The Predators' Fall

Sure, Milken and Boesky got busted. But that's not why Wall Street went bust.

by Michael Lewis

One day some smart person will refute the conventional wisdom that the hippies of the sixties and the yuppies of the eighties were polar opposites. It is true that in a short 20 years the attitude of American youth to the free market turned 180 degrees—that the Berkeley seniors who once hooted with delight as Abbie Hoffman floated dollar bills onto the heads of traders from the gallery of the New York Stock Exchange cheered when Ivan Boesky, in his famous commencement address, told them that "[G]reed is healthy. You can be greedy and still feel good about yourself." But the real connection between the sixties and the eighties is that both witnessed a direct challenge by American youth to the American corporate establishment. Only this time the radicals wore suits.

The spiritual center of the financial eighties was Drexel Burnham's annual junk bond sales conference, known as the Predator's Ball. The event first took place in 1977 as a sober gathering of less than a dozen Drexel clients but quickly became an annual celebration of the ideas that made the last decade revolutionary: that debt is good, that the market is inherently moral, and that finance could and should be used as a weapon against entrenched corporate drones. By 1985, the Predator's Ball was drawing more than 100 companies that had issued junk bonds through Drexel, and an audience of 1,500 investors who controlled an estimated 1 *trillion* dollars in junk-bond buying power. They listened raptly to CEO Fred Joseph explain Drexel's newest idea for financing any client with the right attitude who wished to raid a company. "For the first time in history," said Joseph, "We've leveled the playing field. The small can go after the big." Or, as another Drexel banker put it, "We're going to tee-up GM, Ford, and IBM and make them cringe."

Anyone who explains the success of the Predator's Ball explains a lot of what happened in the last decade. But this is not as easy as it sounds. The common perception is that the new corporate willingness to borrow money was caused by a tax code that favored debt over equity. But the tax code favored debt long before Drexel's junk bond king, Michael Milken, came of age, and it still does. What's more, the tax argument fails to explain why investors bought junk bonds. A favorite explanation is that investors succumbed to the mass insanity of the bull market. "What you don't know," said one patron of the 1985 Predator's Ball, "is whether you have a watershed in American business or a South Sea Bubble."

That quote is lifted from *Den of Thieves**, which inclines towards another view: that Michael Milken acquired enough market power through his criminal activities to muscle corporations into issuing junk and investors into buying it. The book consists of two parts. The first tells of the four financiers—Dennis Levine, Martin Siegel, Boesky, and Milken—at the center of the two main circles of insider trading on Wall Street. The second tells how the prosecutors hunted them down and shows that the key to the investigation's success wasn't the highly publicized RICO Act, but the ability of the prosecutors first to terrify and then to immunize smaller fry, who then ratted on their superiors. Stewart, a lawyer by training and a *Wall Street Journal* editor by profession, handles both stories skillfully. He weaves the financial and legal threads so that his narrative reads more like true crime than another boring tome about business. By the standards of financial and legal reporting, *Den of Thieves* is a masterpiece.

Much of the more colorful material is new. I suppose by now we should be surprised at nothing we hear about financiers. Still, Levine, who both traded on insider information and sold information to Boesky, comes across as a crackpot parody of Wall Street attitudes. "The [insider trading] game is fun, Bob, it's easy," he tells a friend at Lazard Freres.

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**Den of Thieves.* James B. Stewart. *Simon & Schuster, $25.*

"The government is stupid. Nobody with any brains is in that operation. They only make 30 grand, if that." When the stupid government eventually catches him, however, he seems almost pleased. "None of this matters," he tells the same friend, now an accomplice. "It doesn't matter as long as you're famous. . . . I hear I'm on the cover of *Newsweek*."

Ivan Boesky is accurately described by his son as "stark raving mad." Dining one evening with a fellow arbitrageur, he ordered all the dishes on the menu. "When the food arrived," writes Stewart, "the waiter wheeled a table next to them. On it were the eight featured dishes of the day. Boesky looked them over carefully, circled the table, took one bite of each. He selected one and sent the rest back. . . . Boesky only picked at his food."

To Stewart, the financial eighties were one giant criminal conspiracy, with Milken in the starring role of Omnipotent Evil Genius.

Milken, too, seems stranger than fiction. A lot of classroom economics is premised on the idea that the more money a person makes, the less he wants. Not this junk bond king. At the end of the year in which he was paid $550 million, Milken spent hours lobbying CEO Fred Joseph for an extra $15,000. Stewart recounts another time when "a salesman in Drexel's midtown Manhattan office, Gary Winnick, bought some of Milken's bond inventory for one of his clients. Winnick earned one eighth of a point on the spread, or the difference between the price the customer paid and what Milken charged him. . . . Winnick was furious to learn that Milken's spread had actually been 30 points, and that Milken had kept $29\frac{7}{8}$ for himself. Winnick was astounded that Milken would be so greedy. They were, after all, colleagues."

