The Game that Goes On and On: A Swiss Bank, a President, and the Permanent Governement

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Last August, the presidential press corps followed Barack Obama and his family to Martha's Vineyard for their brief vacation. The coverage focused on summery fare—a visit to an ice cream parlor, the books the president had brought along. Nearly everyone mentioned his few rounds of golf, including his swing, and the enthusiasm of onlookers. What caught my eye, though, was the makeup of his foursome. The president was joined by an old friend from Chicago; a young aide; and Robert Wolf, Chairman and CEO, UBS Group Americas. In a decidedly incurious piece, aNew York Times reporter made light of Wolf's presence:

> "The president has told friends that to truly relax he prefers golfing with young aides…But he departed from that pattern Monday when he invited a top campaign contributor, Robert Wolf, president of UBS Investment Bank, to join him for 18 holes. Call it donor maintenance."

Wolf, however, is hardly—as the Times suggested— just another donor. For one thing, he is a leading figure in an industry that almost brought down the entire financial system—and then was the recipient of astonishing government largesse. UBS, along with other banks, benefited directly from the backdoor bailout of the insurance giant AIG.

But UBS stands alone in one rather formidable respect—it was the defendant in the largest offshore tax evasion case in U.S. history, accused of helping wealthy Americans hide their income in secret offshore accounts. To settle a massive investigation, UBS forked over $780 million to the US treasury. This settlement came shortly before Wolf rounded out Obama's golfing party. Given this rather problematical situation, why then would the President choose UBS's Wolf of all people for this honor?

Wolf declined a request for an interview about his relationship with the President, so it was not possible to pose that question to him. This hardly matters, though, for the story goes far beyond Wolf and UBS. It involves Republicans as well as Democrats, the Bush Administration as well as Obama's. More importantly, behind the trivialized golf outing on Martha's Vineyard, lie the interests that increasingly set the course for every administration. And that now game the system so well that the rest of us—wherever we live in the world—are kept fighting for the scraps.

Both Sides Now

When most people criticize those aspects of government that seem most impervious to the democratic process, they cite the permanency and perceived self-interest of the mandarins of the Washington bureaucracy. But when it comes to real power, an ability to come out ahead no matter which party is in power, it's hard to top certain financial institutions.

UBS is very much a part of that permanent government. Though not a household name in the United States, UBS is a major player in the Beltway game. During the 2008 campaign, while Robert Wolf was courting Democratic hopeful Obama, his UBS cohort, former Senator Phil Gramm, was working the other side of the street. As chairman of the Senate Banking Committee in the 1990s, Gramm, a corporate-friendly Texas Republican, played a key role in the deregulation of the banking industry, an act so central to the nation's financial collapse. Since 2002, Gramm has been UBS Americas' vice chairman. In 2008, he was the leading economics adviser for Obama's opponent, John McCain—and even touted as a possible treasury secretary in a McCain administration.

The bottom line: UBS hedged its bets, and so had an inside track no matter which party took the White House. Thus, when Obama won, it was Wolf who ascended. The new president named the banker-donor to his White House Economic Advisory Board.

The important machinations behind this accrual of influence rarely get attention in the frenzied hustle of the news cycle. One reason is that they do not seem like news at all, since they are essentially woven deeply into the fabric of politics and government, thus hidden in plain sight. Another is that they are dauntingly complex.

Some things are simple, though. Like the fact that a UBS executive is a dubious candidate to serve as an economic advisor to the president. For one thing, the company's track record at the time of the election was distinctly underwhelming. UBS suffered major losses on subprime lending, and had to raise money from the Singapore government and other entities. As Slate's money columnist Daniel Gross quipped back in 2008, "UBS used to stand for Union Bank of Switzerland. But perhaps it should stand for Untold Billions Squandered. Or Underwater Bi-Lingual Schleppers." Furthermore, UBS' stock lost nearly 70 percent of its value even before the recession really kicked in—making it the worst performing foreign bank operating here.

Given this damning set of facts, Wolf made both an odd choice as a presidential adviser and a peculiar pick for that intimate round of golf.

"Hide Funds Here"

Despite being the world's biggest manager of private assets, UBS has stayed pretty much below the domestic radar. The Alpine quiet surrounding its activities was, however, quietly shattered in mid-2007, when an IRS audit of a US citizen led to a UBS banker who then revealed certain UBS practices that encouraged wealthy Americans to hide taxable income. UBS bankers had apparently used every trick in the book—including giving customers code names and assisting them with or providing them with untraceable pay phones, encrypted computers, fake trusts, document-shredding and even counter-surveillance training.

