

Giants and Pygmies

BY PAUL H. WEAVER

Capitalist Fools: Tales of American Business, from Carnegie to Forbes to the Milken Gang, by Nicholas von Hoffman, New York: Doubleday, 313 pages, \$22.50

In his 11th book, Nicholas von Hoffman has lost none of the pitbull aggressiveness and razor-blade lethality that made him the enfant terrible of left-liberal journalism in the '60s. By the time the preface is half over, the author has his Freddy Kruger finger knives on and is penetrating the jugular of a deliciously vulnerable subject, the corporate chief executive officer.

But a funny thing happened on the way to the abattoir this time. The writer fell in love with some of his villains.

Originally, the book was supposed to be a hatchet job on Malcolm Forbes, the proprietor of the eponymous business magazine who a few years back caused a furor by throwing a multimillion-dollar birthday party for himself and flying hundreds of the rich and famous to Morocco for a celebratory lifestyle augmentation. The ink on von Hoffman's book contract was barely dry, however, when Malcolm died and his obituaries disclosed that the capitalist tool had been a closet homosexual. Suddenly it wasn't politically correct to trash Malcolm, not even as a symbol of the wretched excess of the Reagan-era rich.

So von Hoffman wrote Malcolm out of the story. The book was recast as a portrait of Malcolm's peers, the CEOs, and it was decided that as much attention would be paid to earlier generations of business leaders as to Malcolm's contemporaries. Malcolm and his father, magazine founder B. C., a Hearst alumnus and Scottish immigrant who pronounced his name the old-country way, FOR-bes, would play cameo roles. Plan B in hand, the author canceled his interview schedule and went off to the library to read business history.

There in the stacks, Nick von Hoffman, child of the New Left, lost his heart to the robber barons. The men who invented the

corporation in the second half of the 19th century and the first decades of the 20th century, von Hoffman writes, were rough customers, and some of them were crooks. But they were real people creating real products and businesses bringing real benefits to customers and society.

Rockefeller, monopolist and terrorist though he may have been, did sell oil for less than what the competition was charging and brought home lighting to the masses, extending the usable day and significantly boosting the quality of life. Pulitzer and Hearst were sensationalists and megalomaniacs, but they made news accessible in a semiliterate, largely immigrant urban society. Sam Insull, the man who transformed electric power from a mishmash of small competing electric companies into vast regulated monopolies, may have been a criminal stock manipulator, but his vision of cheap electric power remade America. The same goes for Theodore Vail, the apostle of a universal telephone monopoly. Von Hoffman even celebrates William K. Vanderbilt—the man who said, “The public be damned”—for building strong railroads providing stable, integrated services on a continental scale.

Von Hoffman fell in love with the robber barons' minds as well as with their achievements. These, he found, were men passionately pursuing large ideas in science, technology, organization, and management. Pierre du Pont and William Durant and Alfred Sloan were veritable Einsteins of the modern business organization. Charles M. Schwab, the brilliant U.S. Steel executive who invented the modern I-beam and, after U.S. refused to use the idea, left the company to run Bethlehem, was the ultimate business intellect, von Hoffman kvells, wrapped up in high-tech creativity, practically a Mozart of management and metals.

They weren't perfect, von Hoffman concedes. The CEO disease—insatiable egomania; feverish lust for money, perks, and pleasures of the flesh; and an underlying belief that *la corporation, c'est moi*—was present at the creation. But their vices were minor afflictions. The robber barons were giants who created modern business and society. In any

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sensible scale of values, their peccadilloes didn't amount to a hill of beans.

Today's CEOs, by contrast, are pygmy voluptuaries without redeeming social value, von Hoffman argues. They build nothing. They know nothing. They are parasites on the body corporate, abusing the powers of their offices to give themselves astronomical compensation deals and princely lifestyles and corrupting organizations whose purpose is to produce goods and services of ever greater modernity and with ever greater efficiency. They are the wreckers of American society, whose growth they are blocking and whose resources they are dissipating.

The culture of the CEO came into its own during the postwar years, von Hoffman writes. Its first major scam was the concept of the diversified corporation, organized as a holding company, comprising any number of separate business units, and focused on expanding into new industries by acquisition. The cover story was that it would achieve new efficiencies from synergy. The real goal was to balloon revenue and profit growth artificially, add new layers of bureaucracy, and levitate top management's compen-

sation, generally based on company size.

