Proving Congress is getting rich off Wall Street

By Peter J. Boyer, Newsweek

In the spring of 2010, a bespectacled, middle-aged policy wonk named Peter Schweizer fired up his laptop and began a months-long odyssey into a forbidding maze of public databases, hunting for the financial secrets of Washington's most powerful politicians. Schweizer had been struck by the fact that members of Congress are free to buy and sell stocks in companies whose fate can be profoundly influenced, or even determined, by Washington policy, and he wondered, do these ultimate insiders act on what they know? Yes, Schweizer found, they certainly seem to. Schweizer's research revealed that some of Congress's most prominent members are in a position to routinely engage in what amounts to a legal form of insider trading, profiting from investment activity that, he says, "would send the rest of us to prison."

Schweizer, who is 47, lives in Tallahassee with his wife and children ("New York or D.C. would be too distracting—I'd never get any writing done") and commutes regularly to Stanford, where he is the William J. Casey research fellow at the Hoover Institution. His circle of friends includes some bare-knuckle combatants in the partisan frays (such as conservative media impresario Andrew Breitbart), but Schweizer himself comes across more as a bookish researcher than the right-wing hit man liberal critics see. Indeed, he sounds somewhat surprised, if gratified, to have attracted attention with his findings. "To me, it's troubling that a fellow at Stanford who lives in Florida had to dig this up."

It was in his Tallahassee office that Schweizer began what he thought was a promising research project: combing through congressional financial-disclosure records dating back to 2000 to see what kinds of investments legislators were making. He quickly learned that Capitol Hill has quite a few market players. He narrowed his search to a dozen or so members—the leaders of both houses, as well as members of key committees—and focused on trades that coincided with big policy initiatives of the sort that could move markets.

While examining trades made around the time of the 2003 Medicare overhaul, Schweizer experienced what he calls his “Holy crap!” moment. The legislation, which created a new prescription-drug entitlement, promised to be a huge boon to the pharmaceutical industry—and to savvy investors in the Capitol. Among those with special insight on the issue was Massachusetts Sen. John Kerry, chairman of the health subcommittee of the Senate’s powerful Finance Committee. Kerry is one of the wealthiest members of the Senate and heavily invested in the stock market. As the final version of the drug program neared approval—one that didn’t include limits on the price of drugs—brokers for Kerry and his wife were busy trading in Big Pharma. Schweizer found that they completed 111 stock transactions of pharmaceutical companies in 2003, 103 of which were buys.

“They were all great picks,” Schweizer notes. The Kerrys’ capital gains on the transactions were at least $500,000, and as high as $2 million (such information is necessarily imprecise, as the disclosure rules allow members to report their gains in wide ranges). It was instructive to Schweizer that Kerry didn’t try to shape legislation to benefit his portfolio; the apparent key to success was the shaping of trades that anticipated the effect of government policy.

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