

CHAPTER I

Climax

I

On April 22, 1970, Henry Ross Perot of Dallas, Texas, one of the half-dozen richest men in the United States, was so new to wealth, at forty, that he was not listed in *Poor's Register* and had just appeared for the first time in *Who's Who in America*. Only a small fraction of his fellow countrymen had ever heard of him. Many who had met him by happening to sit next to him on airliners had not found him particularly impressive or interesting. Barely five and a half feet tall, with a naïve, straightforward gaze, an unamused smile, a crooked nose, a hillbilly East Texas accent, and a short crewcut tended like a tennis lawn, he was inclined to talk at length and with enthusiasm about things like patriotism and the Boy Scouts of America. More than anything else, he seemed to be a nice, promising young man who was probably selling something.

Yet that day Perot made a landmark in the financial history of the United States and perhaps of the Western world. It was hardly a landmark to be envied, but it was certainly one to be remembered. That day, he suffered a paper stock-market loss of

about \$450 million. He still had, on paper, almost a billion dollars left afterward, but that wasn't the point. The point was that his one-day loss amounted to more than the total assets of any charitable foundation in the country after the top five; more than the annual welfare budget of any city except New York; and more—not just in figures, but in actual purchasing power—than J. Pierpont Morgan was known to be worth at the time of his death in 1913. It was also quite possibly more in actual purchasing power than any man had ever lost in a single day since the Industrial Revolution brought large private accumulations of money into being.

2

It was Earth Day; the environment had recently become a national mania, especially among the young, and a group of conservationist leaders headed by Senator Gaylord Nelson of Wisconsin had picked April 22 as a day of national dedication to the cause of eliminating pollution in all its forms. (Were preposterously large paper stock-market profits such as Ross Perot had made to be considered a form of pollution? Quite possibly.) In Washington, in front of the Department of the Interior Building, twelve hundred young people milled around shouting "Off the oil!" and "Stop the muck!" to protest government leases to oil producers whose operations were thought to cause pollution. There were antipollution rallies of twenty-five thousand or more (watched by the F.B.I., it became known later) in New York, Chicago, and Philadelphia. In Bloomington, Minnesota, former Vice President Humphrey urged the United Nations to establish an environmental agency to combat pollution around the world, and at Georgetown University in Washington, Senator Birch Bayh of Indiana called for a national agency "to conquer pollution as we have conquered space." Interior Secretary Walter Hickel—an authentic hero of environmentalism, since

he was a convert soon to be martyred professionally for his views—was in his home state of Alaska, getting a hero's welcome. In New York City, children rode bicycles to school; huge, lighthearted crowds gamboled on an automobile-free Fifth Avenue; at Seventeenth Street people were offered the opportunity to breath "pure air" from the nozzle of a blocklong polyethylene bubble; and so on, as all the artillery of promotion and public relations was turned, momentarily, in an unfamiliar and uncharacteristic direction. The same day, the novelist Kurt Vonnegut, after alluding to President Nixon's statement that he did not propose to be the first American President to lose a war, commented, "He may be the first American President to lose a planet."

All this resolution and high spirits fought upstream against one of the deepest moods of gloom to darken any American April since the Civil War. The first My Lai revelations were five months old; the dangerous and disturbing New Haven strike in support of the Black Panthers, which would spread quickly to campuses all over the Northeast, was to begin that same day, April 22; the stunningly unpopular invasion of Cambodia was eight days off, the Kent State University killings of students by National Guardsmen twelve days off. The gloom, compounded by signs of an approaching national economic recession, had caused a stock-market panic that, though far from over, was already comparable in a remarkable number of ways to that of October 1929. The Dow-Jones industrial average of common stocks had sunk relentlessly through almost all of 1969; then, after holding fairly firm through the first three months of the new year, it had gone into a sickening collapse that had carried it, by April 22, to a level some 235 points below where it had been at its peak sixteen months earlier. Much worse, the Dow did not begin to tell the whole story. Interest rates were at near-record highs, strangling new housing construction and making most industrial expansion impractical. The dollar was in bad trouble in the international markets, with foreigners holding American currency worth many billions more than the national gold hoard. One hundred or more Wall Street broker-

age firms were near failure. As for the Dow, made up as it was of the old blue chips that had long since been deposed as sensitive and accurate market leaders, it was a pale, watered-down reflection of the real stock-market situation. A better indication is to be found in the fact that in May 1970, a portfolio consisting of one share of every stock listed on the Big Board was worth just about half of what it would have been worth at the start of 1969. The high flyers that had led the market of 1967 and 1968—conglomerates, computer leasers, far-out electronics companies, franchisers—were precipitously down from their peaks. Nor were they down 25 percent, like the Dow, but 80, 90, or 95 percent. This was vintage 1929 stuff, and the prospect of another great depression, this one induced as much by despair as by economic factors as such, was a very real one.

The visible parallels to 1929, in the business and financial spheres, were enough to make a man agree not merely with Santayana, who said that those who forget history are condemned to repeat it, but with Proust, whose whole great book, read one way, seems to say that man's apparent capacity to learn from experience is an illusion.

