in just about any real-estate project they could dream up, whereas previous law permitted investmest only in home-mortgage loans. But in acquiring Vernon, O'Shea explains, Dixon exploited one of the least-discussed and most heinous of the Reagan-backed deregulations — the one that allowed real-estate developers to run S&Ls.

As a condo builder in Dallas in the early '70s, Dixon had gorged on loose credit and built thousands of hideous, over-priced units designed to soak up petrodollars flowing into Texas. But then the recession and oil crash of '74 hit, and Dixon wanted to renegogiate his bank loans. Unamused, his creditors foreclosed, forcing Dixon into bankruptcy court. The lesson, for Dixon, was clear: The credit industry and the building industry must collaborate; bankers need a little business sense, a little foresight, in dealing with developers. Who better, then, to run a S&L than a condo mogul?

By the late '70s, his condo operation, Dondi Corp., had rebounded. The petrodollars had begun to rain down again, and the dirt flew all over the Southwest. Now Dixon only needed to perpetuate steady credit at easy terms — without the threat of quick foreclosure when an economic downturn exposed his building projects as redundant and overvalued. Acquiring an S&L was an obvious answer, and here lies the full, grotesque profanity of the Reagan deregulation. This new dual creature, the S&L owner/real-estate mogul, could now tap into a potentially unlimited pool of depositor money to finance his own or his friends projects with utter impunity. And since Garn-St. Germain had also removed limits on the amount of interest S&Ls could pay out, they needed only to raise interest rates to attract millions in additional deposits. The profits would of course be private; the risks, as we have since learned, would be all too public.

In this spirit, Dixon acquired Vernon in late 1981 for $1.1 million in cash and a bank note worth $4.7 million (half of which Dixon avoided paying back when he went bankrupt in 1987). The old owner, R.B. Tanner, had built a solid business by making mortgage loans. The new owner, Dixon, declared soon after the deal that his would be a "developer's bank, run by developers, for developers."

THE GARN-ST. GERMAIN Act wasn't the only savory feast the Reagan Administration slopped onto the plates of fidiciary gluttons like Dixon. O'Shea details how Donald Regan, then Reagan's treasury secretary, in 1982 eliminated limits on the amount of brokered deposits S&Ls could accept. The concept of brokered deposits mocks the idea of federal insurance for accounts of $100,000 or less. Brokered deposits work like this: Wall Street brokerage firms — e.g., Merrill Lynch, which, as O'Shea points out, Regan ran before he became treasury secretary — gather huge chunks of cash from wealthy investors, break them down into chunks of $100,000, and then shop for the highest interest rate. Garn-St. Germain's interest deregulation had placed the S&Ls into position to compete for these funds. With the limits on such deposits gone, S&Ls could draw federally insured cash into their coffers simply by offering Wall Street high interest rates on brokered deposits. To make money, they would have to finance risky ventures that promised high returns.

Vernon, under Dixon, pursued this path hotly. Between 1982 and 1986, O'Shea reports, Vernon's deposits swelled from $78 million to $1.3 billion. Its brokered deposits as a percentage of total deposits rose by more than 1000 percent over the same period. Dixon knew what to do with this windfall. Here's how a typical Dixon-era Vernon deal worked: A developer would hire an appraiser to value a project at, say, $10 million. This appraisal would be based on a forecast of steady inflation — at a time, mind you, when the Federal Reserve had launched a brutal attack against inflation. Vernon would agree to loan the $10 million, add another $1.3 million to set up an account to pay a year's interest on the loan, add another $250,000 in developer fees, and another $750,000 for the fee that Vernon demanded for making the loan.

The loan would thus add up to $12 million — even though the project had been valued at $10 million by kept appraisers. In financing the first year of interest, Vernon guarenteed short-term success for questionable loans. And in financing the very fees it earned from the deals, Vernon effectively transferred depositor money directly into its earnings sheet. Amazingly, Vernon demanded no up-front cash from developers on these deals — instead, they asked only for a percentage of any profits they might generate.