Although the narrative inevitably converges on Drexel Burnham—which employed Milken, Siegel, and Levine—Stewart admirably resists the notion that its crimes were peculiar. He implicates almost every major firm on Wall Street, most damningly the venerable Goldman Sachs. Before the publication of Stewart's book, the popular perception was that Goldman's most infamous criminal, Robert Freeman, was the victim of overzealous prosecution. Stewart—probably relying on Siegel, who was clearly his key source—claims that Freeman regularly swapped illegal tips with Siegel. "Gray as the lines sometimes were," he writes, "Siegel was almost never in any doubt when the line was crossed. He always felt at least a twinge of guilt and anxiety. Siegel gave Freeman details of International Controls Corporation's bid for Kidder Peabody client Transway International; Freeman told Siegel he had taken a big Transway position for his children. While Goldman was involved in the Philip Morris acquisition of General Foods, Siegel asked Freeman, 'What do you think of the [General Foods] stock?' Freeman replied, 'It looks good to me.' This meant that Siegel should buy it, which he did."

The weakness of the book lies less in the story than in its interpretation. Stewart is a master of the invisible spin, which he applies in the usual way of the newspaper reporter: by selection of material, by finding someone else to say what he thinks, by seemingly innocent juxtapositions, by an apocalyptic tone of voice. I offer two small examples (because all of the examples are small). Of the sleaze-filled taped conversations obtained in a raid of Princeton Newport Securities, Stewart writes that "two made a deep impression on the prosecutors. They stood out not just because of their value as evidence—neither, standing alone, was proof of any crime—but because of what they revealed about the state of mind that prevailed on Wall Street in the mid-eighties." Of a conversation between Boesky and a friend: "[It] captured the peculiar dynamics of Wall Street during the heyday of the eighties, when criminal activity seemed to have insinuated itself into the very fabric of human relationships." There is much more of the same. Taken together it conveys a fairly trenchant view of Wall Street as, well, a den of thieves.

Perhaps Stewart fears that he taints his material if he makes too obvious an attempt to think about it—that readers are less likely to buy reporting if they think they are being sold an opinion or two in the bargain. The trouble is that the man has views; a strong editorial line runs right through his story. Put too simply, it is this: The financial eighties were one giant criminal conspiracy, with Milken in the starring role of Omnipotent Evil Genius. "In an era that purported to glorify free-market capitalism," he writes, "this story shows how the nation's financial markets were in fact corrupted from within, and subverted for criminal purpose." But the criminals were caught. And Stewart believes that the system worked, and to work even better requires only heavier fines and more efficient watchdogs.

Perhaps I am putting words into the author's mouth, for he never argues his thesis outright. Instead he suggests that since the crime coexisted with a financial revolution, the two are inextricably linked—he cannot mention the one without drifting into the other. "To dwell on the ill-gotten gain," he writes in his preface, "is to miss the big picture. During this crime wave, the ownership of entire corporations changed hands, often forcibly, at a clip never before witnessed. Household names—Carnation, Beatrice, General Foods, Diamond Shamrock—vanished in takeovers that spawned criminal activity and violations of the securities laws . . . thousands of workers lost their jobs, companies loaded up with debt to pay for deals, profits were sacrificed to pay interest costs . . . bondholders and shareholders lost many millions more. Greed alone cannot account for such a toll. These are the costs of greed coupled with market power—power unrestrained by the normal checks and balances of the free market, or by any fears of getting caught." Does he mean to say that the corporate names vanished because of the crimes of a handful of men? I think so. But it does not follow.

To me it seems more plausible that the link between the financial revolution of the eighties and the crimes was direct but incidental: The indulgence of junk bond buyers fueled the takeover boom, and the takeovers presented the investment banking advisers with information not available to the market as a whole, and thus with a chance to profit by trading. The lawbreaking, while central to Milken's grip on his market share, was irrelevant when it came time to do the deals. Certainly other Wall Street firms contributed their share of financial mayhem without committing any crimes—let us observe a moment of silence for First Boston and Campeau, Goldman Sachs and Macy's, Salomon and Revco. The crimes were in my view less a first cause than a symptom of the larger antisocial attitudes that became convenient to hold on Wall Street, because they paid. What is really unsettling about the last decade is that the economy was more or less screwed up legally. Which means there is nothing to stop it from happening again. □

The New Old Boy

Why even the best congressmen sell out to stay in

by James Boyd

Arriving at the Speaker's throne in January 1989 for his swearing-in, Nebraska Rep. Peter Hoagland was something of an ornament to the political process. At 47, tall and rangy with wavy black hair, he had the kind of smooth good looks that deflect resentment by virtue of one homey defect, extruding ears. Scion of a family prominent in Omaha for five generations and heir to a tradition of "giving something back," he had half a lifetime of conscientiousness behind him—honor graduate of Stanford, a Vietnam-era hitch in the Army, captain of his moot court team at Yale Law School, and years amid the legal nitty-gritty as a public defender. Along the way, he defected from his parents' Republicanism when he saw in John F. Kennedy's administration "a disinterested quest for intellectual truth."

Returning to Omaha in his mid-thirties, Hoagland built a $250,000-a-year personal injury law practice, spearheaded a "sunshine laws" ballot initiative that paved the way for a tough new ethics law in the legislature, served on the national board of Common Cause, and won election to Nebraska's unicameral legislature, where he earned a reputation as a reformer and a man of "candor and directness."

Even upon his ascent to Congress, he refused to accede to the self-inflation of his new position. Forbearing to use his staff as chauffeur and valet, he commuted to Capitol Hill from the suburbs each day via bus and subway, seeming always to wear the

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