The feds did not move quickly on the revelations—but when they did, in good measure thanks to a kick from July 2008 Senate Permanent Subcommittee on Investigations hearings chaired by Senator Carl Levin and the report released in conjunction with the hearings, the UBS affair grew into the largest offshore tax evasion case in US history.

It is worth pointing out that one of three Senate co-sponsors of the Stop Tax Haven Abuse Act of 2007, introduced even before the UBS situation was known, was none other than a then-senator named…Barack Obama. The House sponsor was Rahm Emanuel—who would go on to be President Obama's Chief of Staff. Another, weaker bill was proffered by Sen. Max Baucus of the Finance Committee—parts of which did just quietly become law as part of an employment stimulus bill signed by Obama in March, 2010, with the goal of capturing lost tax income as a way of financing job creation.

In any case, it has become increasingly clear that tax evasion is but a piece of a troubling larger picture. The states of New York, Texas and Massachusetts sued the bank in 2008, accusing it of misleading investors about risks in its auction-rate securities market. UBS executives dumped their own holdings when the supposedly safe investments took a nosedive, yet continued to recommend them to customers. In Puerto Rico, a Bloomberg News reporter found, UBS had created its own closed-loop system for generating profits —it advised the Commonwealth to issue bonds, marketed the bonds to investors through UBS mutual funds, and then loaned the mutual funds money so they could buy the bonds. As James Cox, a Duke law professor and expert on finance and law said at the time, "I've never seen such a blatant series of conflicts of interest."

In a filing last June, New Hampshire's securities regulator charged UBS with "dishonest and unethical" practices in selling notes from the now-defunct Lehman Brothers, causing New Hampshire investors $2.5 million in losses. Wrote one securities lawyer on Forbes' website: "UBS is going to have to account for why it continued to aggressively market Lehman notes to retail customers as highly conservative investments at the very same time its institutional side was facilitating transactions designed to mask Lehman's financial troubles."

Further south, Brazilian police arrested officials of both UBS and the insurance giant AIG as part of a half-billion-dollar tax avoidance scheme, alleging that the companies used suspected black market money-changers to spirit the funds out of Brazil to Switzerland. At the time, the daily newspaper O Estado de Sao Paulo published a picture of a man in handcuffs, identified as a UBS executive, and reported that he told one of the arresting officers: "I'm not going to stay in custody. Anyone who has money in [Brazil] does not stay in custody." Things are not necessarily so different up north. The only company official sent to jail in the United States thus far in connection with the massive tax evasion case was, remarkably, the former employee who blew the whistle on the scheme in the first place.

An Attractive Fellow

The Obama-UBS relationship began on a December day in 2006. According to his calendar, the presidential hopeful was visiting New York City to speak at a fundraising dinner for children in poverty. Beforehand, though, he attended a much more exclusive gathering—in the midtown Manhattan conference room of billionaire George Soros—for a dozen wealthy figures eager to have a closer look at the prospect.

One attendee was UBS executive Robert Wolf. Then just 45, he had already been a major fundraiser for John Kerry's 2004 presidential bid and for congressional Democrats in 2006. For 2008, he had initially backed a moderate, Mark Warner, the former governor of Virginia. But when Warner decided not to run, Wolf turned to Obama, liked what he saw, and signed on.

His motivation, Wolf told New York Magazine in 2007, was simple: "I'd like my children to soon see a president give a State of the Union address and have both parties applaud." He praised Obama's early opposition to the invasion of Iraq. And he told Business Week: "I found him to be unbelievably refreshing and smart and thoughtful." Wolf soon became a top fundraiser. By the time of the New York article, he had already hosted two big cocktail parties, made a lot of calls, and brought in more than $500,000. It was through people like Wolf that Obama was able to match and then pass Hillary Clinton in fundraising for the primaries.

Another person who attended that exclusive session with Obama was a financier by the name of Hassan Nemazee. Nemazee's story circles back to UBS, through his involvement with Harken Energy, an obscure but supremely well-connected company that UBS took an unusual interest in keeping afloat. In the process, it illustrates how byzantine and pervasive the new trans-partisan money world has become. The complexity helps explain why reporters so often shrug and move on. They should pause more often; within that complexity resides an important truth about American democracy.