Here, then, was the cycle: Vernon would jack up interest rates to draw millions in brokered deposits, invest that money in dubious ventures that promised high returns, and pour the self-generated fees and interest payments into its earnings column. In the short term, everything looked fine. All loans performed beautifully for at least a year, and after that, this "developers' bank" was more than willing to renegogiate terms. The bank, writes O'Shea, would typically loan troubled developers an additional $2 million to make interest payments on non-performing

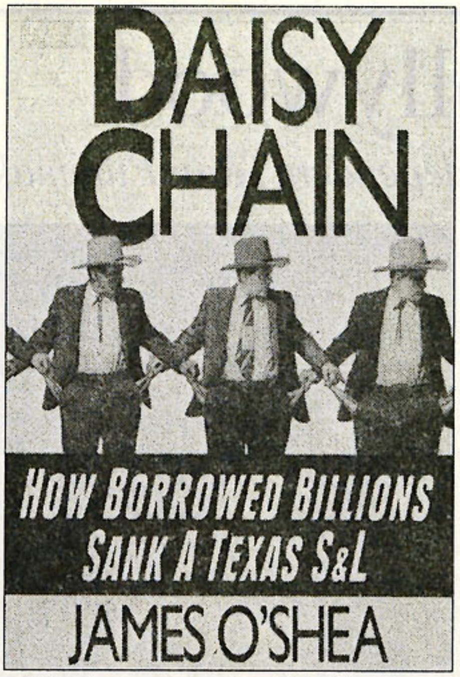
Tom Philpott Jr. is an Austin writer.

properties, thus broadening taxpayer exposure. By 1984, the bank was number two among thrifts in the country in dividends payed to its stockholders — the biggest of whom, of course, was Dixon. And executives of Vernon and its parent company, Dixon's Dondi Corp., raked in as much as $600,000 annually in bonuses, many of which were diverted to them from secret accounts from within the thrift. The thrift had made high-profile investments in Calfornia and Europe, and its explosion in assets, dividends, and deposits had given it national stature.

THEN CAME THE oil bust of 1985. The interest accounts Vernon had folded into its loans were running out, and 80 percent of its investments, according to O'Shea, were in troubled deals. The Federal Home Loan Bank Board (FHLBB) had begun to send curious regulators to Texas to investigate fast-growing thrifts like Vernon. The time had come for "daisy chain" deals, so-named by regulators after a sexual practice in which several people have sex simultaneously. Say Vernon had $14 million tied up in a condo development gone bust. Rather than foreclose on the developer — and thus take over the property, whose real worth amounted to a fraction of $14 million — Vernon would get another S&L to loan the developer the money to pay off the loan, plus enough to book itself hefty fees in its own right. Vernon, for its part, would perform the same service for the other bank on one of its bad loans, and Vernon itself would generate hefty fees. With the collapse in inflation and oil prices, the properties being flipped around continued to erode in value. But the loans would appear productive again and again, since both thrifts would throw in enough money for a year's interest payments.

Meanwhile, Dixon partook in other excesses. He bought himself a luxury home in California with Vernon money, hired prostitutes to keep Vernon boardmembers and hapless Texas bank regulators quiet, charged flamboyant European tours to his expense account, and donated so much Vernon money to the San Diego Catholic Church that he was placed on the San Diego University board of regents and granted an audience with the Pope (to whom he gave a $40,000 Vernon-owned painting that still sits in the Vatican). O'Shea takes obvious pleasure in documenting these sordid details.

The daisy chains were short-term solutions. The FHLBB and its chairman, Ed Gray, had begun to understand the solvency problems of thrifts like Vernon. By 1986, Vernon's deposits had grown at an average rate of 300 percent anually, and it had invested this money in risky and now quietly unravelling deals. That year, Gray's agency limited deposit growths to 25 percent per year — a move that severely limited Vernon's ability to attract new money to hide its losses. Further, Gray pushed Congress and the Reagan Administration to appropriate $15 billion in new funds for the Federal Savings and Loan Insurance Corp. (FSLIC), whose reserves had been dwindling since industry problems began in 1984. Overextended thrift owners like Dixon feared, correctly, that if the FSLIC got that money, Gray would begin shutting down troubled institutions to minimize future losses.



THIS IS WHEN S&Ls dramatically stepped up contributions to members of Congress through political-action committees (PACS). The industry needed political clout to bear down on Gray, a one-time favorite of S&L owners who became, in their eyes, a heretic. Dixon, along with Charles Keating of Lincoln Savings, led the charge. O'Shea reports that Dixon began pressuring Vernon employees to donate personal money to PACS that distribute the cash to congressmen and senators friendly to the industry. At Dixon's urging, the employees would then reimburse themselves by falsifying their Vernon expense accounts — thus buying political influence with federally backed deposit money. By the time Jim Wright and Tony Coelho had become House speaker and House whip, respectively, in 1987, they had both been effectively bought by the S&L industry. As Speaker, Wright brought personal pressure to bear on Gray with regard to specific S&Ls, including Vernon, and the two were largely repsonsible for denying Gray the funds he needed for the FSLIC to begin shutting down insolvent thrifts.

