CURRENT BOOKS

Mean Street

by Michael M. Thomas

A review of recent books dealing with American finance

Joseph Schumpeter, the theorist of capitalism, espoused a view of intellectuals that has become well-known: "Intellectuals are not a social class . . . ; they hail from all the corners of the social world, and a great part of their activities consists in fighting each other and in forming the spearhead of class interests not their own . . . . One of the touches that distinguishes them . . . is the absence of direct responsibility for practical affairs . . . , the absence of that first-hand knowledge of them which only actual experience can give."

I quote this passage not only for its truth, of which there is a great degree, but because of Schumpeter's importance as posthumously anointed "head boy" in the ideological pantheon assembled by apologists for what has been going on in Wall Street for the last decade. Schumpeter feared that the opposition of intellectuals, from whatever motive, would destroy capitalism. What he did not foresee is that the negligence of intellectuals might encourage capitalism to ruin itself.

I have been writing about Wall Street for roughly a dozen years. I have had an advantage over many of my fellow journalists in that, for a quarter-century beginning in 1961, I worked in investment banking, eventually at the "highest level" or in the "innermost circle." I suppose this qualifies as "direct responsibility for practical affairs"; certainly it left me with a solid grounding in what Wall Street does and how it goes about its often devious work. Wall Street does much of its lucrative work in code, rather in the spirit of those World War II films in which a disembodied BBS voice intones "the rain is falling in the East" over the wireless and a dozen *maquisards* promptly make arrangements to be in Nantes on the following Tuesday. I know the *lingua franca* of the "Street."

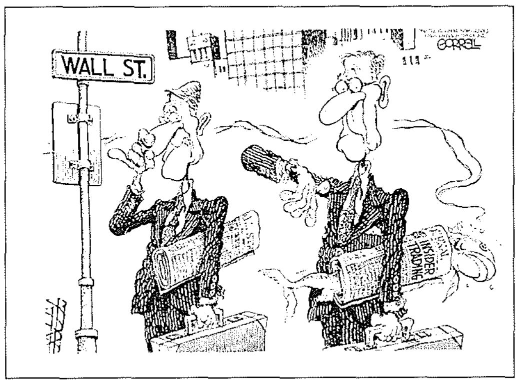
The beginning of my Wall Street career coincided with the great 1960s stock-market boom, which prepared the ground for its more bumptious 1980s successor. The critical difference was that the '60s boom occurred in a political atmosphere dominated by presidents who encouraged respect for government and its mandated powers, rather than exactly the opposite. You might say that Wall Street got rich in the '60s in spite of itself, reluctantly yielding to legal and ethical inhibitions that two decades later no longer applied.

James B. Stewart's **Den of Thieves** (Simon & Schuster) establishes with a virtual certainty that Wall Street corruption of the 1980s, symbolized by the market manipulations of Dennis Levine, Ivan Boesky, and Michael Milken (the Street icons of the decade), amounted to something more than the overreaching of chaps who were fundamentally decent if a tad too ambitious. The pattern that Stewart, an editor at the *Wall Street Journal*, describes for the 1980s appears to be one of pervasive and calculated lawlessness. The recent discovery of Salomon Inc.'s peculations in the Treasury market only reinforces this impression, as does the revelation, even as I write, that Merrill Lynch may have engaged in the rankest sort of deceptive book-cooking with a busted Florida savings-and-loan.

Now if this were all a zero-sum game limited to Wall Street, it wouldn't matter. The thieves would be stealing from each other, and at the end of the day some would be flush and others broke and the rest of us could get on with our lives. Unfortunately, the worst depredations, whether outright illicit (Milken *et al.*) or only horrifying (the junk-bond takeover mania), depended on access to what I define as "the Public Capital." By Public Capital I mean financial sureties, commitments, and subsidies from the American taxpayer that were legislated into being, usually without our knowledge, by our elected representatives. This Public Capital was made freely available to finance the most outrageous (and frequently illegal) private speculations. In the savings-and-loan collapse, the sureties have translated into a hard cost to our own and coming generations of over $500 billion—enough to fight six Gulf Wars, except it is we and not the Saudis, Kuwaitis, and Japanese who will be footing the bill. I might add that a half-trillion dollars may prove low; the meter is still running. Moreover, the need to finance these sureties, to come up with the cash to make good on the guarantees, has required levels of federal borrowing that distort the very structure of the U.S. political economy. Whatever we spend to pay for the S&L bailout we won't be spending to finance infrastructural improvements or investments in education and national health.

