

What's In Your Index Fund?

Robert J. Jackson Jr. and Steven Davidoff Solomon

JOHN BOGLE, the father of low-cost investing, once said that the index fund was the “most successful innovation — especially for investors — in modern financial history.”

It's easy to see why. Index funds typically track a broad group of stocks, like all the companies in the Dow Jones industrial average or the S.&P. 500. Rather than trying to choose one or two winning stocks, or relying on the expertise of a mutual fund manager to do so, investors in index funds can buy a range of businesses and hold them to capture the long-term growth of the market. Because index funds generally don't need ace stock pickers, they charge rock-bottom fees. Index funds are now the dominant force in investing, holding trillions of dollars of American assets.

But there's a problem: The indexes these funds are based on may not be as neutral as they seem. The firms that devise these indexes face little regulatory scrutiny and can face significant conflicts of interest, which have the potential to harm American investors.

The Wall Street Journal recently reported that MSCI, one of the largest index providers in the United States, added Chinese issuers to its Emerging Markets Index after the Chinese government threatened to curtail MSCI's business in the country. (MSCI told The Journal that its process for choosing firms in its index is “transparent and objective” and includes safeguards to maintain those standards.)

Clearly, there needs to be transparency and accountability in index providers' decisions.

Conflicts of interest should worry anyone who is invested in index funds, which includes many Americans with retirement accounts. Index providers have enormous power. The decision to include a company in the S.&P. 500, for example, results in a reallocation of billions of dollars of investors' money. The average company added to the S.&P. 500 gains value; when it's removed, its share price drops as index funds sell their holdings.

Even more worrying is recent research by Prof. Adriana Robertson of the University of Toronto, who documents the rise of highly customized indexes, which are developed for the use of a single fund. She shows that the index and the fund are frequently run by the same managers.

Indexes like these start to look less like the objective benchmarks investors often believe they're getting. Investors

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may not understand how the index works or whether it may be susceptible to undue influence.

We saw the real costs of benchmark manipulation in the Libor-rigging scandal. In 2012, settlements with regulators and the Justice Department revealed that some of the world's most influential banks had manipulated the Libor benchmark, which is used to determine borrowing costs across the economy. The abuses allowed banks to extract excess profits while raising interest costs for American homeowners and students.

In response, the Commodity Futures Trading Commission, under Commissioner Rostin Behnam, established a group to reform such benchmarks. There is no such group overseeing stock market indexes. While there are global standards for how indexes should be governed, American law remains remarkably silent on the subject.

There certainly exists potential for manipulation. Index providers generally have wide leeway when choosing the individual companies that make up their indexes and how they are weighted. Some well-known indexes have established committees to decide which companies are included; for instance, the stocks in the S.&P. 500 index, which is tracked by mutual funds holding more than \$1 trillion in assets, are chosen by committee. But these committees have enormous discretion.

Index providers have influence over stock prices that even the largest investors can only envy. Given the conflicts of interest the index providers face and the power they wield over markets, we need a national conversation about how to ensure that they operate with integrity, transparency and accountability. Unfortunately, existing law is ill suited for the purpose.

That's why we're calling on the Securities and Exchange Commission to study this issue and make recommendations, if necessary, to Congress. Lawmakers must take a more active role in overseeing how index providers shape how trillions of Americans' investment dollars are allocated. We need to bring more transparency and accountability to the way these companies use that influence. □

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DeVos vs. Student Veterans

James Schmeling and Carrie Wofford

AS THE political makeup of the 116th Congress begins to congeal, the question of what, if anything, this divided government can do together looms. Although there is faint hope of cooperation on most issues, if there is something that could unite President Trump, Speaker Nancy Pelosi and Senator Mitch McConnell, it should be their promises to protect America's veterans.

The post-Sept. 11 G.I. Bill, which rewarded returning service members with college funding, first passed under George W. Bush and was unanimously expanded by Congress in 2017 with Mr. Trump's signature. But the value of veterans' hard-earned G.I. Bill benefits is being undermined from within by the Trump administration. The culprits Education Secretary Betsy DeVos.