Already by 1986, however, Vernon was crawling with federal regulators. In April, the FHLBB, in a compromise move engineered by Dixon to avoid a federal takeover of Vernon, demanded the resignations of top Vernon officials and promised further scrutiny of the thrift's dealings. At that point, Dixon resigned his post as president of Dondi Corp., Vernon's holding company, and headed to Washington to lobby full time. (Of course, he remained the majority owner of Dondi stock).

Soon after, a Vernon subsidiary along with other investors borrowed $1.3 million from Vernon Savings to purchase *High Spirits*, a vintage yacht. Dixon docked the yacht in Washington Harbor and set up shop as a lobbyist. In the end, however, he could not save his S&L — as O'Shea shows, the political influence he and his colleagues like Keating bought only served to extend the crisis to extreme and ultimately absurd proportions. The Federal government finally took over Vernon in 1987, after Dixon's most powerful political friends — Wright and Coelho — had left office in disgrace. Dixon, for his part, now sits in a federal prison, a scapegoat of sorts, since most of the bandits of the S&L era, including all of the politicians, walked free.

O'Shea's book has generated much excitement for its chronicle of Dixon's extravagences: the prostitutes, the luxury home, the Pope-schmoozing. If he overplays and sensationalizes these details a bit, it doesn't fatally wound this fine biography of a major actor in the broadest financial scandal in history. Indeed, the most obscene — and the best — parts of the book focus on the details of the scandalous deals themselves. With President Bush, lording over a now-compliant Congress, pushing to deregulate the national banking system in ways uncannily similar to the S&L deregulation, *The Daisy Chain* deserves to be read widely and closely — and before the U.S. political system unleashes a new throng of Don Dixons eager to raid the money of its citizenery. ❑

Off-Off-Hollywood

Conference Showcases Independent Texas Filmmakers

BY STEVEN G. KELLMAN

IN THE HEYDAY of Hollywood hegemony, when a very few studios controlled almost all production, distribution, and exhibition, an independent was a film made by someone else and seen by almost no one. Because of fragmentation and conglomeration in the movie business, studios have ceased to be paramount. Studio drones now have hives of their own, and no company dermatologist can tell them what to do. A big, expensive, and popular movie like *Dances With Wolves* could be called independent because it was driven by its director, Kevin Costner, and the participation of Orion is almost incidental. You might expect anyone from Spike Lee to Roger Corman to Jonas Mekas at a conference on independent film. Is an independent filmmaker a visual storyteller of modest means but great ambitions, or a painter who regards celluloid as a medium of kinetic doodling? "The best classification is 'off-Hollywood,'" says writer-director Ken Harrison, who created *Ninth Life*, one of five features premiering in Austin at the Independent Images Conference April 4-7. "Ours is off-off-Hollywood."

Off-off-Hollywood sounds like a designer bug repellent, but it is probably an apt description of the quirky, low-budget work screened and discussed during this year's convocation. The annual event, sponsored by Houston's Southwest Alternative Media Project (SWAMP), began five years ago when Jonathan Demme, Horton Foote, John Sayles, Bud Shrake, and others were invited to Austin to demonstrate that movies need not cost as much as a B-1 bomber or look as if they are the fifth sequel to a tenth remake. In 1988, Independent Images Conference II was held in Houston and featured Robert Altman with *Fool for Love* and Sam Grogg with *Da*. In 1989, it moved to Dallas and featured screenings of *Drugstore Cowboy* and *For All Mankind*. After a one-year intermission, it returns to Austin, as Independent Images Conference IV.

In addition to public screenings, the conference includes panel discussions, seminars, and workshops on how to make a movie on a shoestring while going barefoot and how to get it seen once it is made. Among the participants are independent producers, directors, and writers. You can tell that cinema is independent when it allows its writers to sit at the same table, provided they brush their teeth.

Observer *film writer Steven Kellman teaches comparative literature at the University of Texas at San Antonio.*

ROBERT ZIEBELL

Independent Image: From *This State I'm In*

To Eagle Pennell, who wrote and directed *Heart Full of Soul*, "an independent is someone who puts it all on the line." Though they all maintain traditional allegiance to cinema as narrative, each of this year's four featured filmmakers walks a very different line.

