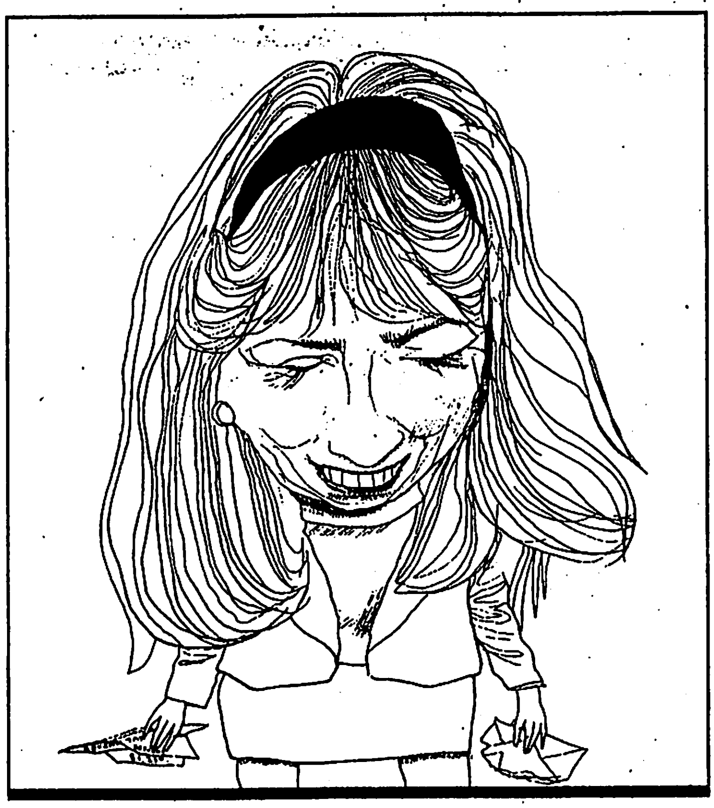
Lisa Schiffren

Bill and Hillary at the Trough

Throughout their political careers, living well has been their best revenge against disgruntled taxpayers.



Ever wonder why President Bill and First Lady Hillary seem so genuinely to believe that all money earned in the 1980s was somehow illegitimate and undeserved? Or why, after a decade-long national experiment, they seem completely indifferent to the effects of tax rates on people's willingness to work? Or to the relation between incentives and productivity in general? Or, most dismaying, why they seem not to believe that most people who do well work very hard for their money?

When Bill Clinton nominated Ruth Bader Ginsburg to the Supreme Court, he said: "I believe the measure of a person's values can best be measured by examining the life the person lives." In that spirit, Bill and Hillary's financial life, as reflected in a decade's worth of tax returns, sheds light on their values, and the experience that shaped their economic worldviews.

Subsidies for Personal Expenses

Remember Bill Clinton's much-touted "lowest-in-the-nation" $35,000 governor's salary? That was merely his cash compensation—mad money. For the decade he was governor, all Clinton personal living expenses (including food, shelter, transportation, and entertainment), along with security, housekeeping, administration, utilities, etc., were paid out of various state funds. Including those expenses, the care and feeding of their humble governor cost taxpayers in the nation's second-poorest state more than three-quarters of a million dollars a year, according to the Arkansas state auditor, Julia Hughes Jones. And it left Hillary's annual $150,000 or so free.

Two particular funds raise interesting legal questions. One was a yearly $51,000 food allotment, intended for both state functions and private meals, as well as incidental mansion expenses and anything else the governor might wish to spend it on. Unlike most expense funds, but like income, that stipend was not subject to oversight by the state legislature. (According to a former senior official in the Tax Division of the U.S. Department of Justice, "One rule of thumb used to determine what is income is unrestricted discretion.") While governor, America's First Appetite annoyed the legislature by requesting a significantly larger "food allowance" during a late-1980s period of belt-tightening. According to former IRS Commissioner Donald Alexander, who has reviewed the returns, the $51,000 fund

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"probably constitutes a failure to report income." The other legally questionable fund is an annual $19,000 "public relations" fund, also not subject to audit. Said Bill Goodman, chairman of the Arkansas Legislative Joint Budget Committee, which allocates the funds, "You have always had to pay a tax on that money, because it is an allowance, not a reimbursement." In 1989 the fund—earmarked for items as varied as fruit-basket gifts for constituents and political events that advanced Bill Clinton's career, not Arkansas business—became an issue with the legislature. Under political pressure and press scrutiny, Clinton finally began declaring the extra $19,000 as part of his income—as the law had always required.

Away from media-monitored halls of power in Washington and a few big cities, of course, local officials often live quite well on perks they don't bother to report. Legally, such perks usually fall into gray areas. But to put it in perspective: Tax returns indicate that Bill Clinton never declared the personal-use value of his state-funded Lincoln Town Car, his roughly $3,500 personal entertainment bill, and other sundries. Meanwhile, FBI Director William Sessions is being hounded from office for failing to declare as income the occasional personal use of his government-provided limousine.