Before the crash in 1929 the financial sages had insisted repeatedly that there couldn't be another panic like that of 1907 because of the protective role of the Federal Reserve System; before the crash of 1969-70 a later generation observed repeatedly that there couldn't be another panic like that of 1929 because of the protective role of the Federal Reserve System and the Securities and Exchange Commission. In each case a severe market break had taken place about eight years earlier (in 1921 and 1962, respectively), followed by a period of progressively more unfettered speculation. In each case huge, shaky financial pyramids, built on a minimum of cash base, had been erected by financiers eager to take maximum advantage of the public's insatiable appetite for common stocks. Before 1929 they had been called investment trusts and holding companies; now they were called conglomerates. In each case there had been a single market operator to whom the public assigned the star role of official seer. In the 1920s the man to whom the public ascribed almost

supernatural power to divine the future prices of stocks had been Jesse L. Livermore. In the middle 1960s, it was Gerald Tsai.

In each case, certain insiders contrived to use privileged information and superior market technique to manipulate stock prices and thus deceive the public; in the 1920s the manipulators had been called pool operators, in the 1960s they were called portfolio managers. (It is curious to note that, while the operations of both the pools of the 1920s and the high-performance funds of the 1960s were obviously unfair if not illegal, there was no public disapproval of either so long as people were making money on them.) In each case, the practice of slack ethics started in the untended underbrush on the fringes of Wall Street and moved, sooner or later, to the very centers of power and respectability. In 1926 (although it wasn't known publicly until over a decade later), the future president of the New York Stock Exchange committed the first of a series of embezzlements of funds entrusted to his care; in 1929 the president of the Chase National Bank made a personal profit of \$4 million by selling short the shares of his own bank. No wrongdoing so melodramatic occurred among the Wall Street leaders of the 1960s—or, at least, none has so far been uncovered. But in 1926 a partner of J.P. Morgan and Company shocked the financial world, which believed the Morgans sat on the right hand of God, by openly touting a stock, General Motors, in which his firm was substantially interested; and forty years later, in 1966, a not dissimilar shudder went through the Street when it became known that two years earlier a key vice president of J.P. Morgan and Company's successor firm, Morgan Guaranty Trust Company, had bought or caused to be bought ten thousand shares of Texas Gulf Sulphur in less than half an hour, apparently on the basis of privileged information of a great ore strike in Ontario.

The parallels go down to certain curious details. In each case, the market collapse occurred under a Republican President who had been elected on the crest of the preceding boom, and who had a strong pro-business orientation. In each case, the crisis was marked by carefully planned and publicized Presiden-

tial meetings at the White House with Wall Street leaders. Finally, in each case the crash gave rise to an orgy of recrimination and finger-pointing.

Of course, there were tremendous differences, too—not just the fact that the more recent crash did not lead to a catastrophic national depression (though it did lead to a severe one), but differences in style and nuance and social implication that will be the main subject of this chronicle. One might, in comparing 1929 with 1969–70, even find a certain appositeness in Karl Marx's famous observation that history repeats itself the first time as tragedy, the second time as farce.

3

Wall Street, in the geographical sense, was to become an actual battleground that spring, less than three weeks after Earth Day and Ross Perot's Down-to-Earth Day. By Wednesday, May 6, 1970, a week after the Cambodia announcement and two days after the Kent State incident, eighty colleges across the country were closed entirely as a result of student and faculty strikes, and students were boycotting classes at over three hundred more. Most New York City schools and colleges were scheduled to be closed that Friday, May 8, in a gesture of protest, and among the student antiwar demonstrations being planned was one to be held in Wall Street. On Wednesday the sixth, a small group of white-coated students and faculty members from several medical and nursing schools in the city came to Wall Street to demonstrate for peace on their own. There they were greeted warmly by the vigorous, youth-oriented, peace-crusading vicar of Trinity Church, Donald R. Woodward. In the course of the ensuing conversations, the medical people suggested that it might be a good idea, considering the vast daytime population of the Wall Street area, to establish a noon-hour first-aid center at Trinity Church, which, standing as it has since colonial times

right at the head of Wall Street, is at the very heart of the financial district in the physical—though scarcely, it often seems, in the spiritual—sense. If Trinity would provide space, the medical people said, they would undertake to set up and man the first-aid center on a volunteer basis. The vicar gratefully and enthusiastically accepted the offer. The first day that the center was in operation was Friday, May 8—a circumstance that in retrospect seems little less than providential.

That Friday morning—a damp, drizzly, bone-chilling morning such as New York can often produce in early May—beginning at about seven-thirty, boys and girls by the hundreds began debouching from Wall Street's two principal subway stations, the Seventh Avenue-Broadway stop at Chase Manhattan Plaza and the Lexington Avenue at Broadway and Wall. Most of them were from New York University, Hunter College, and the city's public high schools, all of those institutions being closed for the day. Eventually something like a thousand strong, they jammed into the financial district's central plaza, the intersection of Broad and Wall, where they milled around under the apprehensive scrutiny of a good-sized cadre of city policemen who had been dispatched there in anticipation of their arrival. But the students seemed to be in no mood to cause the police any trouble. In light rain, under the columns of Federal Hall, where George Washington had once taken the oath of office as the United States' first President, and facing the intimidating entrance to the great marble building from which imperial Morgan had once more or less ruled the nation, they spent the morning rallying their spirits and formulating their demands. The demands, not too surprisingly, turned out to be the same as those agreed upon a few days earlier by a secret convention of radical youth leaders in New Haven, and now being put forth on dozens of northeastern campuses. One: immediate United States withdrawal from Vietnam and Cambodia. Two: release of all "political prisoners" in the nation—a pointed, not to say loaded, reference to the Black Panthers imprisoned on charges of participating in the torture and murder of Alex Rackley, a Panther accused of being a police informer. Three: cessation of

all military-oriented research work under the auspices of American universities. Unlike many student demonstrations in the spring of 1970, this one was wholly nonviolent. Indeed, it was positively good-humored, and when, as noon approached, the rain stopped and a warm sun broke through, the mood became even better. Most of the demonstrators sat down on the sidewalk to listen to speakers.

