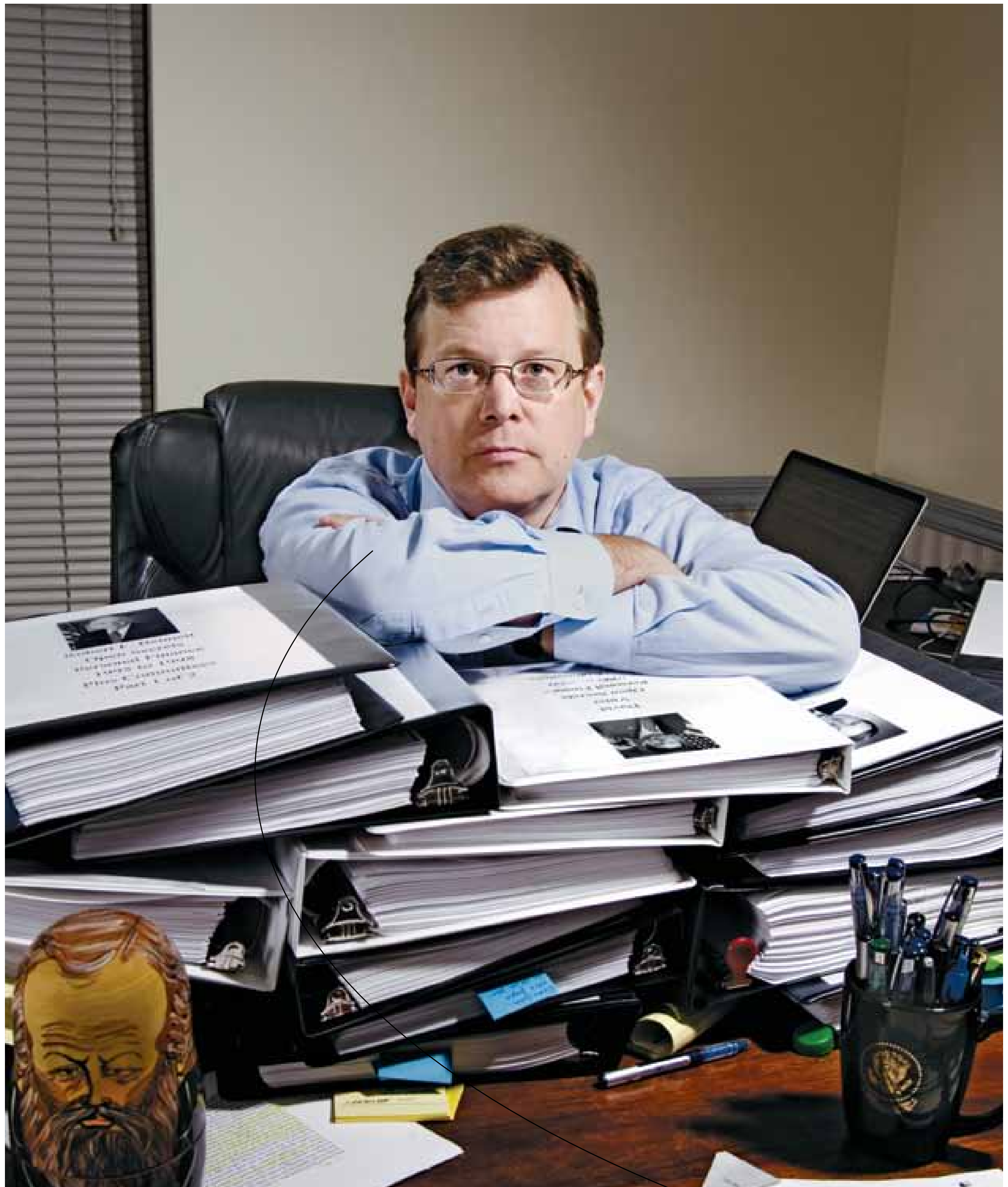
# THE WONK WHO SLAYS WASHINGTON



**CONGRESS IS GETTING RICH OFF WALL STREET AND PETER SCHWEIZER WON'T STOP UNTIL EVERYONE KNOWS IT.**

BY PETER J. BOYER PHOTOGRAPH BY ANDREW TINGLE ILLUSTRATION BY EDEL RODRIGUEZ

**IN THE SPRING** of 2010, a bespectacled, middle-aged policy wonk named Peter Schweizer fired up his laptop and began a months-long odyssey into a forbidding maze of public databases, hunting for the financial secrets of Washington's most powerful politicians. Schweizer had been struck by the fact that members of Congress are free to buy and sell stocks in companies whose fate can be profoundly influenced, or even determined, by Washington policy, and he wondered, do these ultimate insiders act on what they know? Yes, Schweizer found, they certainly seem to. Schweizer's research revealed that some of Congress's most prominent members are in a position to routinely engage in what amounts to a legal form of insider trading, profiting from investment activity that, he says, "would send the rest of us to prison."

Schweizer, who is 47, lives in Tallahassee with his wife and children ("New York or D.C. would be too distracting—I'd never get any writing done") and commutes regularly to Stanford, where he is the William J. Casey research fellow at the Hoover Institution. His circle of friends includes some bare-knuckle combatants in the partisan frays (such as conservative media impresario Andrew Breitbart), but Schweizer himself comes across more as a bookish researcher than the right-wing hit man liberal critics see. Indeed, he sounds somewhat surprised, if gratified, to have attracted attention with his findings. "To me, it's troubling that a fellow at Stanford who lives in Florida had to dig this up."

It was in his Tallahassee office that Schweizer began what he thought was a promising research project: combing through congressional financial-disclosure records dating back to 2000 to see what kinds of investments legislators were making. He quickly learned that Capitol Hill has quite a few market players. He narrowed his search to a dozen or so members—the leaders of both houses, as well as members of key committees—and focused on trades that coincided with big policy initiatives of the sort that could move markets.

