why they finally came to grief in Vietnam. The lesson of both is clear: Good intentions and command of huge economic and military resources are of little use unless directed by an understanding of the complexities of a multi-cultural world.

In Taft's opinion, the first of these Wilsonian epigones with a mission to reform the world was also America's first ambassador to the Soviet Union, William Bullitt, an erratic figure who was followed by staider creatures such as Undersecretary of State Sumner Welles, columnist Walter Lippmann, Ambassador Averell Harriman, diplomat David Bruce, Congressman Chester Bowles, Senator Henry Cabot Lodge, Jr., and Secretaries of State Dean Acheson and John Foster Dulles. (Paul Nitze, curiously enough, is not mentioned.) They were high-minded, energetic, financially secure, and as determined to make the world safe for democracy as Woodrow Wilson had been. Their ideals were those of classical 19th-century liberalism: free trade, anti-colonialism, and self-government. Unfortunately, they found themselves confronted by the opposing ideology of communism—Lockeans, as Hatcher puts it, against Leninists. In their creed, anti-communism took the place of anti-colonialism, and, for some of them, of virtually everything else. They reinterpreted the concept of "collective security" to mean allied cohesion behind American leadership. They adopted diplomat George Kennan's concept of "containment" and shared his enthusiasm for covert operations. They embraced with some alacrity concepts of deterrence and limited war. Vietnam was for them the supreme test. They failed it, and they never recovered their self-confidence. "Having been foolish in their pride," as Taft puts it rather well, "they became foolish in their humility." It was indeed foolish, for on the whole they had done remarkably well. "Surprisingly," as Hatcher remarks rather patronizingly, "given the complex nature of global politics, they were generally successful, especially in managing national security tasks."

Taft hints at a sociological dimension of the problem that is missing from most analyses, even Nye's. These internationalist liberals, he points out, "were the closest thing to an American ruling class since the early 19th century. They did not, however, rule on their home territory. Lacking their own political base, they had the consent of a large Middle American majority that no longer exists." If this is so, there is an interesting analogy with the British case. The ruling classes of Britain began attempting to spread their beliefs and influence throughout the world during the latter part of the 19th century, just as they were beginning to lose their power base at home. They also fell victim to destructive self-doubt and scuttled an empire which they had, on the whole, administered fairly well. Can a nation, whatever its indices of power, pursue a firm and positive foreign policy if it lacks a self-confident elite comparatively independent of domestic pressures? And, in the United States, where is such an elite now to be found?

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Inside Casino Capitalism

BARBARIANS AT THE GATE: The Fall of RJR Nabisco. *By Bryan Burrough and John Helyar. Harper & Row. 528 pp. $22.95*

In 1898, Adolphus Green, chairman of the National Biscuit Company, found himself faced with the task of choosing a trademark for his newly formed baking concern. Green was a progressive businessman. He refused to employ child labor, even though it was then a common practice, and he offered his bakery employees the option to buy stock at a discount. Green therefore thought that his trademark should symbolize Nabisco's fundamental business values, "not merely to make dividends for the stockholders of his company, but to enhance the general prosperity and the moral sentiment of the United States." Eventually he decided that a cross with two bars and an oval—a medieval symbol representing the triumph of the moral and spiritual over the base and material—should grace the package of every Nabisco product.

If they had wracked their brains for months, Bryan Burrough and John Helyar could not have come up with a more ironic metaphor for their book. The fall of Nabisco, and its corporate partner R. J. Reynolds, is nothing less than the exact opposite of Green's business credo, a compelling tale of corporate and Wall Street greed featuring RJR Nabisco officers who first steal shareholders blind and then justify their epic displays of avarice by claiming to maximize shareholder value.

The event which made the RJR Nabisco story worth telling was the 1988 leveraged buyout (LBO) of the mammoth tobacco and food conglomerate, then the 19th-largest industrial corporation in America. Battles for corporate control were common during the loosely regulated 1980s, and the LBO was just one method for capturing the equity of a corporation. (In a typical LBO, a small group of top management and investment bankers put 10 percent down and finance the rest of their purchase through high-interest loans or bonds. If the leveraged, privately owned corporation survives, the investors, when they can re-sell public shares, reach the so-called "pot of gold;" but if the corporation cannot service its debt, everything is at risk, because the collateral is the corporation itself.)