JON JOST IS the most accomplished of the bunch, respected enough to have earned a retrospective of his 20 shorts and 13 features at New York's Museum of Modern Art last January. Part of *All the Vermeers in New York* is set in the Metropolitan Museum of Art, where a successful investment broker named Mark (Stephen Lack) finds solace from the stresses of Wall Street by contemplating the serene beauty of five Vermeer paintings. He is smitten by Anna (Emmanuelle Chaulet), an aspiring French actress he gazes at gazing at a Vermeer woman she resembles. They have a date, Anna hustles Mark for $3,000, and Anna returns to France with her roommate Felicity (Grace Phillips), while Mark dies of a brain hemorrhage, declaring his love to Anna's answering machine from a telephone booth near the Vermeer room of the Met.

The story is slight, though you could easily imagine Rob Reiner transforming it into *How Mark Met Anna*. But what Jost does with the plot is inconceivable apart from the specific visual textures he creates. His camera lingers in excruciatingly long takes on scenes the casual viewer would just as soon depart. He deliberately, whimsically sabotages dramatic structure by diverting our gaze to apparently incidental details. Perhaps the most memorable sequence ignores Mark, Anna, and the other characters entirely in order to track through the pillars and over the marble of a foyer in the Met, caressing the smooth surfaces. *All the Vermeers in New York*, which opens the Independent Images Conference, has the funky feel of documentary hallucination.

Sure Fire, another new Jost work shown at the Austin event, was made in 10 days at a cost of $10,000. Its title might refer as surely to its writer/director/cinematographer/editor as to the salesman/hunter we follow on the screen. Its shooting ratio is said to have been almost 1:1, which is the mark of either a cinematic master or a maniac. The film begins with a very long take on two men, Wes (Tom Blair) and Larry (Robert Ernst), sitting at a lunch counter discussing business and hunting. It takes Jost's camera several minutes to move up from the men's boots to their backs.

Wes is a real-estate hustler, akin to Willy

Loman and to the pathetic pitchmen of the Masyles brothers' documentary *Salesman* in his shabby dreams of pitching rural Utah to urban Californians. He explains his schemes at length to his wife in what, after the camera finally cuts away to reveal her having slipped away into the next room, is a solipsistic monologue. Prior to initiating him into the virile rites of deer hunting, Wes lectures his adolescent son on the proper care of firearms. *Sure Fire*, which Jost — who spent two years in prison for draft evasion — dedicates to his own father, a retired colonel, ends in disaster, and epiphany.

IN HIS STUBBORN singularity and his pride in being self-taught, Jost is almost an honorary Texan, but the other three featured filmmakers are legal ones. By phone from Houston, where he has lived since 1983, Robert Ziebell explained to *The Observer* that *This State I'm In* is "a response to why the coastal plain is my home." The first feature film by Ziebell, a professional photographer, it had its origins in a brief newspaper account Ziebell read about a Tennessee high school student who ran away to Dallas and for a while succeeded in passing herself off as a European countess.

"Anything is possible" is the motto of Truey Shivers (Claudia Obrosey), the adolescent who, early within Ziebell's story-within-a-story, rows off into the Gulf of Mexico to encounter the world. It is a sentiment apparently shared by the filmmaker, who has created a black-and-white *Wizard of Oz* set in what one recurring voice calls "the awesome world of the eastern edge of the southern third coast." In contrast to Jost's lingering takes, *This State I'm In* follows Truey's journey from rags to riches and back — and her hairless dog Armadillo's parallel quest to retrieve her — through rapid, dizzying montage. The film began as little more than an outline and a storyboard and evolved during shooting, which occurred in two spurts separated by a year in which Ziebell searched for funding.

It helped to find non-actors willing to work on the possibility of deferred payment. Much of the cast is drawn from the Houston arts community — notably former Menil director Walter Hopps as Truey's father, a hack artist who hawks gnome statuettes and velvet paintings by the side of the highway; painter Gael Stack, as Truey's mother so solicitous she brushes her teeth for her; Alison de Lima Greene, a curator at Houston's Museum of Fine Arts who plays Vicki Vector, the ruthless industrialist who reshapes Truey into a corporate cormorant; and painter Bert Long as Vicki's husband Victor.

Ziebell characterizes Texas, the setting for *This State I'm In* as "an outsider state," appropriate to a marginal figure like Truey. He notes that almost all the recipients of recent grants from the American Film Institute — along with the NEA, the patron of independent film — live in New York or LA. The truth of the movie business, according to Ziebell, is that too often "financing becomes the forefront of what the project is about." As a director or viewer, he prefers "films that are made because people wanted to make the film." What he wrought in *This State I'm In* is a personal vision, neither a bargain facsimile of *The Wizard of Oz* nor a cinematic equivalent of roadside velvet paintings.