While examining trades made around the time of the 2003 Medicare overhaul, Schweizer experienced what he calls his "Holy crap!" moment. The legislation, which created a new prescription-drug entitlement, promised to be a huge boon to the pharmaceutical industry—and to savvy investors in the Capitol. Among those with special insight on the issue was Massachusetts Sen. John Kerry, chairman of the health subcommittee of the Senate's powerful Finance Committee. Kerry is one of the wealthiest members of the Senate and heavily invested in the stock market. As the final version of the drug program neared approval—one that didn't include limits on the price of drugs—brokers for Kerry and his wife were busy trading in Big Pharma. Schweizer found that they completed 111 stock transactions of pharmaceutical companies in 2003, 103 of which were buys.

"They were all great picks," Schweizer notes. The Kerrys' capital gains on the transactions were at least $500,000, and as high as $2 million (such information is necessarily imprecise, as the disclosure rules allow members to report their gains in wide ranges). It was instructive to Schweizer that Kerry didn't try to shape legislation to benefit his portfolio; the apparent key to success was the shaping of trades that anticipated the effect of government policy.

"Senator Kerry does not buy, sell, or trade stocks," says Jodi Seth, Kerry's spokeswoman. She notes that Kerry's holdings are in family trusts and managed by independent trustees with whom he does not communicate. Further, Seth says, Kerry is not a beneficiary of Teresa Heinz Kerry's trusts, which were established before they were married. In any case, Seth adds, Kerry was running for president when the Medicare bill was passed, and he missed much of the debate.

"It's not that I think John Kerry is calling up his broker, on health care, and saying, 'Buy this company, sell that company,'" Schweizer says. "The issue is one of a double standard." He notes that if the executive of a health-care company were in discussions with the White House over pending legislation that would affect his industry, and then made a series of unusual stock transactions related to the industry, the SEC might well open an insider-trading investigation. "The only group in America that we exempt is politicians, who are probably the last people about whom we should be saying, 'Oh, we'll take their word for it,'" he says. "That's what's so amazing to me."

The Kerry trustees' impeccable timing in drug company trades was evident again in 2007, when the federal government was weighing whether to discontinue Medicare reimbursement for certain anemia drugs used by cancer patients. When the government announced that it would limit reimbursements, shares in Amgen, one of the drugmakers at issue, dropped 15 percent. Kerry's wife happened to be an Amgen stockholder but avoided losses; her shares, valued at between $500,000 and $1 million, were unloaded more than a week before the government's announcement.