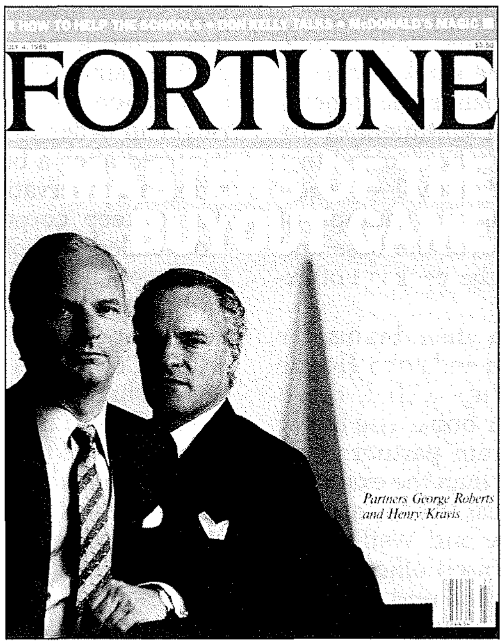
The sheer size of RJR Nabisco and the furious bidding war that erupted guaranteed unusual public scrutiny of this particular piece of financial engineering. F. Ross Johnson, the conglomerate's flamboyant, free-spending CEO (RJR had its own corporate airline), put his own company into play with a $75-a-share bid in October. Experienced buyout artists on Wall Street, however, immediately realized that Johnson was trying to play two incompatible games. LBOs typically put corporations such as RJR Nabisco through a ringer in order to pay the mammoth debt incurred after a buyout. But Johnson, desiring a conservative debt structure in order to keep corporate perquisites intact, "low-balled" his offer. Other buyout investors stepped forward with competing bids, and after a six-week-long auction the buyout boutique of Kohlberg, Kravis, Roberts & Co. (KKR) emerged on top with a $109-a-share bid. The $25-billion buyout took its place as one of the defining business events of the 1980s.

Burrough and Helyar, who covered the story for the *Wall Street Journal*, supply a breezy, colorful, blow-by-blow account of the "deal from hell" (as one businessman characterized a leveraged buyout). The language of Wall Street, full of incongruous "Rambo" jargon from the Vietnam War, is itself arresting. Buyout artists, who presumably never came within 10,000 miles of wartime Saigon, talk about "napalming" corporate perquisites or liken their strategy to "charging through the rice paddies, not stopping for anything and taking no prisoners."

At the time, F. Ross Johnson was widely pilloried in the press as the embodiment of excess; his conflict of interest was obvious. Yet Burrough and Helyar show that Johnson, for all his free-spending ways, was way over his head in the major leagues of greed, otherwise known as Wall Street in the 1980s. What, after all, is more rapacious: the roughly $100 million Johnson stood to gain if his deal worked out over five years, or the $45 million in expenses KKR demanded for waiting 60 minutes while Ross Johnson prepared a final competing bid?

Barbarians is, in the parlance of the publishing world, a good read. At the same time, unfortunately, a disclaimer issued by the authors proves only too true. Anyone looking for a definitive judgment of LBOs will be disappointed. Burrough and Helyar do at least ask the pertinent question: What does all this activity have to do with building and sustaining a business? But authors should not only pose questions; they should answer them, or at least try.

Admittedly, the single most important answer to the RJR puzzle could not be provided by Burrough and Helyar because it is not yet known. The major test of any financial engineering is its effect on the long-term vitality of the leveraged corporation, as measured by such key indicators as market share (and not just whether the corporation survives its debt, as the authors imply). However, a highly leveraged RJR Nabisco is already selling off numerous profitable parts of its business because they are no longer a "strategic fit": Wall Street code signifying a need for cash in order to service debts and avoid bankruptcy.



If the authors were unable to predict the ultimate outcome, they still had a rare opportunity to explain how and why an LBO is engineered. Unfortunately, their fixation on re-creating events and dialogue—which admittedly produces a fast-moving book—forced them to accept the issues as defined by the participants themselves. There is no other way to explain the book's uncritical stance. When, for example, the RJR Nabisco board of directors tried to decide which bid to accept, Burrough and Helyar report that several directors sided with KKR's offer because the LBO boutique "knew the value of keeping [employees] happy." It is impossible to tell from the book whether the directors knew this to be true or took KKR's word. Even a cursory investigation would have revealed that KKR is notorious for showing no concern for employees below senior management after a leveraged buyout.

