

Testimony of Arthur Levitt to the New York City Campaign Finance Board
January 31, 2005

Good morning. My name is Arthur Levitt. From 1993 to 2001, I served as Chairman of the U.S. Securities and Exchange Commission. I regret that I could not appear before this board in person, as I had planned, but I thank you for the opportunity to submit written testimony.

To begin, let me say that I am entirely supportive of Mayor Bloomberg's bold leadership to root out the improper influence of campaign contributions from those who do business with the City, and I know that this Board has a reputation for excellence in the field of campaign finance reform. I am confident that together, the Bloomberg Administration and the Campaign Finance Board can create a model of reform that will set a standard for the nation.

When I became SEC Chairman in 1993, the need for reform in the municipal bond market was obvious. Corruption and conflicts of interest that would have stirred the envy of Boss Tweed had tarnished the reputation of the municipal bond market, overshadowing the many honest and diligent people who work there as well.

A healthy municipal market is critically important to all Americans. It represents the schools that teach our children, the water we drink, the power that enhances our lives and drives our economy, the roads that take us where we need to go. For all of these reasons, improving our municipal bond market became one of my highest priorities – and that meant ending “pay-to-play.”

What is "pay-to-play"? Sy Lorne, who served as General Counsel at the SEC, once described an odd experience he'd had in private practice: "An investment banker called me up and told me that a state political figure had told them that they needed to make a five-figure contribution to his campaign, or be excluded from all state finance activities. They asked me what they should do. I was shocked by the question. After considerable research and evaluation of the law and circumstances at the time I was forced to tell them that the answer was probably to write a check. There was no clear illegality. I did not like giving that answer."

These are real-life examples of "pay-to-play," the practice of making political contributions to elected officials or to candidates for local office for the purpose of getting a seat at the table. There is little doubt that "pay-to-play" damaged the integrity of the municipal bond market – just as it damages the integrity of all government. It creates the impression that decisions are made on the basis of political influence, not professional competence.

When I ran a brokerage firm in the 1970s, I traveled all over America in order to compete for municipal underwriting business. All too often I was told of the "list" – those firms that would be part of the underwriting syndicate. In nearly every instance, I was told that to qualify for such designation I had to buy tables at party dinners.

Pay-to-play also breeds contempt for the political process. That was brought home to me several weeks before I went to Washington, when three young securities professionals came to talk to me about their career plans. They worked in the municipal bond department of two major firms. One of them commented that the only way he was able to survive in the

municipal bond business was by buying tables at political fundraising dinners, or by making contributions to officeholders in a position to award lucrative underwriting contracts. The others agreed this was still common behavior. This experience helped convince me to try to change the practice.

In the mid-1990s, the Municipal Securities Rule-Making Board adopted Rule G-37, the specific provisions of which are familiar to this Board. It was a major advancement that substantially improved the integrity of the bond market. Public officials fought this rule right up to the Supreme Court, but the rule was upheld. It has not, however, entirely ended “pay-to-play,” because lawyers and consultants are still free to make contributions on behalf of the bond industry. And while the term pay-to-play originated with the bond industry, the concept applies to all industries with business interests before the government: those seeking contracts, land use approvals, a share of pension funds, or favorable assistance in other commercial areas.

The improper influence of campaign contributions is one of our democracy’s most corrosive elements. Bold action is urgently required. It is my hope that the nation’s cities and states will serve as laboratories of democracy, as they have done so many times in the past, by enacting reforms that will put an end to pay-to-play. And perhaps no other city or state is better positioned to enact reform than New York City, where voters have already passed a referendum mandating reform. Now, all that remains is for the City’s talented public servants – and I am familiar with this Board’s reputation for innovation – to issue rules that fulfill the voters’ wishes. Doing so will no doubt set-off a political firestorm. Speaking from experience, I will tell you that taking on pay-to-play does not win you many friends among politicians, nor among those in the industries you seek to

regulate. But as you move forward, I would offer these words of advice: remember that you serve the citizens of your City, and the need to improve public trust and faith in government could not be more urgent.

New York City has an opportunity to address the public's growing cynicism, to shatter the negative stereotype that so many harbor about elected officials: that they cater to those that deliver large campaign contributions. We are experiencing a vast erosion of public confidence in the institutions of government and politics. If you seize this opportunity, you will set a standard that state and local governments around the nation will begin to follow. New York City must lead this effort to preserve its preeminence as America's foremost municipality.

Thank you.