It is an irony that may or may not comfort Zoë Baird, Kimba Wood, Charles Ruff, and Judge Stephen Breyer—all of whom lost jobs over the issue of household help—but among the other bills footed by the taxpayers of Arkansas was the cost of Chelsea's nanny.

Nanny Problems

It is an irony that may or may not comfort Zoë Baird, Kimba Wood, Charles Ruff, and Judge Stephen Breyer—all of whom lost jobs over the issue of household help—but among the other bills footed by the taxpayers of Arkansas was the cost of Chelsea's nanny. The record of that expense helps explain how the Clintons came to be blindsided by the Baird nomination.

Chelsea Clinton was born on February 27, 1980. Hillary, already a partner at The Rose Law Firm, took off the better part of six months in order to care for Chelsea. But a 1981 audit of the Governor's Mansion official payroll showed that one D.M. Sanders, a nurse, was employed from March 4, 1980—one week after Chelsea's birth—until Bill Clinton left office on January 31, 1981, at the cost of $3,130. Of course the State of Arkansas does not pay for nannies for its officials' children. So Governor Clinton had Chelsea's nurse listed on the official payroll as a security guard.

When this expenditure was caught and challenged by a local newspaper in 1981, the then-out-of-office Clinton shrugged it off on the grounds that the security guard slot had been the only one open. (The mansion had a full roster of maids and cooks.) Ignoring official job designations is common when hiring legitimate office staffers, but it makes sense in this case only if one assumes that the taxpayers should pay for a personal nurse for the governor's baby. In any case, nowhere on their 1980 tax return did either Yale-trained lawyer/parent remember to list that $3,130 taxpayer gift as income.

Bill Clinton lost his re-election race that year, so 1981-82 are the only years since 1977 that he was off the public payroll. Without a mansion full of help, the Clintons hired a nurse—the same Dessie Sanders, security guard—and paid her with their own money. Having done so, William J. Clinton and Hillary Rodham carefully filed Form 2241, the Credit for Child and Dependent Care Expenses attachment, along with their 1981 return. They claimed a credit of $400 against a $5,934 payment to Dessie and a $451 payment to a Montessori school.

The Clintons omitted only one piece of information from Form 2241: Dessie Sanders's Social Security number. Nor did they list any such information the following year. Ms. Sanders, a middle-aged American citizen, who unlike the rest of the mansion's domestic staff was white, certainly had such a number. Without it, the Clintons could not have paid Social Security taxes for her.

Nor did the Clintons ever list any Social Security numbers for the other baby-sitters they paid between $1,000 and $1,500 per year—and for whom they continued to take the child-care credit through 1985. As many of us learned last winter (but as Clinton, a former state attorney general, and his lawyer wife might have been expected to know), Social Security taxes must be paid for anyone to whom an employer pays more than $50 a quarter.

Were the payments made? Or did Bill and Hillary do what Zoë Baird and her husband, Yale Law professor Paul Gewirtz, did? After a minor fulmination to the effect that she would not lie about such a thing, Hillary's press secretary Lisa Caputo explained that White House Counsel Bernard Nussbaum had found Bill and Hillary's records in perfect compliance with all Social Security obligations. The relevant records were in a box in the White House. But for reasons of principle, the first couple would not release them or provide any material evidence to show that, despite appearances to the contrary on their tax returns, they had not violated the Social Security codes. Unlike Kimba Wood, in other words, the Clintons did not have to prove they had met the one ethical standard their administration has set for employment.

By 1983 the Clintons were back in the governor's mansion. Oddly enough, there is no further mention of full-time babysitting on the Clintons' tax returns. How did the dynamic duo make sure that their baby wasn't neglected? Sometimes they used part-time baby-sitters, and continued to file for a tax credit against that cost, but listed no Social Security payments. And Mrs. Clinton has often said that her parents baby-sat frequently. Witnesses in Little Rock suggest a third alternative: that the Clintons routinely used staffers assigned to official duties—housekeeping, security, mansion administrator, etc.—to look after Chelsea. Rosie Spann, an elderly maid who served in the mansion when Chelsea was young, confirmed this. "I worked upstairs, so I sometimes watched the baby when Hillary went to work."

No secret is made of the fact that, as White House Deputy Press Secretary Lorraine Voles put it, "childcare was provided for them in the governor's mansion." But why is it that nowhere on the state's official payroll—for all of Chelsea's young life—has anyone ever been listed in that job designation?

This set-up continues in the Clinton White House. Twenty-two-year-old Helen Dickey, Chelsea's last nanny in Little Rock, moved with the Clintons to Washington and is paid $20,000 as an employee of the East Wing social staff. How then does she rate a bedroom in the White House? According to *Newsweek*, Press Secretary Caputo said that Dickey's duties include providing "basic backup support" in planning parties and answering mail and the phones, but acknowledged that Dickey still takes care of Chelsea "on occasion." Said Caputo: "She's really part of the family."