It was management by Ponzi scheme, and the markets quickly rendered a harsh judgment. Throughout the 1970s and '80s, most big, diversified companies were worth more broken up into separate business units than they were worth whole. Bringing various businesses under a single management's control, in other words, destroyed rather than created value. This set the scene for the pygmy parasites' next major scam: the leveraged buyout, in which managers liquidated their failed strategy by buying up their companies at depressed open-market prices, selling off some or all of the business units, and sharing with investment bankers and junk-bond holders the vast profits that resulted.

Not all businessmen are like that, von Hoffman concedes. There are "hundreds of thousands of business executives who do their jobs superlatively well." To these stalwarts of productivity and creativity "the rest of us owe so much." Alas, we may not be able to count on them to make up for the pygmy voluptuaries' rip-offs, for they're up against another negative force, invited and in many cases actively sought as a result of the aggressive stupidity of CEOdom: big government.

"The one mitigating circumstance business can justifiably plead [in extenuation of its poor performance] is government," von Hoffman writes, in a statement that could have been lifted from *The Wall Street Journal's* editorial page. Government hasn't "learned to regulate effectively at a cost which business and society can bear. The problem with the Reagan Revolution is that it didn't revolt. The paperwork, the legal costs, the delays and foul-ups were as great from a business point of view when he left office as when he arrived. Yes, the business complaint about government interference is self-serving, but that doesn't necessarily mean it is untrue. If consumer groups and other special pleaders want anything in the long run beside less merchandise of poorer quality at higher prices, they will have to learn that not all business squeals of pain arise from greed denied. The making of the things we need and want...at prices we can afford to pay is the obligation of busi-

ness, but the maintaining of a society to make it possible for business to live up to its obligations falls on us all."

It's an astonishing statement, considering the left-wing politics of the source. But free-marketeers shouldn't congratulate themselves on winning another convert to the faith of Adam Smith. Von Hoffman's sympathy for business is utilitarian in nature. He likes the well-run corporation and the robber barons for the specific social benefits they provide, not because he believes in freedom. Von Hoffman goes to some trouble to express his contempt for the idea of the free market, which he dismisses as a "dumb...hypothetical construct."

The way to reverse our decline and wipe out the CEO disease, then, isn't a strengthening of market mechanisms, in von Hoffman's view. What's needed is merely some "deliberate and thoughtful action"—that is, pragmatic, case-by-case decisions carefully insulated from, rather than informed by, the "hypothetical constructs" some of us call principles. Von Hoffman means it. His one concrete policy proposal is federal chartering of corporations, a pathetic leftover from the old Nader agenda that, in practice, would afford the same hog-heaven comforts to pygmy-voluptuary CEOs across the board that, as the policy of the Federal Communications Commission, it has been affording heads of regulated radio and TV companies for upwards of half a century.

This, of course, is where Nick von Hoffman and the New Left came in three decades ago, with their ideology of "just do it"—the infantile belief that spur-of-the-moment protest and off-the-top-of-the-head polemics could be the stuff of a genuine democratic politics, and that sober deliberation and traditional political philosophy were a crock. Nick von Hoffman fell in love with the robber barons not because he's becoming reconciled to business or the market but because he's still afflicted by the peculiar New Left blindness to the philosophical and ethical dimensions of politics.

Contrary to von Hoffman and the conventional wisdom, the true problem with the robber barons wasn't that they were a

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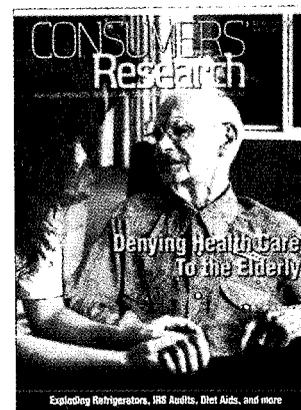
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bit greedy. It was that most of them rejected the idea of the market and pursued monopolistic business strategies. The men who built the corporation were trying to transcend the limited state, the free market, and representative politics. The institutions they created were designed not only to produce new goods and services but to do so in ways that would enable them to gain competitive advantage and extract monopoly rents. They tried anything they thought might work to these ends—government subsidies and charters, cartels, regulatory barriers to entry or technological change or lower price, systematic bribery of legislators, whatever. To classical liberals, then and now, this indifference to Lockean ideals, this rage to control rather than submit to the market process, was their besetting sin.