Eleven fifty-five: suddenly, simultaneously from all four approaches to the intersection, like a well-trained raiding force, the hardhats came. They were construction workers, many employed in the huge nearby World Trade Center project, and their brown overalls and orange-and-yellow helmets seemed to be a sort of uniform. Many of them carried American flags; others, it soon became clear, carried construction tools and wore heavy boots that were intended as weapons. Later it was said that their movements appeared to be directed, by means of hand signals, by two unidentified men in gray hats and gray suits. There were perhaps two hundred of them.

As they pushed through the mob of seated students, it became manifest that their two objectives were to place flags at the base of the Washington statue in front of Federal Hall, otherwise known as the Subtreasury Building, and to break up the demonstration, if necessary by violence. As to the first objective, they marched toward the statue shouting "All the way, U.S.A.!" and "Love it or leave it!"; their way was barred on the steps by a thin line of policemen; the policemen, overwhelmed by greater numbers, were brushed aside; and the flags were triumphantly planted under the statue. As to the second objective: construction workers repeatedly struck students with sticks, fists, boots, screwdrivers, and pliers. They chased screaming students of both sexes down the canyons of the financial district, striking to hurt when they came within range. They ripped the Red Cross banner, indicating the presence of the new first-aid station, from the front gates of Trinity. The air was filled with the cries of the enraged and the injured, and the acrid, ominous aroma of a storm-troop putsch. Vicar Woodward, brave and exposed, stood through it all by the Trinity front gates, directing victims to the

aid station inside; twice, fearing an actual invasion of the church, he ordered the gates closed.

Inside Trinity, a communion service was in progress—a Mass, as it happened, for peace and in commemoration of the Kent State students and all the war dead in Vietnam. Those in the congregation were first aware of the noise of a rising mob filtering in from the street; then, as the service proceeded, they watched a steady stream of bloodied students walking or being carried down the nave's side aisle to the Sacristy and Clergy Vesting Room where the young doctors and nurses were ready to treat them. In all, about fifty demonstrators were treated at the Trinity first-aid station; another twenty-three were serious enough cases to require attention at Beekman-Downtown Hospital.

For more than a week afterward, Wall Street bristled daily with police as if it were in a fascist state.

To the extent that it had any part in this dispiriting affair—this small but fierce and rancorous struggle that came so close to being a crystallization of the whole nation's tragedy at that moment—professional Wall Street, the Wall Street of finance and law, of power and elegance, seemed to be on the side of the students. Perhaps out of common humanity, or perhaps out of class feeling, the bulls and bears felt more kinship with the doves than with the hawks. At Exchange Place, Robert A. Bernhard, a partner in the aristocratic firm of Lehman Brothers, was himself assaulted and severely cut in the head by a construction worker's heavy pliers, after he had tried to protect a youth who was being beaten. A few blocks north, a young Wall Street lawyer was knocked down, kicked, and beaten when he protested against hardhats who were yelling "Kill the Commie bastards!" But most of the mighty of the Street—Communist bastards or not—had no part in the struggle. They were not on the street. Like the famous, allegedly anarchist bombing on Wall Street in 1920, when thirty persons were killed and hundreds wounded, the riot of 1970 occurred just before noon: not quite lunch time. There was a racket in the street, and everyone above (or everyone privileged to have a window) looked out. The mar-

ket was unaffected. Most of Wall Street's elite working population watched the carnage from high, safe windows.

Indeed, there was little else they could sensibly have done; no purpose would have been served by their rushing down and joining the fray. Nevertheless, there is an all too symbolic aspect to professional Wall Street's role that day as a bystander, sympathizing, unmistakably, with the underdogs, the unarmed, the peace-lovers, but keeping its hands clean—watching with fascination and horror from its windows that looked out over the lovely (at that perspective) Upper Bay with its still-green islands and its proud passing liners, and down into the canyon from which there now rose, inconveniently, the cries of hurt or frightened children.

4

The event (like the unreal gyrations in the fortunes of Perot) called attention to the relationship, or the lack of one, between Wall Street and the nation in the new times. Did it make sense anymore to live—and live at the top of the heap—by playing games with paper while children screamed under the window? Could not one almost hear the tumbrils to the revolutionary guillotine rattling in the distance? Well, at any rate, if you were a Wall Streeter in 1970 you were at least no longer directly profiting by war. As late as the Eisenhower era the market had adhered to its age-old habit of greeting war news with complacency if not with outright glee, and of greeting peace news—“peace scares” was the local term—with panic and hysteria. But sometime in late 1967 Wall Street had come to decide that the Vietnam war was bad business, and had broken all precedent by turning decisively bearish on war and bullish on peace. The defense contractors were no longer blue chips; one of the biggest, Lockheed, would soon be in danger of bankruptcy. The peace initiatives of early 1968 had caused or contributed to a

huge bull market on record volume. An unheard-of phenomenon; an old shame of Wall Street ended, to sighs of relief from financiers with consciences.