Schweizer, an unabashed conservative and a foreign-policy adviser to Sarah Palin, has written books about Reagan and the Bushes as well as polemics about the ruinous ways of liberalism. But this latest book is not an overtly partisan work; as the title, *Throw Them All Out*, suggests, it should discomfit conservatives and liberals, Democrats and Republicans, alike.

Indeed, Schweizer reports that, during the debate over Obama's health-care reform package, John Boehner, then the House minority leader, was investing "tens of thousands of dollars" in health-insurance-company stocks, which made sizable gains when the proposed public option in the reform deal was killed. ("There are laws and there are rules of the House, and they should be followed," a Boehner spokesperson tells *Newsweek*. "The speaker does not make those trades himself. He has a financial adviser in Ohio.")

One of the more dramatic episodes in the book recounts the trading activity of Republican Rep. Spencer Bachus, of Alabama, who, as the ranking member of the House Financial Services Committee, was privy to sensitive high-level meetings during the 2008 financial crisis and proceeded to make a series of profitable stock-option trades.

Bachus was known in the House as a guy who liked to play the market, and in fact he was pretty good at it; one year, he reported a capital gain in excess of $150,000 from his trading activities. More striking is that Bachus boldly carried forth his trading in the teeth of the impending financial collapse, the nightmarish dimensions of which he had learned about firsthand in confidential briefings from Treasury Secretary Henry Paulson and Fed chairman Ben Bernanke. On Sept. 19, 2008, after attending two such briefings, Bachus bought options in an index fund (ProShares UltraShort QQQ) that effectively amounted to a bet that the market would fall. That is indeed what happened, and, on Sept. 23, Bachus sold his "short" options, purchased for $7,846, for more than $13,000—nearly doubling his investment in four days.

Around the time Congress and the Bush administration worked out a TARP bailout, Bachus made another options buy and again nearly doubled his money. The House turned down the TARP proposal, and Bachus's own Financial Services Committee remained clued in to revisions of what became the final TARP package. In the earlier closed-door briefings, Bernanke had warned the congressional members that a "meltdown in the global financial system" was imminent and that it would spill over into the broader economy if something wasn't done. With TARP completed, Bachus seemed confident in its effect, now buying options that effectively bet that the market would rise—to mixed results.

Bachus was hardly the only member of Congress trading as the government was coming to grips with the financial crisis. After the first briefing from Bernanke and Paulson, brokers for Democratic Congressman Jim Moran, of Virginia, and his wife sold their shares in 90 companies, dodging the losses that others who stayed in the market would soon face. Republican Rep. Shelley Capito, of West Virginia, sold between $100,000 and $250,000 of Citigroup stock the day after the first meeting, recording capital gains on Citigroup transactions in that rocky period.

When Schweizer began his project, he consulted a former securities regulator, who happened to have an office down the hall from his in Florida. The adviser told him that investigators always look for two things in insider-trading cases:

# THE GET-RICH CONGRESS

## EVERY MEMBER OF THE HOUSE AND SENATE CAN TRADE STOCKS AND MAKE LAND DEALS WHILE CONSIDERING MAJOR BILLS. OUR GUIDE TO EIGHT WHO MIXED BUSINESS WITH GOVERNING.

**REP. NANCY PELOSI**

When Visa went public in March 2008, then-Speaker of the House Pelosi and her husband bought some of their shares at the opening IPO price—access that would be virtually impossible for the average individual investor.

**SEN. MAX BAUCUS**

Baucus played a central role in forging the health-care-reform bill. As he was negotiating with pharmaceutical companies and putting his imprint on the legislation, Baucus was also buying and selling health-care stocks.

**SEN. JOHN KERRY**

John and Teresa Heinz Kerry made numerous trades in health-care stocks, buying almost $750,000 in Teva Pharmaceuticals in November 2009 alone, while Kerry actively pushed Obamacare as a member of the health-care subcommittee.

**REP. JARED POLIS**

Polis sat on two committees central to the crafting and language of Obama's health-care bill. At the same time, he invested millions of dollars in stocks and funds related to health care and pharmaceuticals.

**REP. SPENCER BACHUS**

After learning in a September 2008 briefing with Treasury Secretary Henry Paulson and Fed chairman Ben Bernanke that the financial markets were in deep trouble, Bachus began aggressively buying and selling stock options.