Despite robust objections from three dozen national veterans and military service organizations, Secretary DeVos has elected to eviscerate student protections and quality controls for colleges — particularly for the often low-quality, predatory for-profit colleges that target veterans in their marketing schemes.

You've probably seen their sort of ads: a young soldier parachuting from a plane in one moment, smiling as he raises his hand in the warm, glossy confines of a for-profit school in the next, then the final shot of the veteran hoisting his degree and hugging his family.

Why are veterans the targets? Because for-profit colleges milk a federal loophole that allows them to count G.I. Bill benefits as private funds, offsetting the 90 percent cap they otherwise face on their access to taxpayer-supported federal student aid. Two dozen state attorneys general have said this accounting gimmick — known as the “90/10 loophole” — “violates the intent of the law.”

Hundreds of for-profit schools are almost entirely dependent on federal revenue, and if the 90/10 loophole were closed, they would be in violation of this federal regulation. Taxpayers, in other words, are largely propping up otherwise failing schools.

In December, a damning Department of Veterans Affairs internal audit estimated the risk of G.I. Bill waste was exceptionally high at for-profit schools, which received 81 percent of improper G.I. Bill payments. The report highlighted the deceptive advertising campaigns aimed at veterans and warned that the government will waste \$2.3 billion in improper payments over the next five years if changes are not made to reel in the abuse.

Overall, for-profit colleges have vacuumed up nearly 40 percent of all G.I. Bill tuition and fee payments since the post-Sept. 11 G.I. Bill was introduced. Eight of the 10 schools receiving the most G.I. Bill subsidies since 2009 are for-profit colleges. Six of those eight have faced government legal action for defrauding students.

The Education Department has the jurisdiction to undercut such fraud — and ample evidence to take action — but it has not. Instead, through several scandalous appointments, Ms. DeVos has largely delegated policymaking and enforcement to members of the for-profit college industry, who are now her aides.

One senior aide recently worked at Career Education, the very for-profit chain that just settled with 49 state attorneys general to cough up half a billion dollars for defrauding students. A top deputy worked at the same chain and at a second chain facing multiple government investi-

How Mitch McConnell Enables Trump

Adam Jentleson

AMONG the casualties of President Trump's declaration of a national emergency for his border wall is the reputation of the majority leader Mitch McConnell as a Senate institutionalist. The evidence of the last few days has confirmed, if there were still any doubt, that he is no such thing.

First, he helped prolong the longest government shutdown in American history by insisting that the Senate would act only with explicit approval from the president. Now Mr. McConnell has fully acquiesced in President Trump's power grab by supporting an emergency declaration, which he opposed just weeks before, aimed at addressing a crisis that Senate Republicans know does not exist.

This display of obedience from the leader of a supposedly coequal branch is shocking only if you ever believed Mr. McConnell was an institutionalist. But his defining characteristic has always been his willingness to do anything and sacrifice any principle to amass power for himself. What makes him a radical are the lengths he is willing to go. Seeing this with clarity should help us grasp the danger to which he is subjecting the Senate — and, more important, our democracy.

The signs of Mr. McConnell's malign influence were always there. He spent decades opening the floodgates for corporate money to flow into our political system. Mr. McConnell chased the McCain-Feingold campaign finance reform law all the way to the Supreme Court; the 2003 challenge to the law bears his name. Mr. McConnell lost that one, but his cause prevailed six years later when the Supreme Court overturned restrictions on corporate contributions in Citizens United.

In 2010, as minority leader, Mr. McConnell stated that his main goal was not to help our country recover from the Great Recession but to make President Obama a “one-term president.” A self-declared “proud guardian of gridlock,” he presided



ARIEL DAVIS

The education secretary must answer for her deregulation campaign.

A third, whom Ms. DeVos hired to run the department's enforcement unit, disappeared a crop of investigations into his former employer and several other large for-profit colleges. When news reporting brought scrutiny to this corruption, Ms. DeVos simply shifted the aide to the federal student aid office.

Ms. DeVos fought and is now stalling defrauded students' right to recourse under the “borrower defense” program, and she eliminated a rule requiring career colleges to prove their graduates can get a job, even after being officially warned by the department's Office of Inspector General that the rule was necessary to protect taxpayer funds.