To von Hoffman, of course, the robber barons' hostility to the market is no great negative; it may even be a part of their charm for him. But it also brings to light the weakness of von Hoffman's critique of today's CEOs. For the only fundamental difference between the corporate founders von Hoffman admires and the successors he scorns is that the first generation of would-be exploiters had no choice but to build, since nothing was in place that would enable them to realize their exploitative ambitions, whereas the later generations of CEOs, who came into power at a time when all manner of limits on the market were in place, could enjoy the luxury of taking without giving. In short, the difference between the early good giants and the later pygmy wreckers lay not in their intentions, only in their circumstances.

Von Hoffman doesn't see this. To him, with his perverse disdain for the ethical abstractions that spell the difference between peaceful civil-rights protests (New Left, circa 1963) and active support for the totalitarian butchers of Hanoi (New Left, circa 1968), there are, in the end, only good guys to promote and bad guys to be put down. Contrary to the philosophy of this book, however, what makes good business executives the socially useful folks von Hoffman concedes they often are isn't some mysterious personal knack for pragmatism or altruism. It is, as management expert Tom Peters has done

so much to explain over the past decade, a positive personal and institutional commitment to the values of liberal political economy, in particular to the ethic of the informed, consenting, mutually beneficial market transaction.

In business no less than in politics, von Hoffman's supposed pragmatism is actually a philosophy of the rip-off—the same thinking that has given rise to the sleazy schemes through which the pygmy

voluptuaries are enriching themselves and wrecking the country. Von Hoffman is right to denounce these schemes, and the value of his book lies in the witty acuity with which he skewers them. Too bad he doesn't see the whole picture.

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A Little Science

BY JONATHAN RAUCH

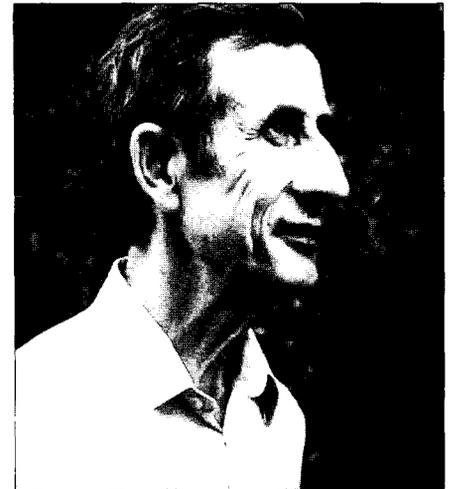
From *Eros to Gaia*, by Freeman Dyson, New York: Pantheon Books, 372 pages, \$25.00

When I idly turned on the TV in a Dallas hotel room recently, the first thing I heard was a local anchorman burbling about the day's big piece of good news: The Superconducting Supercollider, sited near Dallas, had survived an attack in Congress. In the worldview of Dallas, this was good news for two reasons. First, the supercollider means jobs. Second, the supercollider will be approximately the biggest machine in the known universe and so will rain glory on Texas and the nation.

For some large share of the American public, that is science: big, expensive, mechanistic and mechanical, nationalistic, a kind of Olympic games of the mind. Those Americans would profit from a few hours with the physicist Freeman Dyson, whose view of science, and of life, is different. The book to begin with is Dyson's previous one, *Infinite in All Directions*, which is at once humble and brilliant, sensible and visionary. *From Eros to Gaia*, a collection of writings and speeches spanning more than 50 years, has an odds-and-ends feel and so is less compelling. Still, this new book is undiluted and, at times, radiant Dyson. And that is enough.

What is it that makes Dyson one of the finest of all writing scientists (as distinct from a science writer, which is not the same thing)? First, his view of the world. Second, his view of science. Third, his literary skill.

At the core of Dyson's outlook is a



Freeman Dyson warns against believing we can predict the progress of science.

keen appreciation of a point that Americans far too often ignore: the importance of "being the right size"—the importance, in other words, of scaling every endeavor correctly, not only as to size but also as to expense and time. Quick is beautiful, says Dyson. A technological project that takes 10 years to finish is not the same as an otherwise identical project that takes only five: The 10-year project will be roughly five years outmoded by the time it becomes available for use.

The American automakers, with their slow-motion design cycles, learned the lesson of time scaling the hard way. In the car market, two "identical" sedans are not the same at all if one of them takes five years to develop but the other takes only three.