The dirtiest work was done on Wall Street. The Street works most profitably when it functions as a world entirely unto itself. Wall Street thus likes to promote the general impression that its work is of an eye-glazing complexity, light-years beyond the grasp of the intelligent general public. Our ignorance, in other words, is Wall Street's bliss.

I beg to disagree. The public costs alone argue that finance is too important to be left to financiers. Unfortunately, the mass media cannot capture the process in a web of soundbites and truncated column inches. Yet there once was a time when the best minds in America looked hard at Wall Street and wrote about the goings-on in the shade of the buttonwood tree. I am thinking in particular of *Chapters of Erie* (1870) by Charles Francis Adams and Henry Adams, which scathingly describes the extraordinary contest for control of the Erie Railroad by Jay Gould and Jim Fisk on one hand and Commodore Cornelius Vanderbilt on the other, as well as the amazing tale of Gould's attempt to corner the gold market in 1869, in which he attempted indirectly to enlist the complicity



of President Ulysses Grant.

Chapters of Erie is a model of writing about financial chicanery: informed, intelligible, and sauced with ethical outrage. It doesn't lose its moral sense in audience-grabbing revelations of personalities, as do recent best-sellers like Bryan Burrough and John Helyar's **Barbarians at the Gate** (Harper & Row) and Michael Lewis's **Liar's Poker** (Norton). There, the essential points get lost in the gossip.

Fortunately, there exist a number of recent books to which the intelligent, concerned reader can turn for genuine enlightenment as to the ways by which a nation of 250 million people were robbed of something close to a trillion dollars by probably fewer than ten thousand financiers or, as they styled themselves during the fat years, "financial entrepreneurs." We desperately need such enlightenment and, may I add, outrage—outrage which translates into political action—to preserve and reconstitute capitalism so that it serves most of the people most of the time.

These are books about the way Wall Street really works. Doomsday scriptures need not apply for a place on this list, nor manuals of investment strategy, nor almost anything by economists. (I concur with Joseph Schumpeter's opinion that economists are responsible for "practically every nonsense that has ever been said about capitalism.") Nor are books like Kevin Phillips's *The Politics of Rich and Poor* on my list. They are full of useful facts and charts, and they sell lots of (unread) copies, but ultimately fall flat as stories and lose their capacity to incite outrage in the reader or a need to know more.

The best books resonate beyond the particular episodes with which they deal. Stewart's *Den of Thieves* does this not by editorializing but by *showing* vividly that what we confront in the matter of Milken *et al.* is not simply individual high jinks carried too far but the systemic corruption of the wellsprings of American finance.

The way to begin to understand the mind of Wall Street is in terms of the troubles it's seen. Despite a superficial impression of *"plus ça change . . . ,"* Charles Kindleberger's **Manias, Panics and Crashes** (Harper Torchbooks) and Robert Sobel's **Panic on Wall Street** (Dutton) reveal that the law Tolstoy applied to unhappy families in the opening lines of *Anna Karenina*—that each is different—is true too of convulsions in the markets: Financial crises are sufficiently different to blind their participants to the lessons of history. In any case, Wall Street takes an essentially consoling view of its own history. The function of the past is to comfort, not to instruct. That something happened once legitimates its happening again. And again and again.

Moving forward to the dire present, Bernard Nossiter's **Fat Years and Lean: The American Economy since Roosevelt** (Harper & Row) locates the Greed Decade of the 1980s in some sort of cyclical context. The abiding legacy of the 1960s boom—still improperly understood, yet indispensable to comprehending the successful depredations of the junk-bond, leveraged-buyout gang—was the "institutionalization" of the ownership of American business: the shift from small stockholders inclined to patience, often ill-advised, to large pools of capital (pension funds, mutual funds, etc.) aggressively managed for maximum short-term gain, since it was on the basis of this gain that the money managers were compensated and made personally wealthy. Columbia University finance professor Louis Lowenstein's **What's Wrong With Wall Street** (Addison-Wesley) is a good introduction to the demons which crouched red in tooth and claw beneath the lid of this particular Pandora's Box.

Foresight used to be a virtue, but we have become a nation so obsessed with topicality that the public only applauds as foresighted what it in fact already knows. The trick, of which Tom Wolfe is the master, is to write so closely on the heels of an event as to seem actually to have predicted it. Books published ahead of their allotted Warholian moment, when the public is still not ready to believe, might as well not have been published.