This week, Ms. DeVos's aides will meet in Washington with a panel (many representing for-profit colleges) to push forward proposals that would weaken over half a dozen regulations that govern college quality. Some changes, for instance, could leave students learning largely on their own from self-help YouTube-style videos and allow the companies responsible unfettered access to a spigot of taxpayer funds.

over an enormous escalation in the use of the filibuster. His innovation was to transform it from a procedural tool used to block bills into a weapon of nullification.

The two forces that characterized Mr. McConnell's career, obstruction and increasing the power of corporate money in our democracy, have created a vicious cycle where obstruction is rewarded more than legislating, diminishing the Senate and paralyzing American politics.

Republicans actually took the Senate majority in 2014 in large part on claims to restore the Senate. Unsurprisingly, they broke their promises. Under President Trump, Mr. McConnell continued to run roughshod over Senate traditions, jamming the \$1.5 trillion tax bill through without so much as a proper hearing. The one place the Senate has functioned efficiently

The majority leader is a danger to the Senate — and our democracy.

is in judicial confirmations, but even here Mr. McConnell has reduced the Senate to a rubber stamp for some extremist judges, including those rated “unqualified” by the American Bar Association.

Mr. McConnell is not playing three-dimensional chess. There is no grand strategy or long game — there is only what best serves his narrow interest. Since 2010, Mr. McConnell has been convinced that his interests are best served through strict obedience to the Republican base. That year, his handpicked candidate, Trey Grayson, lost a Senate Republican primary in Kentucky to an insurgent named Rand Paul. It was a humiliating defeat and called into question Mr. McConnell's power in his own backyard. It also invited a Tea Party challenge against his re-election in 2014.

Since that scare, Mr. McConnell has rig-

er funds.

The department's Office of Inspector General, following the V.A.'s lead, conducted an investigation of Ms. DeVos after she reinstated the Accrediting Council for Independent Colleges and Schools, which had been discredited. In a stunning ethical breach, a senior aide to Ms. DeVos fabricated letters of support for the council from other accreditors, which quickly exposed the lie.

Standing up for veterans, and student veterans, should always be a bipartisan issue. The 49 state attorneys general who banded together in the Career Education case were obviously working under both Republican and Democratic governors.

Politicians of both stripes speak out for veterans on the campaign trail. They need to back up that talk with bipartisan oversight of colleges that seek G.I. Bill funding, bipartisan legislation to close the 90/10 loophole and a bipartisan hearing that puts serious questions to the Education Department's leadership. The public supports standing up for our military. Congress can stand by standing up to Secretary DeVos. □

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idly adhered to whatever the base wants, institutions be damned. When the base wanted Judge Merrick Garland blocked, he obeyed. When the base wanted Mr. Trump embraced, he obeyed. While Paul Ryan was playing Hamlet in the summer of 2016, Mr. McConnell quickly endorsed Mr. Trump, providing institutional cover and repeatedly assuring Republicans that Trump would “be fine.” Mr. McConnell didn't think Trump was going to win — he has said so himself — but he probably figured that the damage could be contained.

Mr. McConnell's crass self-interest now poses a danger to our democracy. With Mr. Trump increasingly erratic and Robert Mueller's investigation advancing, there is simply no reason to believe he will stand up for American institutions when it counts. He has already demonstrated a willingness to put his self-interest above America's national security: In a classified briefing in 2016, Mr. McConnell reportedly cast doubt on C.I.A. intelligence about Russia's interference in our election and threatened that if President Obama publicly challenged Russia, he'd twist it into a partisan issue.

Last week, he could have asserted the Senate's independence by passing the spending bill without validating Mr. Trump's emergency declaration. If that prompted a veto, Mr. McConnell could have overridden it. Instead, he acquiesced in another presidential power grab.

In the months ahead, our institutions are likely to be tested as rarely before. Under a strong leader, the Senate could provide a critical counterweight to an out-of-control executive. Instead, we have a man who will always put his self-interest first. We should enter this chapter with clarity and finally see Mr. McConnell for what he is. He's not an institutionalist. He is the man who surrendered the Senate to Donald Trump.