Or again: if you were a conscientious Wall Streeter you could tell yourself that you were contributing to progress by financing industrial expansion that would help reduce poverty and would finally abolish it. But now you knew, or had recently been compelled at last to reflect, that industrial expansion was not an unalloyed blessing; that each new factory, however modern and antiseptic, would mean new money for many but might also mean—through pollution—ugliness, suffering, and death.

Wall Street as a political issue was long dead except in those homes of the stuck record, Moscow and Peking. Even the American Old Left had stopped attacking Wall Street long since (and was probably long since in the market itself). "Lackeys of Wall Street" was a phrase to laugh at when Mao or Khrushchev mouthed it—as well say "lackeys of Monte Carlo." Spreading affluence and the rise of corporate and federal power had reduced Wall Street to the status of a national facility without important political influence. The New Left simply ignored it, except in 1967 when Abbie Hoffman and his Yippie friends had the inspired notion of throwing dollar bills from the visitors' gallery onto the Stock Exchange floor. A few months later, the Exchange management did *its* bit for the Yippie cause by installing bulletproof glass around the visitors' gallery, thereby seeming to indicate that it considered thrown-away dollar bills to be lethal weapons. (And maybe, after all, from the Exchange's point of view they were.) In short, a taunt was offered and magnificently accepted. But the taunt was not even to Wall Street; Wall Street had become a convenient metaphor for commercial America. Hoffman was right to crow, "Throwing money onto the floor of the Stock Exchange is pure information. It needs no explanation. It says more than thousands of anticapitalist tracts and essays." And how magnificently bulletproof glass underlines the message! Wall Street, which despises suckers, had been suckered.

And all through the stormy course of 1967 and 1968, when

things had been coming apart and it had seemed that the center really couldn't hold—the rising national economic crisis culminating in a day when the dollar was unredeemable in Paris, the Martin Luther King and Robert Kennedy assassinations, the shame of the Chicago Democratic convention, the rising tempo of student riots—the silly market had gone its merry way, heedlessly soaring upward as if everything were O.K. or would surely come out O.K., as mindlessly, maniacally euphoric as a Japanese beetle in July. Or as a doomed man enjoying his last meal. One could only ask: Did Wall Street, for all its gutter shrewdness, have the slightest idea what was *really* going on?

Beyond that, wasn't Wall Street the very living symbol and embodiment of everything—the Protestant work ethic, Social Darwinism, market orientation, money-madness—that America was only now learning, if not to reject, at least to get into a new and lesser perspective? Wasn't Wall Street backward-looking, a kind of simplified, idealized version of the older and now largely discredited America, unrelated or even antipathetic to the new America that was struggling now to come into being?

Of course, Wall Street itself claimed to be more broadly American than ever before. Even at the height of the 1929 boom, Wall Street could and did point out, there were only 4 or 5 million Americans in the stock market. In the summer of 1970 the Stock Exchange proudly unveiled a survey showing that the country now held over 30 million shareowners. "People's capitalism" had arrived, then, and there were figures to prove it. Yet in another and perhaps more important perspective, the stock market was not more closely related to American life in 1970 than in 1929; in fact, the contrary was true. In 1929, America—the America of history, the one described in books and newspapers and popular magazines and even in the intellectual journals—had been essentially still a small country consisting of people possessing either land or money. Everybody else had been simply considered beneath notice. As the majority consisting of slaves is ignored in the idyllic histories of the democracy of ancient Greece, so the majority of the poor was ignored in the social histories of America *circa* 1929. By 1970, social commen-

tary at all levels had become democratic; minorities, black and other, had become consequently self-conscious, aware of their right to be included and noticed even though they remain as they are rather than remolding themselves in the white Protestant image, as the Jews and the Irish had so largely done in earlier times. Even among the affluent, discussing the stock market at social occasions—a custom not just sanctioned but approved in 1929—had come to be considered generally dull or boorish. In the national context, the 4 or 5 million stockholders of 1929 loomed far larger than the 30 million of 1970. And in 1970, people's capitalism—as almost any black, Mexican, Puerto Rican, Appalachian poor white, unemployed laborer, or hard-scrabble farmer would tell you—was still largely a myth.

Wall Street—sometimes so beautifully, so patly metaphorical that it could break a poet's heart—was not only a place sorely in need of physical and spiritual "greening," but had been almost the first place in the nation to be literally ungreened. A print made in 1847, long before the coming of large-scale industrialization, the age of asphalt, hangs in the famous old restaurant Sweets in Fulton Street. It shows almost the whole six-hundred-yard stretch of Wall Street looking toward Trinity Church, and the scene contains exactly one tree. With the physical ungreening went—and goes—the spiritual concomitant, a certain dehumanization. For generations, Wall Street as a social ambiance has tended to represent what is hardest, coldest, and meanest in America. Sneaky, parsimonious, hypocritical old Daniel Drew is not a Wall Street legend for nothing. This is not to say that life there has been (or is) all mean and inhuman. Along with Drew's unprepossessing qualities, in Wall Street there has always been extraordinary enterprise, generosity, courage, villainy on a grand scale, the drama of success and failure, even now and again a certain nobility. In the nineteen sixties Wall Street still had a stimulating tendency, as it had had for a century and more, to project humanity (and specifically American humanity) on a wide screen, larger than life; to be a stage, perhaps one of the last, for high, pure, moral melodrama on the themes of possession, domination, and belonging.