SAM WEBSTER (Matthew Posey) is an artist of a different palette. *Ninth Life* begins with his return from Los Angeles to Dallas for an exhibition of his paintings, vibrant expressions of a frustrated relationship with Molly (Kim Pendleton), a young musician he cannot forget. In its structure and execution, *Ninth Life* is the most conventional of the conference's offerings, a story of trust, betrayal, sex, drugs, and rock 'n' roll set in the Deep Ellum section of Dallas. What makes the movie an independent is a budget smaller than the catering bill for a Hollywood extravaganza and its refusal to patronize Texas.

Writer-director Harrison, who majored in English at North Texas State University, is best known for two features he adapted from Horton Foote screenplays — *1918* and *On Valentine's Day*. In a conversation from his home in Oak Cliff, five minutes from the trendy, artsy Deep Ellum where *Ninth Life* takes place, Harrison explained that, after a succession of rural period pieces, he wanted to do a project that was current and urban. The result, which he describes as "contemporary film noir," has not yet found a distributor or earned its maker a penny. Asked for his definition of an independent, Harrison, whose interest in filmmaking is in "trying to find some genre you can stretch," expresses admiration for Oliver Stone. But he notes that: "For the amount of money they spent on *The Doors*, we could do a hundred of these films. At least one of them would be good."

A minor character in *Ninth Life*, an embittered artist named Mike reduced to earning his keep by painting houses, rails against the tendency to dismiss Texas art as "regional" while assuming that work that comes from New York or California is not. Another character, a local guitarist, is fired as soon as his lead singer is signed to a recording contract with a national label. Harrison acknowledges sharing some of his characters' indignation. "Condescension, even in *The Last Picture Show*, is what I resent most in mainstream treatments of Texas."

"I THINK OF MYSELF as a Texas filmmaker," declares Eagle Pennell, best known for his 1984 feature *Last Night at the Alamo*. "I don't mind at all being separated from that cesspool in Los Angeles." A friend of Harrison's, Pennell puts in a cameo appearance in *Ninth Life*, as a police detective who is fond of bluebonnet paintings. Pennell's own work is as Texan as the ubiquitous image but a little more innovative. *Heart Full of Soul* receives its Texas premiere at the Independent Images Conference. In retrospect, Pennell sees it as the conclusion to a thematic trilogy he began in 1978 with *The Whole Shooting Match* and extended with *Last Night at the Alamo*.

Its genesis, he explains, was in a 1988 grant proposal to the NEA for a film about two guys from a small town who come to Houston to sell a cow. The eventual film, though, inverted the formula, becoming "a reverse *Urban Cowboy*." *Heart Full of Soul* is the story of how 31-year-old Nathan Hale (Allen Dorris), a raffish police-beat reporter for the *Houston Press* reconciles with his brother Doc (Lynn Miller Jr.), who runs a wrecker service in rural Hempstead, and concludes: "I guess I'm just a country boy after all." His journey back to his roots is enlivened by the Dickensian performance of Henry Wideman,Jr., as Pee Wee, a lovable lush on his way to San Antonio to make his fortune in a regional taping of "Jeopardy".

A good day on a TV game show could net a contestant more than the $35,000 Pennell spent on making *Heart Full of Soul*. He recruited his cast from the community theaters of Houston, and he made it in black and white in part because that provides the work a texture that more easily masks its minuscule budget. For his next project, a western set in Texas during Reconstruction, Pennell, who makes a living as second unit director for mainstream movies, hopes for a bigger budget and a better return than he got from *Last Night at the Alamo*, which Cinecom distributed all over the world and, he claims, never shared a sou. However, Pennell does not expect gold from *Heart Full of Soul*. "I really made the film for myself as much as anything, and I'm not so concerned about making money."

THAT SERENE indifference to commerce is probably what distinguishes the best of independent cinema — works like *The Thin Blue Line, Roger and Me, El Norte, She's Gotta Have It, The Times of Harvey Milk*, even *Bicycle Thieves* — that have enriched the possibilities of cinema beyond what is dreamt of in Beverly Hills. "Independent" filmmakers must sacrifice much of their creative time and energy to cajoling investors and exhibitors. And, though the economic stakes are so much lower than for the average $20-million Hollywood production, some of them become more dependent on lucre than, say, Michael Cimino, who was handed $40 million to spend as he pleased on *Heaven's Gate*. Conferences of independent film are parodies of themselves when they become obsessed with the struggle for financing and recognition. Neither penury nor obscurity is in itself an aesthetic virtue. Only those films are truly independent that project a sublime disdain for marketplace categories like "independent" and that are free to set the camera where it needs to be. All the Vermeers are not in New York. ❑