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DAVID BROOKS

A Nation Of Weavers

I START WITH THE pain. A couple times a week I give a speech somewhere in the country about social isolation and social fragmentation. Very often a parent comes up to me afterward and says, “My daughter took her life when she was 14.” Or, “My son died of an overdose when he was 20.”

Their eyes flood with tears. I don't know what to say. I squeeze their shoulders, but the crying does not stop. As it turns to weeping they rush out of the auditorium and I am left with my own utility.

This kind of pain is an epidemic in our society. When you cover the sociology beat as I do, you see other kinds of pain. The African-American woman in Greenville who is indignant because young black kids in her neighborhood face injustice just as gross as she did in 1953. The college student in the Midwest who is convinced that she is the only one haunted by compulsive thoughts about her own worthlessness.

They share a common thread: our lack of healthy connection to each other, our inability to see the full dignity of each other, and the resulting culture of fear, distrust, tribalism and strife.

On Dec. 7, 1941, countless Americans saw that their nation was in peril and walked into recruiting stations. We don't have anything as dramatic as Pearl Harbor, but when 47,000 Americans kill themselves every year and 72,000 more die from drug addiction, isn't that a silent Pearl Harbor? When the basic norms of decency, civility and democracy are under threat, isn't that a silent Pearl Harbor? Aren't we all called at moments like these to do something extra?

My something extra was starting something nine months ago at the Aspen Institute called Weave: The Social Fabric Project. The first core idea was that social isolation is the problem underlying a lot of our other problems. The second idea was that this problem is being solved by people around the country, at the local level, who are building community and weaving the social fabric. How can we learn from their example and nationalize their effort?

We traveled around the country and found them everywhere. We'd plop into cities and small towns and we'd find 25 to 100 community “Weavers” almost immediately. This is a movement that doesn't know it's a movement.

Some of them work at organizations: a vet who helps other mentally ill vets in New Orleans; a guy who runs a boxing gym in Appalachian Ohio where he nominally teaches young men boxing, but really teaches them life. Many others do their weaving in the course of everyday life — because that's what neighbors do. One lady in Florida said she doesn't have time to volunteer, but that's because she spends 40 hours a week looking out for local kids and visiting sick folks in the hospital.

We're living with the excesses of 60 years of hyperindividualism. There's a lot of emphasis in our culture on personal freedom, self-interest, self-expression, the idea that life is an individual journey. But Weavers share an ethos that puts relationship over self. We precede me.

Whether they live in red or blue America, they often use the same terms and embody the same values — deep hospitality, showing up for people, putting town before self. I met one guy in Ohio who stood in the town square with a sign: “Defend Youngstown.”

The trait that leaps out above all others is “radical mutuality”: We are all completely equal, regardless of where society ranks us. “We don't do things for people. We don't do things to people. We do things with people,” said a woman who builds community for teenagers in New Orleans.

Being around these people has been one of the most uplifting experiences of my life. Obviously, it's made me want to be more neighborly. But it has also changed my moral lens. I've become so impatient with the politicians I cover! They are so self-absorbed! Weavers live for others and are more joyful as a result.

The big question is how do we take the

The social renaissance is happening from the ground up.

success the Weavers are having on the local level and make it national? The Weavers are building relationships one by one, which takes time. Relationships do not scale.

But norms scale. If you can change the culture, you can change behavior on a large scale.

Culture changes when a small group of people, often on the margins of society, find a better way to live, and other people begin to copy them. These Weavers have found a better way to live.

We at Weave — and all of us — need to illuminate their example, synthesize their values so we understand what it means to be a relationalist and not an individualist. We need to create hubs where these decentralized networks can come together for solidarity and support.

I guess my ask is that you declare your own personal declaration of interdependence and decide to become a Weaver instead of a ripper. This is partly about communication. Every time you assault and stereotype a person, you've ripped the social fabric. Every time you see that person deeply and make her or him feel known, you've woven it.

I ask that you in your context think about what little extra you can do to be a neighbor, citizen and Weaver. I ask you to have faith. Renewal is building, relationship by relationship, community by community. It will spread and spread, as the sparks fly upward. □

Michelle Goldberg is off today.