US: Top AFL-CIO officials resign in insurance scandal

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Three top US labor officials, including AFL-CIO President John Sweeney, have resigned their positions as directors of the union-owned insurance firm, Ullico. The resignations come amidst bitter conflicts within the union bureaucracy over probes into corrupt insider trading by board members.

Sweeney quit along with AFL-CIO Executive Vice President Linda Chavez-Thompson and International Union of Operating Engineers President Frank Hanley. The three have accused Ullico CEO Robert Georgine of attempting to suppress an internal report on trading schemes that allowed Ullico directors to make hundreds of thousands and in some cases millions of dollars on the sale of company stock. Georgine is the former head of the AFL-CIO's Building and Construction Trades Department.

The stock trading involved the privileged purchase of Ullico shares by directors—nearly all of whom are current or former trade union officials—at artificially low prices and the privileged sale of these shares at prices that were artificially high.

The company has over $6 billion in assets, consisting principally of union pension funds. During the late '90s, these assets were increasingly employed in stock market speculation. Because Ullico is a privately held company, share prices are determined by the board of directors rather than by market forces.

During 1999, Georgine and other board members put together special arrangements that allowed directors to purchase company shares shortly before a reevaluation of the share value. This was during the height of the telecom stock bubble, and the Ullico portfolio was heavily invested in telecommunications companies, particularly Global Crossing. Thus, directors who knew that a periodic reevaluation of Ullico stock would yield a sharp increase could reap profits by buying up shares first at the lower price.

When the telecom bubble burst in 2000, directors were given the opportunity to sell large amounts of shares at the inflated value. Thus they were able to benefit personally through inside knowledge and control of the company's share price. Georgine himself made over $7 million in this manner, according to sources cited by the *Washington Post*.

The revelations surrounding the stock agreements originally surfaced as a side effect of an investigation into former president of the Bridge, Structural and Ornamental Iron Workers, Jake West, who pleaded guilty in October to embezzlement. The charges relate to his management of his union's pension fund and a $200,000 payoff to one of his union rivals.

When the scandal erupted earlier this year, Sweeney and other directors scrambled to contain the crisis. The AFL-CIO has attempted to posture as a critic of corrupt corporate practices such as those that took place at Enron, WorldCom and Global Crossing. When it was discovered that Ullico directors were involved in the same sort of deals, the unions' credibility among their own members was further undermined. This credibility has been severely eroded as the bureaucracy has steadily integrated itself into the corporate establishment, a process that is graphically illustrated in the scandal itself.

Sweeney and other directors also came under sharp attack from right-wing publications such as the *Wall Street Journal*, which welcomed the scandal as an opportunity to attack "big labor."

Sweeney responded by pressuring Georgine to accept an internal investigation led by former Illinois Governor James Thompson. The investigation, which concluded last month, is reportedly very critical of the Ullico directors, and in particular Georgine. The *Wall*

Street Journal cites sources who claim the report puts the total profits made by Ullico officials at $14 million, more than twice the previously estimated figure. It also recommends that directors return any profits made in the scheme and proposes various organizational measures to provide greater accountability.

The board members who resigned did not participate in the stock deals. Nevertheless, as board members, Sweeney and the others had to approve the stock purchase and buyback schemes proposed by Georgine. It was only after the collapse of Global Crossing shares and the public disclosure of the scandal that they come into conflict with the former building trades bureaucrat.

Sweeney, Hanley and Chavez-Thompson resigned after Georgine took organizational measures to prevent the release of the report. Georgine attempted to pressure the board to sign a nondisclosure agreement before allowing any of them to see the report's conclusions. A November 20 meeting of the board that was supposed to review the report was canceled and postponed indefinitely by Georgine.

Hanley accused the board and Georgine of taking a "seemingly adversarial approach" to the investigation and worried that the attempt to stonewall the investigation "plays into the hands of the enemies of labor." Sweeney's opposition also represents the anger of the section of the unions that control the different pension funds that invested in Ullico and did not have access to the same deals as the investors. In his resignation letter, Sweeney noted that he could not serve both Ullico's shareholders—that is, the pension funds—and remain on the board at the same time.

Most of the directors are presently siding with Georgine in covering up the report. Many of these directors are tied to unions that are part of the building trades department that Georgine formerly headed. There are political issues involved. One of Georgine's supporters recently suggested that the building trades leaders might join forces with the president of the Teamsters union, James Hoffa, in an effort to oust Sweeney. This is a section more closely aligned with the Republican Party and the Bush administration, though the majority of the directors, including those who gained from the stock deals, are Democratic Party supporters.

Georgine and his allies want to ensure that the report does not aid federal prosecutors in the Labor Department and lawyers in the Securities and Exchange Commission. Both agencies are investigating the company. In addition, insurance regulators in the state of Maryland, where the company is headquartered, recently announced that they were joining the probe.