One such was **Selling Money** (Grove Weidenfeld) by S. C. Gwynne, recounting the writer's (now West Coast bureau chief for *Time*) undistinguished adventures as a young banker lending to the Philippines in the Marcos years. It is better and more telling than another young investment banker's book, Lewis's *Liar's Poker*, but it appeared at a time when no one wanted to believe the sort of tales Lewis subsequently retold when the public was prepared—yea, anxious—to think the worst. Gwynne's was one of the two best books about '80s-style commercial banking. The other was *New Yorker* writer Mark Singer's **Funny Money** (Knopf) about the 1982 collapse of the Penn Square Bank, a dinky Oklahoma operation which brought down the mighty Continental Illinois Bank. Singer's book contains a memorable line that Michael Milken should have read: "No matter what many of us often insist on believing, thieving conspiracies can almost never be built to last."

Each Wall Street decade is unique in the types of transactions which exemplify its emergence, flowering, and eventual fall from financial grace. During the 1920s there were stock-pooling operations, culminating in pyramidal investment trusts; during the 1960s, acquisition-driven conglomerates, a form of corporate organization based on the false premise that an MBA degree equips a person to manage any kind of business. During the 1980s there was the leveraged buyout.

To understand the era of the leveraged buyout, I recommend, in addition to Stewart's *Den of Thieves*, a short shelf of six books. Some enterprising book club should offer them together as a package.

The Money Wars (Dutton), by Roy C. Smith, gives a good Gibbonian overview, even though Smith, as a former investment banker, is a mite too kindly in his estimate of the damage to America's industrial infrastructure wrought by his old colleagues. For what the carnage looks like close up, there is no more appalling record than Washington journalist Max Holland's **When the Machine Stopped** (Harvard Business School Press), the sad tale of how one of America's most technologically adept builders of machine tools, Houdaille Industries, was reduced by a leveraged buyout to a pathetic shell. Holland asks the vital question: How many jobs is an extra percentage point of junk-bond interest worth?

Of all the decade's humongous deals, whose multimillion-dollar fees attracted investment-banking and legal parasites in droves, the 1984 imbroglio involving Pennzoil, Texaco, and Getty Oil takes the cake. It is a more interesting dogfight than RJR Nabisco, the subject of *Barbarians at the Gate*, because everyone involved was at the top of his game and more evenly matched. Two good books about Pennzoil-Texaco-Getty are Steve Coll's **The Taking of Getty Oil** (Atheneum) and Thomas Petzinger, Jr.'s **Oil and Honor** (Putnam). As a study in financial parasitology, journalist Connie Bruck's **The Predator's Ball** (Penguin) is, I think, the richest account we are likely to get of Milken and his Age. Bruck casts her net wider than Stewart did and includes sinners whom justice and censure have so far spared. Finally, *New York Times* financial writer Sarah Bartlett's **The Money Machine: How KKR Manufactured Power and Profits** (Warner) provides the closest look so far into the era's money men of choice, Henry Kravis and his cousin George Roberts. Bartlett is worthwhile because she digs into KKR's money sources, in particular the firm's relationships with various public-sector pension funds. These relationships were formed, Bartlett shows, through techniques that sound like what in my days on the Street we at least had the frankness to call "bribery."

Bartlett's question is fascinating: Where did the money come from? It is an issue at the heart of the savings-and-loan debacle, which in retrospect reads like an evolved conspiracy—a dangerous combination of feckless misjudgment and sinister calculation by ranking powers in the public and private sectors—to defraud the American taxpayer of the best part of a trillion dollars. The best of the S&L crisis books are Martin Mayer's **The Greatest Bank Robbery Ever** (Scribners) and **Inside Job** (McGraw-Hill) by Stephen Pizzo, Mary Fricker, and Paul Muolo. *Inside Job* also examines the role of organized crime in the looting of the S&L industry. It is a big story, even now only dimly understood. With the cocaine industry generating an estimated $300 billion a year worldwide, it seems inconceivable that Wall Street—with its technology of funds transfer now more efficient and secretive than ever—did not find a way to channel this torrent of illicit capital to its own benefit.

"Love," a good ol' boy once advised me, "is wonderful, but if it costs over $100, it's expensive." Wall Street is doubtless wonderful too, but when it starts costing us hundreds of billions and we get so little in return, it's too expensive to ignore or to be ignorant about. The books listed above will leave no reader ignorant or innocent. Only when the general public is informed—and outraged—will it be possible to do something about Wall Street.

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