The triumph of gossip over substance is manifest in many other ways. Wall Street's deft manipulation of the business press is barely touched upon, and the laissez-faire environment procured by buyout artists via their political contributions is scarcely mentioned, crucial though it is. Nowhere are the authors' priorities more obvious than in the number of words devoted to Henry Kravis's conspicuous consumption compared to those devoted to the details of the RJR deal. In testimony before Congress last year, no less an authority than Treasury Secretary Nicholas Brady—himself an old Wall Street hand—noted that the substitution of tax-deductible debt for taxable income is "the mill in which the grist of takeover premiums is ground." In the case of RJR Nabisco, 81 percent of the $9.9 billion premium paid to shareholders was derived from tax breaks achievable after the buyout. This singularly important fact cannot be found in the book, however; nor will a reader learn that after the buyout the U.S. Treasury was obligated to refund RJR as much as $1 billion because of its post-buyout debt burden. In *Barbarians*, more time is spent describing Kravis's ostentatious gifts to his fashion-designer wife than to the tax considerations that make or break these deals.

Fulminations about the socially corrosive effects of greed aside, the buyout phenomenon may represent one of the biggest changes in the way American business is conducted since the rise of the public corporation, nothing less than a transformation of managerial into financial capitalism. The ferocious market for corporate control that emerged during the 1980s has few parallels in business history, but there are two: the trusts that formed early in this century and the conglomerate mania that swept corporate America during the 1960s. Both waves resulted in large social and economic costs, and there is little assurance that the corporate infatuation with debt will not exact a similarly heavy toll.

As the economist Henry Kaufman has written, the high levels of debt associated with buyouts and other forms of corporate restructuring create fragility in business structures and vulnerability to economic cycles. Inexorably, the shift away from equity invites the close, even intrusive involvement of institutional investors (banks, pension funds, and insurance companies) that provide the financing. Superficially, this moves America closer to the system that prevails in Germany and Japan, where historically the relationship between the suppliers and users of capital is close. But Germany and Japan incur higher levels of debt for expansion and investment, whereas equivalent American indebtedness is linked to the recent market for corporate control. That creates a brittle structure, one that threatens to turn the U.S. government into something of an ultimate guarantor if and when things do fall apart. It is too easy to construct a scenario in which corporate indebtedness forces the federal government into the business of business. The savings-and-loan bailout is a painfully obvious harbinger of such a development.

The many ramifications of the buyout mania deserve thoughtful treatment. Basic issues of corporate governance and accountability ought to be openly debated and resolved if the American economy is to deliver the maximum benefit to society and not just unconscionable rewards to a handful of bankers, all out of proportion to their social productivity. It is disappointing, but a sign of the times, that the best book about the deal of deals fails to educate as well as it entertains.

—Max Holland, a current Wilson Center Fellow, is writing a biography of John McCloy and is the author of When the Machine Stopped: A Cautionary Tale from Industrial America *(1989).*

The English Scrutinized

THE PLEASURES OF THE PAST. *By David Cannadine. Norton. 338 pp. $19.95*

The oxygenated quality of these essays reflects more than the fact that many of them were (we are told) conceived and drafted mid-air. David Cannadine, now at Columbia University, was one of the more eminent British historical brains to be drained across the Atlantic in the 1980s academic diaspora. Like the 19th-century Whig historian Lord Macaulay, Cannadine has made a parallel reputation as a reviewer of dazzling panache. The principle of collecting book reviews as essays, rarely defensible, is here vindicated by their common theme: an exasperated, mocking, often profound interrogation of Englishness and its interpretations.

Cannadine is a social historian with an acute political sense, a combination that strongly informed *Lords and Landlords* (1981), his major work on the aristocracy's role in creating modern English towns. That juxtaposition of grandee culture and gritty urbanization is typical. He has an eye for the flamboyant, a high style, an interest in royalty, architecture, food, and sex. But his essays on Prince Albert, the Duke of Windsor, the Mayfair estate, and English stately homes are hardly celebrations of England's aristocratic past; they are related to Cannadine's tireless deconstructions of urban history, economic decline, and socialist historiography. The inanity of King George V obsessively hunting birds,