**REP. JOHN BOEHNER**

On Dec. 10, 2009, then-House Minority Leader Boehner bought tens of thousands of dollars of health-care stocks, including in health-insurance companies. On Dec. 15, *The Washington Post* declared that the "public option" for health insurance was dead.

**REP. SHELLEY CAPITO**

After a briefing with Paulson and Bernanke, Capito sold between $100,000 and $250,000 shares of Citigroup; she and her husband accrued as much as $50,000 in capital gains from Citigroup transactions made throughout the crisis.

**REP. DENNIS HASTERT**

When Hastert was Speaker of the House, he inserted a $207 million earmark into a federal highway bill for a parkway near land he owned in rural Illinois. When he first went to Congress in 1986, Hastert's net worth was less than $300,000. When he retired in 2007, it was close to $11 million.

CLOCKWISE FROM TOP LEFT: BILL CLARK—ROLL CALL—GETTY IMAGES, JOSHUA ROBERTS—BLOOMBERG—GETTY IMAGES, NICHOLAS KAMM—AFP—GETTY IMAGES, CHIP SOMODEVILLA—GETTY IMAGES (2), SCOTT J. FERRELL—CONGRESSIONAL QUARTERLY—GETTY IMAGES, TOM WILLIAMS—ROLL CALL—GETTY IMAGES, CHIP SOMODEVILLA—GETTY IMAGES whether individuals had access to material information and whether they engaged in unusual trading. There is probably no group of people on earth with greater access to inside information than members of Congress; K Street lobbying firms get rich fees from hedge funds for ferreting out intelligence (such as whether some pending legislation has the votes to pass) that any member of the Senate or House routinely obtains in the cloak room.

But there have been no insider-trading cases brought against members of Congress, nor will there likely be. This is partly because, though insider-trading law is not settled, case law usually requires that an offending insider bear fiduciary responsibility at the company involved. But Congress's relative immunity also owes to the fact that, in this regard, as in many others, Congress lives by its own rules. Schweizer notes that the Senate's ethics manual devotes an entire chapter to the proper use of the mail and of Senate stationery, but is silent on the subject of insider trading. Ditto the rules of the House, which state that a member's recusal from a vote affecting his or her stock portfolio "might be denying a voice" in the process. Neither the executive nor judicial branches allow such laxity.