But at a cost. As few plants bloom there, so do few people. While the Wall Street kings play out their classic dramas in the filtered air behind the high windows, the vassals, footmen, and ladies-in-waiting of the Street are short of the little satisfactions that make life bearable. Numbers and machines that they don't understand benumb them. One gets off the subway at Broadway and Wall and begins to feel depressed. Men's faces seem pinched and preoccupied. Pretty women seem flesh without magic. In winter a savage wind curls around the corners of those canyons; in summer the air lies heavy, dank, and sunless. The debaters of theology who cluster outside the Bankers Trust seem disturbingly psychotic, not engagingly zany. Not greed nor avarice, but footling bad temper, is too often the prevailing mood.

In a revolutionary time like 1970, could it be that Wall Street, that summary of so much that is least engaging about our national tradition, was coming to be—in the cliché of the moment—irrelevant?

5

Not to Ross Perot. To him, Wall Street was a Puritan's Hell, dangerous and fascinating, and also, as he well knew, the source of his almost incredible riches. He had entered Hell, conquered it, and remained pure. By environment and temperament he was a perfect Western populist, feeling toward "city slickers," including those in Wall Street, a fear and suspicion not unmixed with envy and contempt. His boyhood in East Texas, as the son of a depression-ridden small-town cotton broker and horse-trader, had set the pattern of his life: he had broken horses for pay before he was ten (and repeatedly broken his nose in the process), become an Eagle Scout, learned the cult of self-reliance and learned to make a holy Calvinist doctrine of the pursuit of the honest dollar by honest effort. In some senses he was an anachronism. He had grown up, before and during World War

II, believing that the frontier not only existed but still dominated American life. What had been physically extinct long before his birth summed up his spiritual reality. He believed that all things were possible in America for the man of enterprise and that the natural habitat of the man of enterprise was the "frontier." Even now, when he had turned the tables and was admired, envied, perhaps hated in Wall Street itself, he instinctively equated "West" with "good" and "East" with "bad"; traveling on airliners—as I learned when I spent three days traveling with him on them, late in 1970—he found that his fellow passengers became more pinched, constricted, snobbish, close-mouthed as a plane moved eastward over the nation, and more generous, open-hearted, and free-thinking as it moved westward.

He was of pioneer stock; his grandfather Perot, son of an immigrant from France to Louisiana before the Civil War, in the true frontier days, had made his way upriver and overland to New Boston, Texas, where he had hacked out a clearing, hewed timber, and built a trading post and general store. Ross Perot, after high school and two years of junior college in nearby Texarkana, had wangled an appointment to the Naval Academy, where he had graduated in 1953 with an average academic record but had been recognized for leadership through election as class president. Already he showed promise as a supersalesman. After four years of active Navy duty he had taken a job as a computer drummer, on commission, for I.B.M. in Dallas. He had soon turned out to be such an overachiever that any promotion to a salaried job would have involved a cut in pay, so the company had taken drastic steps to control his income. It had cut his commission on sales by four-fifths and assigned him an annual sales quota beyond which he would get no commission. For the year 1962, he had made his annual quota by January 19, thus putting himself effectively out of business for the next eleven months and twelve days. After brooding on his dilemma, he quit I.B.M. that June and incorporated his own company—Electronic Data Systems Corp., designers, installers, and operators of computer systems—taking with him a couple

of brilliant young I.B.M. colleagues, Milledge A. Hart, III, and Thomas Marquez. He had no investors or backers; his initial investment was \$1,000, the minimum required for incorporation under Texas law; his directors, apart from himself, were his wife, his mother, and his sister. Hard times followed for a while. (When E.D.S. put up its own building in Dallas and decorated it with the firm's initials, some local people took the place for a restaurant called "Ed's.") But persistence and salesmanship paid off. In 1965, opportunity knocked for E.D.S. when federal Medicare legislation was passed and E.D.S. quickly got in on the ground floor. Perot actually spent a spell working part-time for Texas Blue Shield, which had a contract with the Social Security Administration to develop a computerized system for paying Medicare bills. Out of this association came a subcontract from Texas Blue Shield to E.D.S. That was only the beginning. Eventually E.D.S. had subcontracts to administer Medicare or Medicaid in eleven states, including Texas, California, and Indiana; the firm derived the major portion of its revenue from these contracts, and was, as *Ramparts* remarked scathingly in 1971, "America's first welfare billionaire." All told, by 1968 E.D.S. had twenty-three contracts for computer systems, 323 full-time employees, about \$10 million in assets, annual net profits of over \$1.5 million, and a growth curve so fantastic as to make investment bankers' mouths water.