The Clintons' Hot Money Man

Over the years, Hassan Nemazee had become, like Wolf, a major Democratic fundraiser and insider. More importantly, he was deep into the Clinton inner circle. So much so, that he and a partner used an investment firm they had recently acquired, Carret Asset Management, to provide a lucrative perch to Terry McAuliffe, the Clintons' confidante and money man. (This was in the period between McAuliffe's chairmanship of the Democratic National Committee and his chairmanship of Hillary Clinton's presidential campaign.)

This indebted the Clintons further to Nemazee, who had been an avid supporter of Bill Clinton's presidency and major donor to his defense fund during the Monica Lewinsky/impeachment saga. Nemazee for his part was rewarded with appointment as ambassador to Argentina—an offer that was withdrawn, however, when Forbes reported that he had improperly represented himself as a "Latino" in order to secure targeted bond business from the state of California.

As with UBS's Wolf, Nemazee's substantial fundraising soon begot true insider status. The campaign even asked Nemazee to publicly defend Ms. Clinton when another top donor, Norman Hsu, was arrested as an alleged swindler and campaign finance fraudster (Hsu was later convicted.)

Nemazee was frequently characterized as a "top foreign policy adviser" to Ms. Clinton. Probably his closest thing to real foreign policy credentials was the fact that his father was one of the richest men in Iran under the dictatorship of the Shah Reza Pahlavi, and a close ally of the deposed leader. At the time of the meeting to size up Obama in Soros's office, Nemazee was simply window-shopping, as he remained committed to Hillary. But when Hillary dropped out of the race, Nemazee became a major Obama fundraiser. And once Hillary became Obama's secretary of state, according to insiders, she pushed the administration to take a tougher line with Iran's revolutionary Islamic government than Obama preferred. In so doing she renewed the appreciation of the retinue around the exiled Pahlavi faction, which still hopes to return to power one day, directly or indirectly.

Notwithstanding Nemazee's largesse, both Clinton and Obama must have had second thoughts this past September, when the financier was arrested on charges of bank fraud. Since then, Nemazee has pled guilty to defrauding several banks over the course of a decade, through the use of false collateral documentation, to the tune of $292 million. In a brief flurry of coverage, Nemazee's downfall was smirkily dismissed as just another day in the hothouse of Democratic corruption. The media has shown little further interest in Nemazee, and in what his arc signified.

This is unfortunate as it was not just a story about Democrats—or Republicans either, although they were involved. Rather it was the edge of an amoral iceberg that is essentially trans-partisan and that constantly exerts influence on presidents and would-be presidents of all stripes.

The outline of that larger reality becomes apparent when one traces Nemazee's path back more than two decades. In that earlier epoch, we find Nemazee mixed up again with Soros and UBS and a would-be president. At that point the rising star was not Barack Obama, but George W. Bush.

Growing a Bush

For many years, Hassan Nemazee has been a business partner of, and shared offices with, a man named Alan Quasha. And both of them have been involved with a company called Harken Energy, a mysterious outfit with links to some of the world's most powerful and odiferous regimes.

Harken, Nemazee, Quasha (and UBS) first came to my attention while I was researching my 2009 book, Family of Secrets, which is an investigative history of the rise of the Bush family and the special interests behind them. I was examining George W. Bush's run of good fortune in the 1980s when his failed oil ventures repeatedly became golden as larger ventures scooped them up and increased his remuneration. Texas-based Harken Energy, the biggest of these, paid Bush more than he had ever earned, gave him a nice board position, and basically freed him up to move to Washington and work on his father's 1988 White House race.

Just as Nemazee and Quasha would later take care of Hillary Clinton's guy—McAuliffe—so he could concentrate on preparing for her campaign, years earlier they had supported George W. Bush while he helped develop strategy for his father's campaign. In the process Harken took Bush, a man without much to show for himself as a businessman, and gave him the credibility and financial means with which to embark upon a political career—which he did soon thereafter.

Why had Harken adopted Bush? The few media organizations—Time and The Wall Street Journal among them— that looked into Harken concluded that something was fishy about the venture itself. The company's structure and transactions were unnecessarily convoluted. It violated most of the rules of sound business practice yet somehow continued to exist despite the fact that it rarely made money for its public shareholders.

It was nigh impossible to figure out where the funding for Harken originated, beyond shell companies in offshore tax havens such as the Netherlands Antilles. But what it actually did was nothing short of astonishing. In 1986, the year George W. Bush entered the picture, Harken had total revenue of four million dollars. Three years later, thanks to a flurry of acquisitions and infinitely complicated transactions, revenue would exceed a billion dollars.

