6/8/94

[redacted]

LEESBURG, FL. 34748

[redacted]

Praise

DEAR BRIAN LAMB ET ALL

3 CHEERS FOR C-SPAN. IT HAS BECOME THE OPIATE OF ALL THINKING AMERICANS, DONT EVER FAIL US. I THINK OUR CONGRESS HAS FAILED US AND WE MUST KEEP PRESSURE ON OUR GOVT. C-SPAN HAS OPENED THE DOORS FOR US, NOW WE MUST WALK IN AND TAKE BACK OUR GOVT (A LITTLE PEROT TALK THERE). I AM ENCLOSING THIS ARTICLE FROM THE BRITISH MAG. "THE ECONOMIST." THANKS TO CHUCK HARDER (FOR THE PEOPLE) WE LEARNED ABOUT IT.

RESPECTFULLY

[redacted]

*DEALERS IN SHELLS, BOOKS, MAGAZINES AN[redacted]

The Lasater affair

Ghosts of carelessness past

LITTLE ROCK, OCALA AND NEW YORK

The Whitewater property deals were not the only questionable transactions going on in Arkansas when Bill Clinton was governor. The activities of one of his chief campaign contributors may come back to haunt him, too

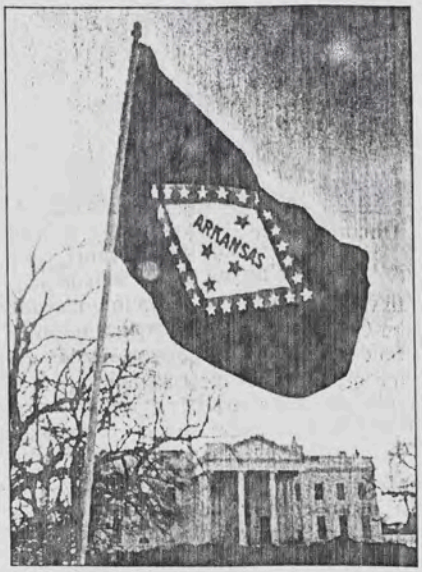
THE penny dropped for Dennis Patrick in February, when he heard the names Dan Lasater and Patsy Thomasson mentioned on a radio show about Whitewater. They provided one possible explanation of why his life had turned into a living hell since a brokerage account had been opened at Lasater & Co in 1985 in the name of his company, Patrick & Associates.

The tale is a strange one, and it is only one man's story of what happened to him. In July 1985 Mr Patrick, then living in the mountains of eastern Kentucky, was telephoned by a former college friend, Steve Love, to invite him on an all-expenses-paid deep-sea fishing trip to Florida. Mr Patrick, a clerk at the Whitley county circuit court, accepted. During the weekend his friend urged him to open a brokerage account at Lasater & Co, a Little Rock bond-dealer, where Mr Love worked as a vice-president. He promised Mr Patrick, who at the time had an estimated net worth of at most $60,000 and no knowledge of securities investment, that he would not lose a cent.

Mr Patrick says Mr Love telephoned him the next month to say he had opened an account on his behalf (although Mr Patrick had signed nothing and put up no money) and that he had already made him a profit of about $20,000. A delighted Mr Patrick went to the offices of Lasater & Co in Little Rock, where he says he was reassured by Mr Love and Billy McCord, the sales manager, that there was no risk of loss and that he could expect to make up to $20,000 a week. He was instructed by Mr Love to deposit his profits at the First American Bank in Little Rock. It was only several weeks later, after Mr Love had pressed Mr Patrick to start signing documents even though his signature had never been needed before, that Mr Patrick grew uneasy enough to ask Mr Love to stop trading on his behalf.

A few months later, Mr Love met Mr Patrick in Kentucky and handed him a folder containing trading records, in the name of Patrick & Associates, which Mr Patrick did not understand. Then in April 1986 Lasater & Co filed a lawsuit against Mr Patrick seeking payment of a sum of $86,625. Mr Patrick, upset, telephoned Mr Love, who told him he would take care of the matter. But the litigation continued. In June 1987 Mr Patrick filed answers to interrogatories raised by Lasater & Co in the lawsuit. He says he was helped by Linda Nesheim, a former broker at Lasater & Co. *The Economist* failed to find Mr Love and Miss Nesheim for their version of these events.

Mr Patrick stated in his interrogatory, under penalty of perjury, that Mr Love had opened an account without his permission or knowledge, and that trades in his account had from time to time exceeded $12m. Mr Patrick also supplied a list of names of people who knew about this matter, including Mr Love and Mr McCord. He says that Miss Nesheim told him that when Miss Thomasson—a long-time associate of Mr Lasater who at the time had legal responsibility for running his affairs—saw these names she would be most upset and that he would hear nothing more from Lasater & Co. And that is what happened.