Of such cloth was cut the man who, by early 1970—and by methods that we shall soon see—had beaten every one of the city slickers on their home ground, and become the single biggest winner in what the writer "Adam Smith" called "the money game," emerging with paper assets to his name of almost \$1.5 billion. His personal relations with Wall Street and its slickers began early in 1968, when the market was going through the roof and the hungry investment bankers had suddenly realized that Perot's little clutch of refugees from the fur-lined trap of I.B.M. was now ripe for a public sale that might be a bonanza all around. Seventeen investment bankers visited Perot in rapid succession and urged him to put his stock on the market. At first he said, as he had always said previously, that he never would.

He didn't want outside interference in his company's affairs, he just wanted to be left alone to do a job. But the seventeenth banker got to Perot. He was Kenneth Langone of R.W. Pressprich and Company, a respectable enough Wall Street firm. Langone was a youngish, sympathetic, fast-talking stock peddler of urban Italian extraction. In character, temperament, and background he and Perot presented a study in contrasts—in almost everything except that great binding tie, a shared respect for money. Other investment bankers had offered to sell Perot's stock at thirty times current annual earnings, then at fifty times, then at seventy times. Langone, however, offered one hundred times, possibly somewhat more. Perot hesitated for several weeks, during which he conducted a series of windy seminars within his company on the abstract moral question of whether or not a company like theirs ought to go public. Predictably, the seminars turned out to be largely a grotesque exercise in middle-management men trying to guess which way the cat would jump. But as to Perot, was all this soul-searching merely self-deception? Did his principles, like so many principles, have their price? Was his mind made up? Whatever the case, Perot said yes to Langone.

Then began Perot's education in the ways of the slickers, and he proved to be an astute pupil indeed. First of all, Langone wanted to know, who were the company's directors? His wife, his mother, and his sister, Perot reported. Langone said that wouldn't do. So Perot wrote himself a more acceptable board, consisting of Hart, Marquez, and other principal employees. Next, the company would have to be recapitalized: say, 11.5 million shares. A preposterous capitalization for a company that earned only \$1.5 million a year? Necessary, Langone explained, if you wanted that high earnings multiple and also a reasonable stock price. E.D.S., then, would be the seller of 325,000 shares of stock; Perot himself would be the seller of another 325,000. The rest would be kept by Perot and the E.D.S. employees—around 1.5 million shares for the employees (he had issued it to them by way of bonuses), and not quite 9.5 million for Perot himself. Wasn't 650,000 shares for public trading a dangerously

small float, likely to make for a highly volatile market in which small investors might possibly get hurt? Langone told Perot it was plenty. After all, he pointed out, R. W. Pressprich itself would make the market, and could be counted on to maintain a fair and orderly one. The offering price finally agreed upon was \$16.50 a share—118 times current E.D.S. earnings, and an infinite number times current dividends, since there were none.

Through all the negotiations Perot played barefoot boy to the hilt, pretending to be baffled by Wall Street's baroque rituals while actually learning to turn them to his own advantage. Was this a way to do business, he demanded of Langone, letting natural market forces be flouted by a local social pecking order that often required higher-ranking investment bankers to abstain from participation in offerings headed by lesser ones? Langone, scarcely a lover of Morgans or Lehmans or their kind, just smiled and shrugged. Perot made outlandish suggestions such as that the original buyers of his stock be offered a ninety-day money-back guarantee—surely knowing well enough that such an arrangement would be both legally and practically impossible—and tried to write his own prospectus in Frank Merriwell language (“All alone, against overwhelming odds, with little money. . .”), only to see it rewritten in the usual legalese. He indulged in classic frontiersmanship with the underwriters' legal counsel, the proper firm of Winthrop, Stimson, Putnam, and Roberts: in New York one of the lawyers invited Perot to lunch at a distinguished Wall Street club, and then when the lawyer came to Dallas, Perot insisted on returning the favor at a local greasy spoon. But when, on September 12, 1968, the E.D.S. stock was publicly offered and was quickly subscribed for in one of the most sensationally successful new-issue promotions of the whole headlong era, the bumpkin came out overnight with \$5 million in personal cash and more than \$200 million in stock equity at market value. All the tolerant Wall Street smiles faded abruptly.

Had the bumpkin, then, really been a superslicker all along, even though he pronounced head as “haid” and yes as “yais”? Perhaps; but surely not consciously. In fact, Perot could legiti-

mately claim to be by his own lights a pure-hearted moral idealist. His code embodied the early American virtues—thrift, early rising, work, competition, individualism—and it worked for him. He had the useful, if to many people annoying, ability of finding a moral homily to support whatever he did. Wall Street had made him rich, so Wall Street might not be so bad—maybe, at bottom, a simpleminded, paper-tiger sort of villain. In the months following the stock offering, Perot's fascination with the place grew. He talked to Langone by telephone from Dallas every working day, and visited in person whenever he could. On his visits, he would frequent the Pressprich trading room where the E.D.S. market was made. The stock took off. Institutions began buying it. Strange orders came in from places like Geneva and Lebanon, and this made the xenophobic Perot uneasy. Sometimes he would protest: "Don't sell my stock to him! I don't want him for a stockholder!" But the traders would laugh and sell the stock anyhow at ever-rising prices. At last, early in 1970, E.D.S. sold at 160. Perot, with his 9-million-plus shares, was now worth on paper almost \$1.5 billion—which, it happens, is about 40 percent of the whole United States federal budget for 1930, the year he was born.