Coming Home

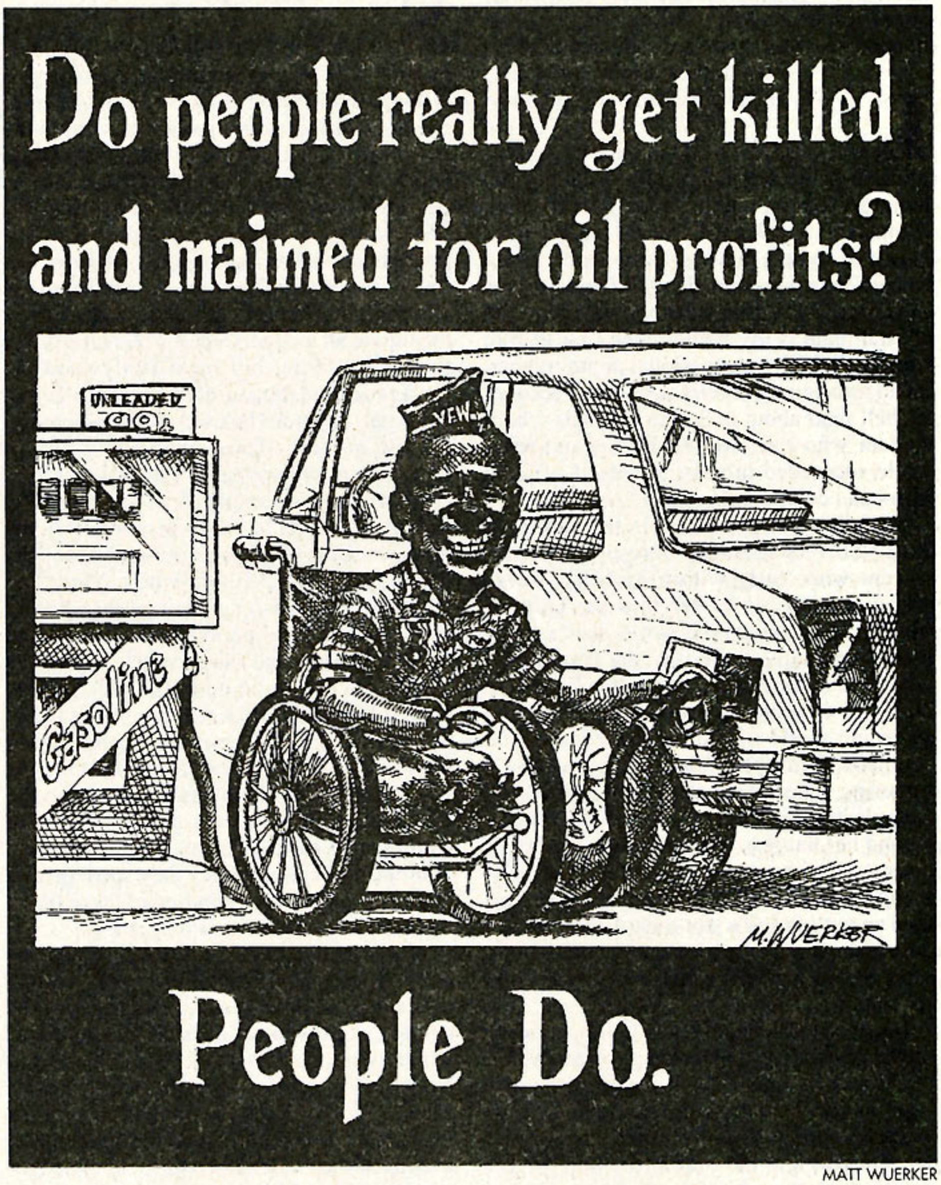
BY ROXANNE BOGUCKA

IT LOOKS LIKE the gulf war is over. Our military successfully tested its new weapons on the Iraqis. The only good news about this war: A lot of sons and daughters, brothers and sisters, husbands and wives, mothers and fathers will be coming home.

There's been a lot in the news about support groups for the loved ones of soldiers in the gulf, and about the efforts the schools and churches have been making to help the children of soldiers cope with the absence of parents. This is a good thing, an improvement over the past.

I don't have anyone in the Persian Gulf, but when I was 11 years old, my father came home from Vietnam. We were stationed at Fort Hood, and Daddy left when I was nine, to go to Fort Lee, Virginia, for some sort of schooling. He came home for a couple of weeks, and I turned 10 — then he went to Vietnam. We put him on the train in Temple, looking handsome and very big in his khakis. I still have the picture somewhere, of me and Mother and Grandmother waving to him. The sun must have been in all our eyes. Grandmother was wearing a pastel tent dress. They were popular just then.