Falls the shadow

But Mr Patrick had other distractions. Within one year four men were arrested by agents of the Treasury Department's Alcohol, Tobacco and Firearms (ATF) division on charges relating to plots to kill him.

First, Patrick Tully was arrested in Alabama armed with a gun and carrying a map of the inside of Mr Patrick's house and a picture of his vehicle. Second, Danny Star Burson was arrested in Tennessee for machine-gun violations after Mr Patrick had pursued him down an interstate highway after what he alleges was an attempt to kill him. Third, James Josey and Anthony Tricomi were arrested in Texas in September 1986 by the ATF for conspiracy to transport explosives across state lines. A federal indictment at the time said Mr Josey had hired Mr Tricomi to kill Mr Patrick.

Mr Patrick says he had no idea why these people were trying to kill him. But ATF agents in Kentucky thought he was mixed up in drug trafficking. They even offered him immunity from prosecution if he would talk. Mr Patrick said he had no information to give. One ATF agent assigned to his case, John Simms, now says Mr Patrick was considered "a victim only". Mr Patrick moved away from Kentucky in 1988, and still lives in semi-hiding.

Since moving, he has suffered no more attempts on his life. But when he heard the familiar names of Mr Lasater and Miss Thomasson on the radio, he searched out his old broking account records and showed them to a bond-broker friend. The friend told him that the bond trades in his account had amounted to about $50m.

Developing Arkansas

In Little Rock in the 1980s, Dan Lasater was renowned for his extravagant parties and hard living. After a childhood of poverty, he made his fortune in his 20s when he founded Ponderosa, a steakhouse chain that went public in 1971. He had close ties with Bill Clinton, who was then governor, through his friendship with Mr Clinton's mother and brother. At one stage, Mr Clinton's half-brother Roger was Mr Lasater's driver. When Roger was in trouble with the law over drugs, Mr Lasater sent him to his Florida horse-farm to lie low for a while. According to the farm manager, John Fernung, Mr Lasater remarked at that point that he owed the governor a lot of favours.

Although his family came from Arkansas, Mr Lasater was born in Indiana. He moved to Little Rock in the 1970s to go into the broking business, and set up Lasater & Co in 1983 after buying out his partners, George Locke and David Collins. He was one of the biggest contributors to Mr Clinton's election campaign in 1982, when he won back the governorship after a term out of office. The firm soon became a frequent underwriter of Arkansas municipal-bond issues, including those of the Arkansas Development Finance Authority (ADFA).

Roy Drew, a financial adviser based in Little Rock who has studied the ADFA, says the agency—which was set up at Mr Clinton's urging by the Arkansas legislature in 1985—took over much of the state's bond-issuing power and gave the governor the ability "essentially to create money". ADFA has no regulator and no legislative oversight. The governor appoints the board and has the right to approve or disapprove every bond issue. There is virtually no limit on the value of bonds that can be issued, an arrangement that Mr Drew describes as a "prescription for abuse".

A book published in March alleges that

ADFA was also used as a conduit to slip cash for the manufacture of untraceable weapons parts. These were sent (in violation of American law) to the contras in Nicaragua during the Reagan years. The book—"Compromised: Reagan, Bush and the CIA"—was written by Terry Reed, a former air force intelligence officer in Vietnam, and John Cummings, an investigative reporter. Mr Reed himself says he trained Nicaraguans to drop supplies. The laundered money, he claims, was literally dropped into Arkansas by aircraft as part of a successful smuggling operation based in Mena, in western Arkansas. The operation was run by Barry Seal, a man who Mr Reed reckons was working as a freelance agent for the CIA.

Mr Reed alleges that Seal made cash deposits directly into Lasater & Co in Little Rock, and that Mr Lasater introduced Seal to him as a client of his. Seal, a self-confessed drug-smuggler, was shot dead in February 1986 before he was due to give testimony against the Medellin cartel. Mr Lasater could not be reached for comment, but George Locke, his former brokerage partner, says, "I can tell you one thing, Mr Seal has never met Mr Lasater."

Others, too, think there was something odd happening at Mena. In October 1988 Charles Black, the deputy prosecutor for Polk County (where Mena is), handed Governor Clinton a letter appealing for state financing of an investigation into drug-smuggling at the airport. At that point, according to the letter, the investigative file on Mena contained around 20,000 pages. It was, he says, "the biggest criminal case I ever came across." Mr Black says that Mr Clinton agreed to get someone to look into it, but he never heard anything more.