The new billionaire saw himself, characteristically, not as a grandee but as an example to the nation's youth: "Somewhere in the United States there's a young man or woman who will break every financial record I've set! That's the amount of opportunity that exists in this country." Again characteristically—and in marked defiance of recent practice among other newly rich Texans—he set about being a moral billionaire. He decided to will only modest sums to his five children, "so they'll have the same opportunities I've had." Substantially all of his fortune would go, sooner or later, to "the improvement of American life." For a starter, he gave a million dollars to the Boy Scouts in the Dallas area. He gave over two million to the Dallas public school system to finance a pilot elementary school in a black ghetto area. He refused to avail himself of his legal right to take personal income-tax deductions on his charitable contributions on the ground that morally he owed the tax money to a country

that had done so well by him. In 1969, he became obsessed with the plight of United States prisoners of war in North Vietnam, and that December he attempted personally to intervene with the North Vietnamese authorities in their behalf. (His efforts, which included two excursions to Indochina in chartered airliners, failed, but they seem to have been not without rewards in personal satisfaction—in serving to convince people, perhaps including himself, that one man alone is *not* powerless in the modern world, and that Americans, particularly capitalist Americans, are a force for good no matter what anyone says.) By instinct he involved himself in moral confrontations in which, in his terms, he was always the winner. Once in 1969 a group of young West Coast radicals came to ask him—with tongues fairly protruding from their cheeks, it may be guessed—to finance “the revolution.” Did Perot avoid them or send them away? Indeed not; rather he took the opportunity to give them an object lesson. In his most businesslike manner he asked, “How long will it take and what will it cost?” The radicals, with no ready answer, were speechless.

He made what he did a virtue, and a virtue of what he did. But was Perot a hypocrite? Hypocrisy in common morals, like fraud in common law, is an offense that requires an element of “scienter”—knowledge of the offender that he is committing the offense. Viewed in that light, Perot, without scienter, was innocent.

6

The way Perot received the news of his monumental setback on April 22 was casual to the point of comedy. All that morning he was closeted in his Dallas office with executives of a potential client company to which E.D.S. was making its sales pitch. On emerging around one o'clock, he picked up a phone and called down the hall to Tom Marquez.

"What's new?" Perot asked.

"Well," Marquez said, "the stock is down fifty or sixty points."

Later Perot was to say that he had felt nothing at all. The event, he would add, had been "purely abstract." Despite a certain liking for history, insofar as history fitted in with his preconceived ideas, Perot did not immediately put in it a historical context. As we have seen, he had philosophical inclinations of a sort, too, but these, like those of most businessmen, tended to be of the *ad hoc* rather than the *gratia artis* sort. What did occur to him was that the whole thing didn't really matter much, since the \$1.5 billion he had made in eight years wasn't quite real money anyway because it was not quickly or readily convertible into cash. It also probably occurred to him that he wasn't exactly left destitute by the sudden crash, since he still had (on paper) that residual billion or so dollars. He had, he was to say later, the sense that nothing much had really happened.

Exactly what happened to the market in E.D.S. on the morning of April 22 is not known and may never be known in detail. What is certain, however, is the fact that its collapse was not based on any bad news about the company's operations. To the contrary, the news was all spectacularly good; per-share earnings for 1969 were more than double those for 1968, and even for the first quarter of 1970—a time of fast-deepening general business recession—E.D.S. showed a 70 percent profits increase over the same period for 1969. Quite evidently, there had to be some other cause.

E.D.S. was traded in the over-the-counter market. Less than a year later the operation of that long-notorious thicket of rumor, confusion, and secrecy would be revolutionized by the introduction of an electronic marvel called NASDAQ—a computer system that makes it possible for an over-the-counter trader, by merely punching some buttons and looking at a screen on his desk, to see precisely which firm is making the best current bid and the best current offer in any of several thousand stocks not listed on the stock exchanges. In effect, NASDAQ would bring the over-the-counter market up from *under* the

counter, a nether region it still inhabited to a marked extent in April 1970. At that time, there was no such screen on the trader's desk; to get the best price on a thinly traded stock like E.D.S., he might have to telephone a dozen other firms to get their quotes, engage in shouted conversations with other traders in his own firm to find out what kind of bids and offers they were getting, and finally agree to a price that would never be reported to the public at all. In such a market, the opportunities for manipulation were endless. Conducted in windowless back rooms by excitable hagglers, many with a full measure of larceny in their blood, and policed only negligently by the overworked and understaffed S.E.C., the over-the-counter market in the nineteen sixties was the perfect arena for the feeding of lions and the ingestion of Christians.