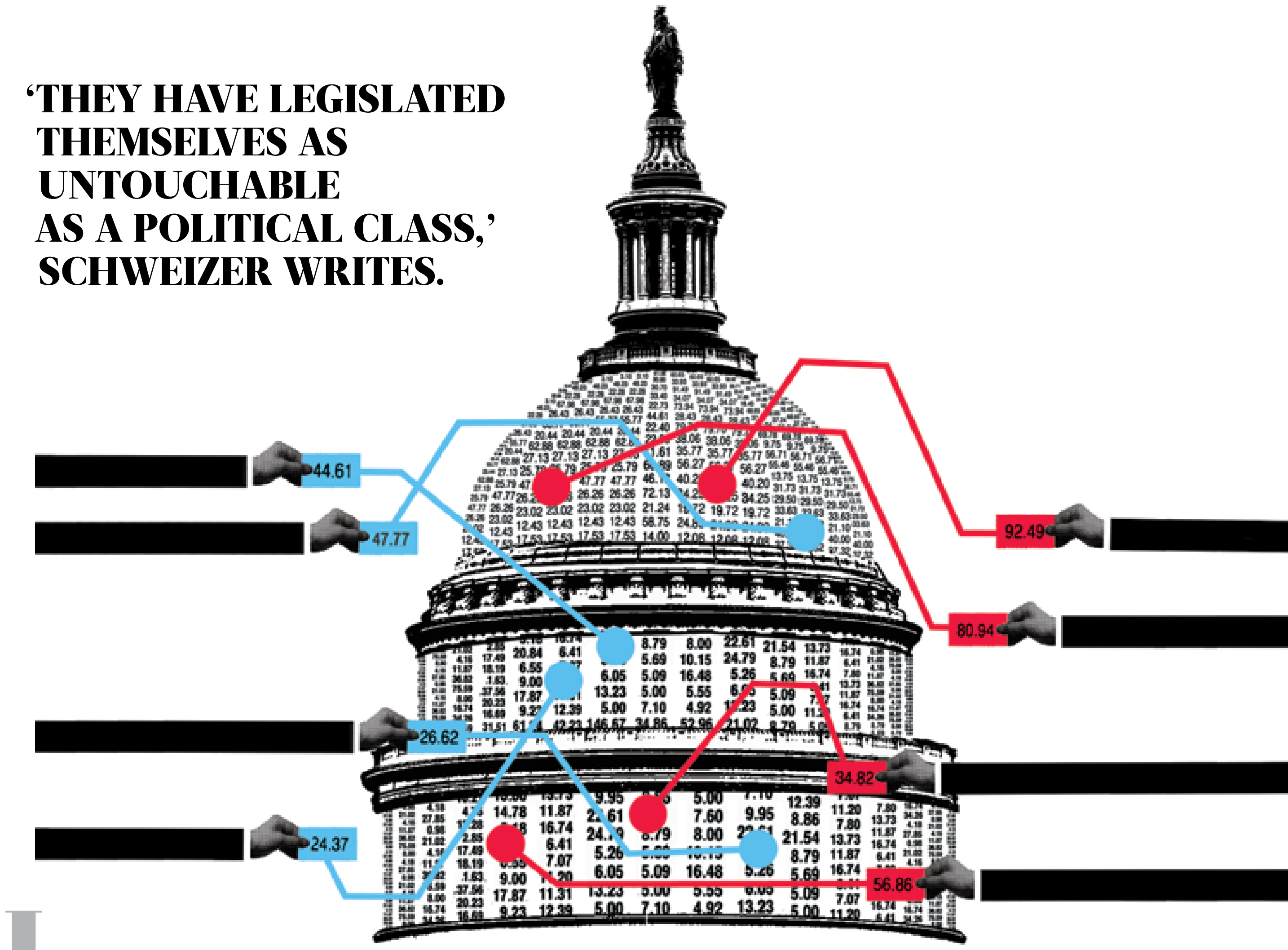
But while congressional stock trading is condoned, some of the activity risks, at the very least, the appearance of impropriety. Nancy Pelosi, for one, will likely be answering questions about possible conflict-of-interest issues raised in Schweizer's study.

Pelosi and her husband, Paul, are reportedly worth $40 million, with a significant stock portfolio. In the spring of 2008, when Pelosi was speaker of the House, Paul made a big play–between $1 million and $5 million–on Visa, the credit-card company. What was striking about the investment, apart from its size, was the price the Pelosis paid for it. The Visa initial public stock offering was one of the hottest of the decade, its price-per-share jumping from $44 to $65 just 48 hours after public trading began. But the initial public offering, at the $44 price, was reserved for institutional investors and mutual funds, plus a select group of individual investors. The Pelosis bought their Visa shares in three transactions, the first of which–5,000 shares–came at the lower IPO price. This may have been just a piece of investment luck or an instance of Visa extending a friendly gesture to an important political figure.

Schweizer is happy to posit another possibility. The Pelosis acquired their IPO shares shortly after the introduction into the House of legislation that, if passed, would adversely affect Visa's business. Visa makes money by licensing its name to banks (which in turn issue the cards and charge customers interest) and by charging "swipe fees" to merchants who accept the card as payment. These fees paid by retailers range from 1 percent to 3 percent of the purchase amount every time a Visa card is used. The proposed 2008 law would have allowed retailers to negotiate lower fees with the major credit-card companies, who, gaining billions from those fees, predictably opposed the measure.

The bill passed through committee but never made it to the floor of the House. It eventually died, and two similar efforts also failed to reach the House floor. Congress did finally act on the issue two years later, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. By that time, the

**'THEY HAVE LEGISLATED THEMSELVES AS UNTOUCHABLE AS A POLITICAL CLASS,' SCHWEIZER WRITES.**




value of Pelosi's IPO shares had more than doubled, while the market as a whole had shown a double-digit decline.

Pelosi bridles at any suggestion that her financial holdings and her official duties were linked. Pelosi spokesman Drew Hammill notes that several other members of Congress also took advantage of the Visa IPO. The controversy, he insists, is a "preposterous idea" cooked up by "a right-wing hack."