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Decade of Greed

Despite an income that put them in the top 3 percent of American families, for the Clintons in the 1980s, most things in life were free—except clothing. Yet Hillary managed to subsidize clothing, too, with some stunningly aggressive tax deductions. Each season Hillary gave away dozens of bags of old clothing—hers, Bill's, and Chelsea's—to Goodwill, the Salvation Army, and local shelters and charities. Despite her busy schedule, she personally listed and valued each item. Yearly totals range from just under $1,000 to well over $2,300. Highlights include valuing Bill's used undershirts at $3 each and Bill's used running shoes at $10 and consistently donating the sort of personal items that most of us feel are best thrown away. (Bill's and Chelsea's underwear: $1 a pair.) One year Hillary gave away a host of Chelsea's toys. (One item, a Christmas bear, is crossed off. One can only imagine little Chelsea pleading to keep the bear, which mom believed would fetch a $3 deduction.)

Former Commissioner Alexander noted that the Clintons seemed to have an unusually high turnover in clothing. Another former IRS official questioned "whether the fair market value she ascribes to these old clothes are within the realm of reasonableness."

It is worth mentioning that Bill and Hillary did give large annual cash donations to charity. With the exception of significant checks to their respective churches, though, the lists are mostly comprised of $25, $50, and other relatively small-denomination checks to a profoundly politically correct list of causes with which ambitious liberals might want to stay in touch. The First Lady's taste for self-improvement for others is evident in generous yearly donations to an anti-smoking group.

Investment Strategy: His, Hers, Ours

It is less than shocking that the governor of a small Southern state got away with these petty abuses, or that his breadwinner wife was ambitious and cheap. Much more worrisome is the revelation that the two lawyers now raising your taxes, in order to "invest" the proceeds, have a shoddy investment record themselves, and didn't make money in the market in the bullish 1980s until well-connected friends offered useful tips. (Actually, it's unclear what Bill's financial role really was. Hillary's salary went from roughly $50,000 to $200,000-plus in a decade, and she appears to have made the investment decisions.)

The Clintons' investments betray no coherent, long-term strategy. In the early and mid-1980s they engaged in several tax-motivated oil- and gas-drilling partnerships, none of which were particularly profitable, but all of which produced the desired tax losses. These investments, curtailed after the tax reforms of 1986, are precisely the kind of economically wasteful tax shelter that many economists worry will flower under Clinton's new tax proposals.

Another hallmark of the Clinton investment style was buying shares of small companies, holding them for less than a year, and then selling them to buy new stocks. Almost all of these trades, mostly in small, high-flying equities, resulted in losses, climaxing in 1987 when Hillary managed to drop over $2,500 in a single day on an extremely speculative futures transaction. Nor did the Clintons apply high-minded liberal ethics to their money, as Hillary's profits from South African diamond mines (DeBeers, Inc.) attest. When confronted by journalists and black leaders during the campaign, Bill denied having known about the investment, and Hillary claimed her broker had done it without her knowledge. So who cashed those dividend checks?

The First Financial Planners have always wanted to "beat the market," even if it meant cutting corners, as is evident in their investment in Whitewater Development Corporation, a failed real estate project in the Ozarks. Even though the Clintons had signed a loan, they appear not to have had to pay up on their debt. We will never know the truth of the allegations that the Clintons got a sweetheart deal from the developer (and subsequent S&L owner) who instigated and bankrolled the deal. Adequate financial records were never kept (or were lost), and the forensic accountant hired during last year's campaign to reconstruct the deal threw up his hands in despair. At that point, Hillary told the media that she and her husband had disclosed more about their finances than any other candidates in history, and with an injured air closed the discussion.

Cronies and Partners

The serious Rodham/Clinton investments, the ones that landed the First Couple in the top 3 percent of America's wealth holders, all share the same themes: cronyism and concentration in areas where state licensing and regulation is key—call it the Lyndon Johnson investment plan. They were notably successful with an investment in Arkansas Cellular Communications, a joint venture entered into by various of the state's movers and shakers. In 1988 alone, they realized profits of $42,000 from a minimal investment. Their most profitable investments were partnerships and joint ventures. What the people who put up the real cash got is anybody's guess, though many are coming east these days. Webb Hubbell, for instance, who joined the Clintons in at least one such venture, was confirmed in May as associate attorney general.

Investment partnerships are not the only indirect income benefits that accrue to professional politicians. Usually, even brilliant young attorneys like Hillary work longer than six months as associates before being made partners at extremely prestigious law firms. And did Sam Walton want Hillary on his board of directors because of her financial acumen? Or did he value her connection to the governor of the state in which Wal-Mart was headquartered?

Hillary was clever enough to cash out of her partnership at the Rose Law Firm by December 31, 1992, hours before her lump sum payment of $203,172 would have been taxed at the new, Bill-imposed rates of 36 percent, up from 31 percent. Considering that her husband's taxable income for 1993 would be $200,000, up from $35,000, she was probably also afraid of the new "millionaire's surtax." You'd have to give away a lot of old underwear to cancel out those new tax rates. ❐

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