I was really young when Daddy left for Vietnam. I was a young 10. Of course I had seen stuff on TV about the war, and some in the paper, and my father told me some too, but when he was preparing to leave he told me that he would be back next summer and I didn't worry about a thing. I didn't even question it. It really never occurred to me that he might not. I was lucky. My friend Cindy tells me that she used to see the nightly news about Vietnam and cry about her pilot father until her mother stopped turning on the TV when she was around. She was 10 too.



MATT WUERKER

SINCE DADDY was going to the Nam, we had to move off base. We left a reasonably nice duplex on Fort Hood and moved to a duplex in Killeen. For the next year, I went to school, played with my new friends, and wrote letters to Daddy. My grandmother was working at a service club at James Connally AFB in Waco, and Mother and I used to go there every Sunday. After church, Mother and I would eat dinner, she'd pack up the leftovers, and we'd hop in the car and drive to the service club. Mother drove 70 and 75, and we used to make it in 45 minutes.

Our new neighborhood was different from anyplace I could ever remember living — a kind of military wives' ghetto, and kind of seedy I know now. Everybody I played with just about, their daddies were in Vietnam. I saw people who were really up against it, folks who didn't have much in the icebox, families that weren't receiving much of that paycheck from overseas. I saw folks who had "domestic disturbances," kids who shoplifted, kids who had meal-assistance lunch cards at school, a real stigma back then. I saw the film at school where they send all the boys out and all the fifth- and sixth-grade girls meet in the cafeteria. I got taken to an R-rated movie at the drive-in by a babysitter. Once, my mother tells me, a group of us kids saw a young GI and his Oriental wife having sex through their open window. I saw a lot that year, but somehow the graphic obscenity of the nightly news from Vietnam was something I watched but didn't see.

When my Daddy came home it was because his older brother Millard had died. The Red Cross contacted his CO, and arranged

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Roxanne Bogucka is the Observer's *copy editor.*

for him to come back for the funeral. Since it was only a matter of weeks before the end of his tour, the Army decided that it was a waste to return him to Vietnam. Daddy was stationed in Pleiku, and when I got older I read somewhere that this place was overrun. I think it was that summer that would have been the last months of my father's tour.

The Army flew Daddy to South Carolina for the funeral, and then back to Texas. I was happy that he was coming home, but I was too simple-minded to realize my good fortune, too damn dumb to fall to my knees and pray a good earnest prayer.

I had seen movies about World War II, and old newsreel footage of soldiers returning from it, and I kind of expected that Daddy would come riding down the main drag in a big open car with crowds on the sides of the street and confetti and marching bands. But of course not. That's what they do when a war is over, or when a GI is a big hero. Vietnam wasn't over for everyone, just for us. And probably no one else thought a middle-aged supply sergeant was a hero but me.

So what happened instead was that Mother and I drove over to a dinky airport in Temple or Belton or some damn place, and waited in the hot still night. I was bored and it was past my bedtime. Something went wrong with flight connections and my father didn't show up. I was pretty drowsy by then, and all I remember is the drive back to Killeen with the windows down and the cool breeze making me feel clammy. I guess I was disappointed.

I THINK DADDY made it home in the wee hours. I remember waking up and seeing a strange looking Daddy, in khaki pants and an olive drab t-shirt. He was taller than I remembered, and this was odd because I had grown and expected him to look smaller. His voice was a delight. He called me "Little One," and I happily anticipated his particular mannerisms and figures of speech. He slept on the fold-out couch that night. I guess Mother did too; I was pretty sleepy. Mother and I had been sharing a bedroom with twin beds while Daddy was gone.

There were a couple of weeks before Daddy had to take up his new assignment, so he was around the house. And he was different. He didn't have screaming nightmares or the shakes or crying jags or any histrionic stuff like that. He just didn't seem to know anything about me. I thought it was his problem.

He didn't know that I was allowed to roam the neighborhood pretty much at will, he didn't know that I was accustomed to go off on my bike for hours at a time, he didn't know who I played with and where we played, he didn't know that I had been going to the Mickey's Mart on errands by myself for the better part of a year.

Well of course he didn't know all that. I mean, I had been writing him those pathetic little letters that all little kids scrawl out to their daddies. I'm sure he was glad to get them, but they weren't really informative. He left behind a just-turned-10 little girl whose mother took her everywhere. He had to catch up. It seemed to me that he was painfully slow about it.