Pelosi's office might have added that there was nothing illegal in the Visa trades, nor even a violation of House rules. But that is the point of Schweizer's book. Indeed, none of the special dealing in his study–which also looks at land deals and the cronyism associated with the green-energy loan controversies, such as Solyndra–is technically illegal. "They have legislated themselves as untouchable as a political class," he writes.

Washington does seem to live by its own laws of economics. The D.C. metro area has displaced Silicon Valley as home of the highest median income, at $84,523 last year (compared with the national average of $50,046). Earlier this month, a Roll Call study of congressional financial disclosures revealed that the net worth of members of Congress had grown by 25 percent since 2008, during a period in which the average American household has lost as much as 20 percent of its net worth.

*Throw Them All Out* arrives at a moment when the populist anger and resentment of the Tea Party and Occupy movements have melded into a kind of generalized outrage toward a system that seems geared to protect the interests of the few. Schweizer offers some prescriptions, including laws forbidding members of Congress from trading stocks of companies overseen by their committees, but he doesn't expect what he calls the "permanent political class" to reform itself.

What Schweizer says he does hope is that others will take up his mission–requiring only time, online access, and a willingness to wade through public databases–and eventually crowd-source reform. A Throw Them All Out campaign is an interesting prospect–a movement that both Sarah Palin and Michael Moore could embrace. Schweizer's motivation and his message could well be a credo that transcends partisan conflict.

"I was troubled," he says, "by the fact that the political elite gets to play by a different set of rules than the rest of us. In the process of researching this book, I came to the conclusion that political party and political philosophy matter a lot less than we think. Washington is a company town, and politics is a business. People wonder why we don't get more change in Washington, and the reason is that the permanent political class is very comfortable. Business is good." **NW**

# OBAMA'S LUCKY FRIENDS

## WHERE DID GREEN-ENERGY CASH GO? STRAIGHT TO CAMPAIGN DONORS.

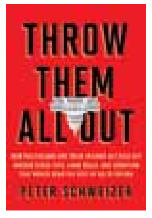
**BY PETER SCHWEIZER**

When President-elect Obama came to Washington in late 2008, he was outspoken about the need for an economic stimulus to revive a struggling economy. He wanted billions of dollars spent on "shovel-ready projects" to build roads; billions more for developing alternative-energy projects; and additional billions for expanding broadband Internet access and creating a "smart grid" for energy consumption. After he was sworn in as president, he proclaimed that taxpayer money would assuredly not be doled out to political friends. "Decisions about how Recovery Act dollars are spent will be based on the merits," he said, referring to the American Recovery and Reinvestment Act of 2009. "Let me repeat that: decisions about how recovery money will be spent will be based on the merits. They will not be made as a way of doing favors for lobbyists."

Really?

It would take an entire book to analyze every single grant and government-backed loan doled out since Barack Obama became president. But an examination of grants and guaranteed loans offered by just one stimulus program run by the Department of Energy, for alternative-energy projects, is stunning. The so-called 1705 Loan Guarantee Program and the 1603 Grant Program channeled billions of dollars to all sorts of energy companies. The grants were earmarked for alternative-fuel and green-power projects, so it would not be a surprise to learn that those industries were led by liberals. Furthermore, these were highly competitive grant and loan programs–not usually a hallmark of cronyism. Often fewer than 10 percent of applicants were deemed worthy.

Nevertheless, a large proportion of the winners were companies with Obama-campaign connections. Indeed, at least 10 members of Obama's finance committee and more than a dozen of his campaign bundlers were big winners in getting your money. At the same time, several politicians who supported Obama managed to strike gold by launching alternative-energy companies and obtaining grants. How much did they get? According to the Department of Energy's own numbers ... a lot. In the 1705 government-backed-loan program, for example, $16.4 billion of the $20.5 billion in loans granted as of Sept. 15 went to companies either run by or primarily owned by Obama financial backers–individuals who were bundlers, members of Obama's National Finance Committee, or large donors to the Democratic Party. The grant and guaranteed-loan recipients were early backers of Obama before he




**THROW THEM ALL OUT**
By Peter Schweizer
Houghton Mifflin, $26



ILLUSTRATION BY MATT DORFMAN

## $16.4 BILLION OF $20.5 BILLION IN LOANS WENT TO COMPANIES WITH OBAMA CONNECTIONS.

ran for president, people who continued to give to his campaigns and exclusively to the Democratic Party in the years leading up to 2008. Their political largesse is probably the best investment they ever made in alternative energy. It brought them returns many times over.