What was "wrong" with E.D.S. was that the price of its stock had not dropped at all while the rest of the market had been going through a panic. By way of comparison, University Computing, a leading company in E.D.S.'s very industry, was selling on April 22 at a price 80 percent below its peak of the previous year; meanwhile, E.D.S. was selling almost *at* its peak. Good earnings record or not, E.D.S. stock at around 150 was, from a technical standpoint, in an almost freakishly exposed position. At the same time, much of the available supply of stock was in the hands of fast-performance mutual funds that, at any sign of decline, would quickly unload. This is a condition known to market players as "weakly held." Such facts do not go unnoticed, nor did they on April 22. Presumably some big punter or a group of them—perhaps in Geneva, perhaps in Lebanon, perhaps right in New York—saw a golden opportunity to recoup the drastic losses they had suffered over the previous days in other stocks. So they mounted a bear raid on E.D.S., probing its strength with testing short sales. As it gave way under the pressure and dropped a few points (it may be presumed), they increased the sales. The suddenly lower price then came to the attention of the itchy-fingered portfolio managers of the fast-performance funds that held E.D.S. With their celebrated speed and dexterity, the portfolio managers began

unloading. Down and down the bid went—to 145, 135, 120—and the panic was on. The men in the back rooms decide fast and move instantly, and in their market a selling panic can blacken the sky as quickly as an August afternoon's thunderstorm.

Toward noon, with E.D.S. down in the 80-90 range, it firmed; presumably the bears who had started the slide felt that their killing was made and were beginning, leisurely, to consume their prey.

That, at least, is the scenario that may be reasonably deduced from the circumstances and events that are known. Langone of Pressprich, who was in the thick of the entire collapse, professes ignorance of what happened. He does say, cautiously, "The roof fell in. It was a terrible market, and E.D.S. at such a high price was vulnerable. No one can prove it, but it certainly appears that there was an organized raid of some kind on the stock." Certainly, no one can logically accuse Pressprich of complicity. With a substantial inventory of E.D.S. stock on hand before the selling storm struck, and thus a vested interest in keeping the price up, the brokerage firm had a bad morning that would not soon be forgotten. Some say it barely survived. But it did survive, and so, needless to say, did Ross Perot.

7

Thus the greatest one-day fall of a titan ever. But what of the investing public? The tens of thousands who, either directly or through the investments of their mutual funds, had put some of their savings into E.D.S., were far more than bemused spectators at a landmark event in financial history. In a word, they were losers, perhaps of a college fund or a vacation fund or part of a retirement nest egg. Few of them were so fortunate as to have bought their E.D.S. stock at or near its original offering price of \$16.50. As is usual with hot new issues, particularly in such manic markets as that of 1968, most of the original issue had

soon found its way into the hands of professional traders. Many small investors had come in later, buying from the professionals after the stock had been talked about in brokerage offices and mentioned in the market letters and pushed by the eager commission producers—and, of course, after its price had shot up almost out of sight. In the familiar pattern, the investing public, with its thousands rather than billions, had suddenly become interested in hot stocks at the very height of the boom, and had bought E.D.S. near its top. For an investor who had bought it at 150, the \$15,000 he had risked had in a single day become \$10,000, or the \$1,500 he had risked became \$1,000. To him, whatever had gone on in Lebanon or Geneva or in Wall Street or Perot's Down-to-Earth Day was emphatically not abstract. In human terms, the real and necessary hundreds or thousands that he lost were more important than the abstract millions that Perot lost.

Had the small investor, then, been gulled? The evidence is that, as such things go, he had not. E.D.S., in issuing such a small number of shares to the public, had indeed, it appears in retrospect, subjected the public to a considerable degree of risk. But the expert advice Perot had received from the seventeen investment bankers he had consulted had been that the number of shares necessary to make an orderly national market was between 300,000 and 500,000—and he had actually issued 650,000. So the error had apparently been Wall Street's rather than Perot's. Moreover, E.D.S., unlike many new companies of the era, was not known for any special tendency to mislead investors with high-pressure salesmanship of its shares or with accounting tricks to pretty up its balance sheets. It was a sound, profitable operation, and the market's madness in its shares was the market's own. And as a matter of fact, even after the big April 22 collapse investors in E.D.S. were better off than those who had plunged in many better-known issues, including most of the favorites of the boom years. As of April 22, their investment in Ling-Temco-Vought at 170 was worth 15; in Four Seasons Nursing Centers at 91 was worth 33 (and would shortly be all but worthless); in Data Processing at 92 was worth 11; in Parvin-

Dohrmann at 142 was worth 19; and in Resorts International at 62 was worth 7. And unlike Perot, those whose bad judgment, or that of their advisers, had led them to make such investments, did not still have a billion dollars left.

The very fact that E.D.S. was a relatively sound, respectable young company emphasizes the larger importance of its sudden stock collapse, so abstract to a lofty general like Perot and so concrete to the foot soldiers of finance. If E.D.S. stockholders had been gulled, so, that April, had tens of millions of other small investors.

The E.D.S. crash and Perot's dizzying personal loss were symbolic, in magnitude and unreality, of the 1970 panic. They are its single event that stands out in memory, like Richard Whitney's appearance on the Exchange floor to bid 205 for Steel on behalf of the bankers' pool, at the height of the panic on October 24, 1929—Black Thursday. Nor is it without symbolic importance that the larger market calamity of which the E.D.S. crash was a part resembled in so many respects what had happened forty years before—what wise men had said, for more than a generation, over and over again as if by way of incantation, could never happen again. It *had* happened again, as history will; but (as history will) it had happened differently. The nineteen sixties in Wall Street were the nineteen twenties replayed in a new and different key—different because the nineteen sixties were more complex, more sophisticated, more democratic, perhaps at bottom more interesting.