It reminded me of a book I had just read, *A Wrinkle in Time*, by Madeleine L'Engle. Alien creatures, Mrs. Whosis and Mrs. Whatsis, traveled through time and space by bringing the fabric of time together, like having a breadth of cloth and folding it so that the two edges are adjacent. You don't exactly travel there, you just *are* there. That happened to Daddy. It happened to my uncle too, I guess. He served two tours in Vietnam. One of his three kids was born while he was overseas.

NOW I'M A parent, and I know that sometimes my kids *say* they're up for something, but I require a bit more documentation, a bit of proof. But I wonder how I would react to them if I went away for a long time and when I came back they were driving, dating, doing big-kid stuff. It's no shock if you've been around to see your kids taking the steps toward more independence (well okay, it's a bit of a shock), but to encounter them as suddenly more grown up must be a facer.

I watched Daddy after he came home. It seemed to me that everything I wanted to do, everything I wanted to get into, my Daddy felt like I was in too big of a hurry, like I was growing up too fast. That's a pretty common complaint in the realm of parent-child relations, I guess, but his absence during a critical year in my development exacerbated it. I think maybe he wanted to come back to exactly what he'd left, that he wanted it to be the same, like that year never happened.

Some of these kids today, their mother or father has been away for nearly half a year. There are some changes and even if the parents have heard about them, they haven't seen them with their own eyes. I know these kids will be glad to have their parents back and safe. I'm glad that there have been support groups to help these kids deal with their parents' absence. I hope that they will also help them deal with their parents' presence with more patience and understanding than I had. My Daddy soon fell into the groove because he is a patient and understanding man. He still calls me "Little One." ❑

Write Dialogue

The Texas Observer
307 W. 7th St.
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Dialogue

Continued from page 2

massacre which ensued, who is to say that toppling Iraq's brutal, illegal occupation, with its well-documented tortures on a scale unknown since the Holocaust, was not worth the cost?

The fact is, a formidable foe was beaten handily with a brilliant strategy which worked to perfection. At least one offshoot is now the most propitious moment of the post-war era to galvanize moderate Arabs and Palestinians under different leadership (sans Arafat) around an Israeli peace proposal. As a confirmed believer in liberalism's aversion to the corporatization of America, I have found the *Observer* to be a source of insightful analysis. However, liberalism trips badly when it attempts to apply a hackneyed dogma to every situation, and becomes as intellectually bankrupt as most unknowing conservatives.

Stuart C. McKennon
Round Rock

Henson responds:

I am surprised to find a self-avowed liberal who thinks President Bush perpetrated this war to defend Kuwaiti human rights. The "bankruptcy" of liberal thought, it seems to me, is most exemplified by the refusal of liberals to incorporate economic analysis into their thinking. This war was about oi and marketsl — to deny that fundamental fact borders on the absurd. If Kuwait's chief export were broccoli, President Bush wouldn't have blinked at Saddam's invasion. If human rights were the primary issue, Bush would overthrow the death-squad government in El Salvador, which bears responsibility for nearly 80,000 civilian deaths in the last decade. Human rights violations by Iraq in Kuwait never approached those in El Salvador, much less Nazi Germany, as Mr. McKennon implies. In fact, Iraqi atrocities in Kuwait were much more comparable to U.S. military abuses in Panama, where as many as 4,000 people were killed or wounded, according to a "60 Minutes" report last fall.

By contrast, between 50,000 and 300,000 Iraqis died in the month-long American blitzkrieg. Just as offensive is McKennon's opportunism in declaring the war a chance to implement an "Israeli peace proposal," which he hopes will occur "sans Arafat." I would remind Mr. McKennon that the Palestine Liberation Organization is recognized as the sole legitimate representative of the Palestinian people by the same United Nations that approved Bush's war. To support self-determination for all people, as mandated in the U.N. charter, we must recognize the P.L.O. and insist that it be included in any Middle East peace plan.

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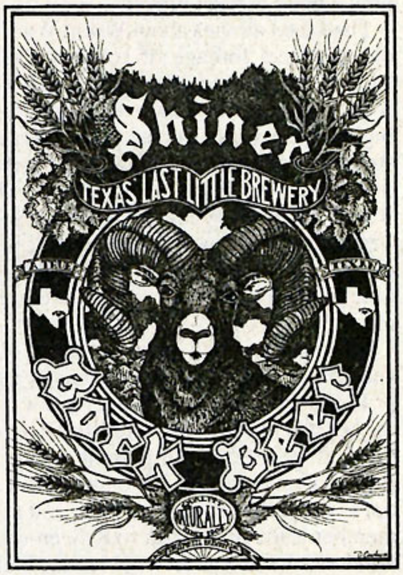

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