Bill Duncan, now the chief investigator at the Medicare fraud divison of the Arkansas attorney-general's office, carried out a criminal investigation of goings-on at Mena between 1983 and 1986 for the Internal Revenue Service. Mr Duncan says he uncovered evidence of a "tremendous amount of money-laundering". His own investigation focused on how the flow of arms was financing drug-sale proceeds washed clean through what appeared to be legitimate businesses. His findings were never submitted to a grand jury, and he was not granted subpoenas to pursue the money trail in central Arkansas, which includes Little Rock.

Mr Reed says that the first recipient of a tax-free low-interest ADFA bond issue was Park-On-Meter, a parking-meter company based in Russellville, Arkansas. Seth Ward, the company's president and one of its owners, is the brother-in-law of Webb Hubbell, a former law partner of Hillary Clinton who recently resigned from a high position in the Justice Department during investigations of overcharging of clients at their law firm. In his book, Mr Reed claims Park-On-Meter made weapons parts as a subcontractor for Iver Johnson's Firearms (now bankrupt), of Jacksonville, Arkansas. It was this company which, by Mr Reed's account, was the primary contractor for building the untraceable weapons components.

Paula's tale

IS SCANDALITIS a presidency-threatening affliction? Bill Clinton clearly thinks so. He has hired a Washington superlawyer, Robert Bennett, and looks likely to need him for quite a while.

First, Mr Bennett has to deal with the extraordinary spectacle of an American president being accused of sexual harassment. That allegation comes from a former Arkansas state employee, Paula Jones, who claims that in May 1991 Governor Clinton summoned her to a Little Rock hotel room and asked for oral sex. "I will never forget the look on his face," she has told the *Washington Post*. "His face was just red, beet red." She was planning to file a civil suit on May 5th.

The episode simply "didn't happen", says Mr Bennett. Yet the prospect of an imminent formal accusation has eroded editors' qualms about running such stories. It is, after all, a slack time for the Whitewater financial affair.

But that will not last. Congressional hearings loom, and then comes the report of the special counsel, Robert Fiske. Mr Bennett is going to be a busy man.

The S&L connection

One motive for setting up ADFA, according to Roy Drew, was to reduce the sway held by Stephens Inc of Little Rock over the Arkansas municipal-bond underwriting market. Stephens is one of America's biggest non-New-York based investment banks; it is often said to "own" the state of Arkansas. Lasater & Co was one of the competitors that benefited most from ADFA's creation. According to the *Washington Times*, the firm underwrote \$664m in Arkansas municipal-bond issues, not all of them ADFA's, before Mr Clinton was compelled to distance himself from Mr Lasater when his friend fell foul of a drug charge.

Mr Drew, himself a Stephens employee for six years, says that Stephens had become "real nervous" at the amount of business Lasater & Co was receiving. But Stephens did not have to worry for long. Mr Lasater, who was by then a heavy cocaine-user, was charged with "social distribution" of drugs and sentenced to 2½ years in prison. He served six months, and in 1990 Mr Clinton pardoned him.

Mr Lasater's links with the president have continued, albeit indirectly, up to now. Miss Thomasson, who did not return *The Economist*'s calls about this story, now serves as director of administration in the White House. She worked for Lasater & Co with the title of executive president and was given legal responsibility for managing Mr Lasater's affairs after he went to prison in 1987. Miss Thomasson was also one of the two aides who accompanied Bernard Nussbaum, the former White House counsel, on a search of Vincent Foster's office on July 20th last year less than three hours after his body was found in a Virginia park.

Mr Lasater is now back in Little Rock and still active in business. His Phoenix Group has been bidding for distressed assets sold by the Resolution Trust Corporation, the federal agency charged with cleaning up the savings-and-loan mess. There is irony in this, since frenzied bond trading by Lasater & Co played a part in the failure of more than one savings and loan.

For example, the Federal Savings and Loan Insurance Corporation (FSLIC), the former thrift deposit insurance fund, sued Lasater & Co for \$3.3m for its part in the failure of First American Savings and Loan, a Chicago-based thrift. Lasater & Co paid the government \$200,000 in an out-of-court settlement. Bizarrely, in view of Mr Lasater's connections, FSLIC hired the Rose Law Firm of Little Rock to represent it in the lawsuit. Even more extraordinary, given Mr Lasater's ties to Mr Clinton, the two top lawyers assigned to the case were Mr Foster and Mrs Clinton.

The activities of Lasater & Co and of ADFA are only now coming into the spotlight. It is clear that the money trail involving them has never been thoroughly investigated, and that many unanswered questions remain. At the least, they suggest Mr Clinton was not over-punctilious about either the friends he made or the institutions he backed. That carelessness, combined with eagerness to please, continues to haunt him in the White House.