Notwithstanding its general precariousness and obscurity, Harken somehow managed to assemble backing from global superstars, ranging from the billionaire investor Soros (at one point the largest Harken shareholder), and Harvard University's endowment, to interests tied to the Saudi elite, to then-Philippine dictator Ferdinand Marcos, and to the deposed Shah of Iran. In other words, this obscure company somehow was catnip to brutal and corrupt foreign leaders who had grown fabulously wealthy at the expense of their people—and who collaborated closely with the highest levels of the US military-intelligence-corporate establishment. (Soros's role seems especially strange; he went on to become the leading single funder of efforts to deny President George W. Bush a second term.) UBS was among the banks that profited from this dubious funding.

UBS had taken a position in Harken at a moment when the company was on the shoals. Coincidentally or not, this also was when George W. Bush—son of vice president George H.W. Bush—was part of the corporate board. UBS's role struck the Wall Street Journal as odd, in part because UBS was not known for investing in small American firms like Harken.

Facing regulatory difficulties over its investment in Harken, UBS ended up unloading its stock toAbdullah Taha Bakhsh, a Saudi tycoon with separate business ties to James Bath, a key Bush family operative who fronted for Saudi interests in Houston. Bakhsh was also a business partner with a Saudi royal family favorite labeled by the Federal Reserve as a "front man" for BCCI, or Bank of Credit and Commerce International. For those who have forgotten, BCCI was a criminal banking operation whose customers ranged from Western intelligence agencies to drug cartels and terrorist organizations.

Shortly before UBS helped bail out Harken, it had partnered with BCCI in a Geneva-based bank. BCCI was eventually shut down in raids commenced by the British government, after intense investigations by Senator John Kerry's Foreign Relations terrorism subcommittee and the Manhattan DA. But evidence of its ties to the highest levels of the US government under Ronald Reagan and George H.W. Bush, extensively uncovered by investigators, was repeatedly rebuffed by superiors and by regulators. It is worth noting that the Treasury Department official responsible for scrutinizing BCCI's affairs in the Reagan-Bush administration was assistant secretary for enforcement John M. Walker Jr.—who happened to be the cousin of George H.W. Bush. (Bushes have for generations been involved both in government and banking, with another close relative serving as a top official at Lehman Brothers before it precipitously failed. More on this topic, and on George H.W. Bush's secret past in deep covert intelligence work, can be found in my book, Family of Secrets.)

Keep in mind that such is the business milieu of Nemazee and Quasha, who jumped with apparently little effort from the Bush to Clinton camps when the moment was opportune—and one of whom ended up a player in the Obama campaign.

Scenarios like this cause the mind to reel. Yet where Ferdinand Marcos, the Saudi royal family, and the Shah converge with the son of an American president, in a deal involving large amounts of money, it is not necessary to untangle all the spaghetti strands to sense that something is amiss. Why, to begin with, would a major international bank get involved with a shadowy operation such as Harken? Whatever the reasons, the bank clearly gained influence with a White House that had family connections to the company.

Clues may be found in 1986, which is when George W. Bush joined the Harken board. It also is the year that Harken's chairman, Alan Quasha, hooked up with something called Rembrandt Group Holdings, a Swiss-based company headed by a South African billionaire, Anton Rupert. Rembrandt's vast portfolio included tobacco, financial services, wines and spirits, gold and diamond mining and luxury goods. Soon after that, Rembrandt took over a small, closely-held Denver company, Frontier Oil. Frontier then announced an $ 85-million "revolving credit facility" with….. Union Bank of Switzerland. UBS again.

Few expect international bankers to be paragons of virtue, but the South African connection highlights a particularly unsavory side. This was revealed in a series of reports produced by a coalition of Swiss organizations pushing for reparations to post-apartheid South Africa and cancellation of that country's debt to Switzerland. The group took particular interest in two South African-controlled companies that were established in Switzerland at the time of global economic sanctions against the apartheid regime – and one of these was Rembrandt.

According to one of the reports from Koordination Südliches Afrika, Swiss banks had played an important role "in financing the apartheid state and its corporations from the very beginning" and that "… the two Swiss banks UBS and CS Group have played a special role."

UBS's former chairman, Nikolaus Senn, actually had a medal bestowed on him for service to the white regime. When it became inevitable that apartheid would crumble, Senn nevertheless pronounced his doubts about giving blacks the franchise: "'One man–one vote' to me is not a world religion."

The connections here are worth considering. In 1988, while George W. Bush advised his father's presidential campaign and sat on Harken's board, Harken chairman Alan Quasha joined the board of Richemont, a new Swiss-based company controlled by the same South African Rupert family that controlled Rembrandt. UBS's Senn became Richemont's chairman.