These government grants and loan guarantees not only provided access to taxpayer capital. They also served as a seal of approval from the federal government. Taxpayer money creates what investors call a "halo effect," in which a young, unprofitable company is suddenly seen to have a glowing future. The plan is simple. Invest some money, secure taxpayer grants and loans, go public, and then cash out. In just one small example, a company called Amyris Biotechnologies received a $24 million DOE grant to build a pilot plant to use altered yeast to turn sugar into hydrocarbons. The investors included several Obama bundlers and fundraisers. With federal money in hand, Amyris went public with an IPO the following year, raising $85 million. Kleiner Perkins, a firm that boasts Obama financier John Doerr and former vice president Al Gore as partners, found its $16 million investment was now worth $69 million. It's not clear how the other investors did. Amyris continues to lose money. Meanwhile, the $24 million grant created 40 jobs, according to the government website recovery.gov.

One might think that the Department of Energy's Loan Program Office, which has doled out billions in taxpayer-guaranteed loans, would be directed by a dedicated scientist or engineer. Or perhaps a civil servant with considerable financial knowledge. Instead, the department's loan and grant programs are run by partisans who were responsible for raising money during the Obama campaign from the same people who later came to seek government loans and grants. Steve Spinner, who served on the Obama campaign's National Finance Committee and was a bundler himself, was the campaign's "liaison to Silicon Valley." His responsibilities included fundraising, recruiting more bundlers, and managing Obama's relationship with a cadre of very wealthy donors. After the 2008 campaign, Spinner joined the Department of Energy as the "chief strategic operations officer" for the loan programs. A lot of the money he helped hand out went to that same cadre of wealthy Silicon Valley campaign donors. He also sat on the White House Business Council, which is made up of Obama-supporting corporate executives.

Another Obama fundraiser positioned to lead the allocation of taxpayer money to Obama contributors was Sanjay Wagle, who served as the managing co-chairman of Cleantech & Green Business Leaders for Obama. Wagle's day job was as a principal at VantagePoint Venture Partners. After the 2008 election, Wagle joined the Obama administration as a "renewable energy grants adviser" at the Department of Energy. VantagePoint owned firms that would later see federal loan guarantees roll in.

Jonathan Silver, who would serve as director of the loan programs, had worked in the Clinton administration, first as counselor to the secretary of the interior and later as assistant deputy secretary in the Department of Commerce. Silver's wife has served as financial director of the Democratic Leadership Council. His business partner, Tom Wheeler, was an Obama bundler, and Wheeler's wife was an outreach coordinator for the campaign. Silver's "strategic adviser" was Steve Spinner.

The grants themselves originated in the office of Cathy Zoi, who served as the assistant secretary of energy for efficiency and renewable energy. (Wagle was her adviser.) Zoi had previously worked in the Clinton White House as the chief of staff on environmental policy, then as the CEO of Al Gore's Alliance for Climate Protection. You may be thinking, "So what? Why would we expect anything less of political appointees?" But the numbers don't lie: the recipients of loans and grants were, overwhelmingly, Obama cronies.

The Government Accountability Office has been highly critical of the way guaranteed loans and grants were doled out by the Department of Energy, complaining that the process appears "arbitrary" and lacks transparency. In March 2011, for example, the GAO examined the first 18 loans that were approved and found that none were properly documented. It also noted that officials "did not always record the results of analysis" of these applications. A loan program for electric cars, for example, "lacks performance measures." No notes were kept during the review process, so it is difficult to determine how loan decisions were made. The GAO further declared that the Department of Energy "had treated applicants inconsistently in the application review process, favoring some applicants and disadvantaging others." The Department of Energy's inspector general, Gregory Friedman, who was not a political appointee, chastised the alternative-energy loan and grant programs for their absence of "sufficient transparency and accountability." He has testified that contracts have been steered to "friends and family."

Friends indeed. These programs might be the greatest—and most expensive—example of crony capitalism in American history. Tens of billions of dollars went to firms controlled or owned by fundraisers, bundlers, and political allies, many of whom—surprise!—are now raising money for Obama again. **NW**

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*Excerpted from* Throw Them All Out *by Peter Schweizer.*



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