So George W. Bush was joining an obscure company whose constituent parts were tied to the white power structure in South Africa, and also to the evasion of sanctions against that regime via Switzerland. And UBS played a central role in the arrangement.

The South African regime was not the only one that got in on this money game. Ferdinand Marcos, the late dictator of the Philippines, whose kleptocratic rule was marked by savage human rights abuses and martial law, had a seat at the table too. The father of Alan Quasha, Harken's chairman, was an American lawyer who lived most of his adult life in the Philippines, and represented clients tied to US intelligence. He remained an advocate of Marcos to the end.

Marcos also was moving billions pillaged from the Philippine and American people (via aid to that country) into Swiss accounts. In fact, Phil Kendrick, who sold Harken Energy to Alan Quasha, recalls having heard rumors back then that the money to buy him out came from Marcos himself. The Bushes and Marcos were famously friendly. As vice president, George HW Bush visited Marcos's Philippines during its protracted martial law and declared that country, to considerable subsequent ridicule, a great and vibrant example. "We love you, sir, we love your adherence to democratic principles," vice president Bush said on that 1981 trip. And Marcos's widow Imelda would speak, elliptically, of how the elder Bush had given her husband advice on how to invest "his" fortune. Bush and Marcos even took lessons from the same golf instructor.

It's all about access—and golf has long played a crucial role. Back in the 1950s, Senator Prescott Bush, father of HW and a powerful former banker himself, used to have unique access to President Eisenhower as his regular golf partner. By the time of Barack Obama's little-studied invitation to Robert Wolf to round out his foursome, Wolf (and UBS), too, were already on the inside. Early in the Obama administration, Wolf had quietly been appointed to Obama's Economic Advisory Board. The fact that UBS is now playing a role in the administration of a liberal democratic "reformer" illustrates just how trans-partisan money interests can be. Though the board has engendered little media notice besides an Associated Press piece that subtly tried to spark broader curiosity, its makeup alone deserves attention—for what it tells us about the group that had the ear of the President as he embarked upon his change agenda.

One of Wolf's fellow board members is William H. Donaldson, an old friend of the Bush family who served on the board of the tobacco company Philip Morris for two decades. Donaldson headed the investment bank Donaldson, Lufkin & Jenrette, which looked after the financial affairs of George W. Bush over the years. Donaldson was one of the directors brought into Frontier Oil when it was taken over by the Quasha-Rembrandt-Bush-UBS group. President George W. Bush named Donaldson head of the Securities and Exchange Commission (SEC), where he served from 2001-2005. During that period, he presided over changes requested by investment banks that lessened regulation; among other things, the SEC chose to rely on the banks' own computer models for risk assessments. "If anything goes wrong," said Harvey Goldschmid, another commissioner at the time, "it's going to be an awfully big mess."

And indeed it is.

The staff director for Obama's Economic Advisory Board, who also serves as a member of the president's powerful Council of Economic Advisers, is Austan Goolsbee, who along with Donaldson and Bush shared membership in the exclusive Yale secret society, Skull and Bones. Goolsbee has pretty much stayed out of the news, except for a brief scandal during the 2008 campaign when a Canadian government internal memo characterized Goolsbee as reassuring our Northern neighbors that Obama's anti-NAFTA rhetoric was just that, "political positioning" that did not reflect the candidate's real position on globalization.

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People wonder why, year after year, promise after promise, so little seems to change in Washington. But it is usually left to academics and theoreticians to explain, somewhat abstractly and historically, how powerful institutions continue to influence the course of public affairs irrespective of who is in the White House and what party is in charge.

Meanwhile, polls show that most Americans think that banks got a much better deal out of the Bush-Obama rescue-stimulus than the average Joe. And they're right—but they don't quite get the real story on how such deals come about.

Supporters of Barack Obama argue that reporting on his connections to the powerful "permanent government" can only impede his sincere efforts to reform health care, the financial industry and so on. But such revelations carry an important message: that American presidents, no matter how good their intentions, are inevitably enmeshed in a self-reinforcing web of interests and influences that permits the wealthy to shape our national destiny no matter who controls the government in Washington. Shining a light on the UBS-Obama link can serve as yet another warning beacon to anyone who underestimates the nature of the challenge facing American democracy. Figuring out how our world works—actually works —requires a skeptical eye and a willingness to follow the facts wherever they lead. After all, sometimes a good golf story is just a story about some guys playing golf. And sometimes it isn't.

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