Washington Decoded

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Buyouts: The LBO Lobby Makes Its Move on Washington

By Max Holland and Viveca Novak

No matter what the weather report says, 12 January 1989 may have been the coldest day of the year in the gusty canyons of lower Manhattan. It was no less a staunch Republican than George Bush who sent shivers up Wall Street's collective spine that day. At a pre-inaugural press conference, Bush indicated that he might be willing to cut back on a tax deduction that helps make leveraged buyouts (LBOs) the best game going for the Street's brash new stars.

The unprecedented $25 billion LBO of RJR Nabisco last fall had sparked public furor and the threat of congressional investigations; but this evidence of top-level discussion of the issue among even Republicans steeped in *laissez-faire* economics was worse news. Buyout artists, banking on continuing the ideological harmony of the Reagan years, had invested heavily in the 1988 Bush campaign, with LBO king Henry Kravis of premier buyout firm Kohlberg, Kravis, Roberts (KKR) setting a furious pace. Kravis personally contributed at least $112,000 to the Bush effort (most of it in "soft" money), arranged a Wall Street lunch that took in more than $500,000 for the candidate, and was named finance co-chairman for the Bush New York campaign.

The buyout community began breathing easier when, two weeks later, Treasury Secretary Nicholas Brady – a longtime Wall Streeter himself, though from a more conservative line – testified on LBO mania before two congressional panels. His statement was a mild replay of a common criticism of LBOs, that they are simply financial devices designed for the outrageous profit of a few investors with little regard for the long term. "I have a gnawing feeling that we are headed in the wrong direction," said Brady, "when so much of our young talent and the nation's financial engineering while the rest of the world is laying the foundation for the future." Yet despite his disapproval, which Wall Street knew came from the heart, Brady offered Congress no proposals for change.

And by the time Treasury again went before the House Ways and Means Committee, nearly four months later, Wall Street was finding the administration as comfortable as an old shoe. A Brady emissary not only failed to offer specific suggestions on how to curb the LBO trend but rejected those of the committee as well. Dan Rostenkowski (D-Illinois), chairman of the powerful tax-writing panel and one of many who thought Brady's testimony had opened the door a crack for congressional action, was fuming: "The best you can do is tell us you are monitoring and you are concerned . . . Why has Secretary Brady changed his position?"

And so goes the tale of how Washington backed off from tackling an issue that, nearly a year ago, had promised to bring a kind of public reckoning of Wall Street's increasingly speculative, debt-ridden ways.

Policy-makers haven't sat still for lack of popular support. In a February public opinion poll taken for the *National Law Journal*, 84 percent of the respondents said they believed mergers and acquisitions take place in a corrupt environment, and two-thirds singled out LBOs for stiffer government regulation. But public backing was no match for the riches and personal ties of Wall Streeters with Washington, their constant generation of confusing economic data and their ability to feed the dread, especially in Congress, of triggering another October 1987 "Black Monday."

As one critic, economist Robert Reich, observes, "Congress and the administration were simply afraid to act, and the inhibitory mechanism was primarily Wall Street's connections with Washington" – not the least of which, of course, is money. A *Common Cause* magazine analysis of contributions by 239 of the individuals most active in LBOs, along with 54 wives and offspring who also gave, attests to their generosity: in 1987-88 practitioners at well-known buyout boutiques, as well as some of the key executives and buyout artists at larger houses like Salomon Brothers, gave a total of $3.5 million to presidential candidates, members of Congress, Republican and Democratic party committees and PACs. And that doesn't come close to reflecting the total contributions by Wall Streeters and those in the securities industry generally, many of whom profit through business generated by the buyout deals.

The returns for the LBO community wasn't votes – there was nothing to vote on. That, in fact, was the goal: inaction by both Congress and the executive branch – a prize the buyout community valued as highly as any affirmative government handout.

The RJR Catalyst

Popular among those who mastermind corporate mergers and acquisitions, LBOs are financed almost wholly with debt, or leverage. Investors, often including a company's managers and a small group of investment bankers, use the company's assets as collateral on some package of loans and high-interest "junk" bonds they put together, along with a small equity contribution of their own, to buy up the firm's public stock.

Almost immediately, the new owners must begin slashing costs to whittle down the debt. Often parts of the company are sold to raise cash. Capital expenditure and research and development outlays frequently are cut. Critics say workers often pay a price through layoffs, frozen wages or other forced concessions. Witness the recent dismissal of more than 1,600 workers at RJR in Durham, North Carolina – a layoff that analysts attribute as much to the effects of the buyout as to the decreased demand for tobacco products.

If the leveraged company brings its debt under control a few years down the line, the owners take it public again by selling the stock. Assuming all goes well, it's the "pot of gold" they've been waiting for, and can mean a return of as much as 10 or 20 times their initial investment.

Fans say LBOs are an antidote to the conglomeration trend of past years and that they pare clumsy, out-sized firms down to streamlined, efficient units. It's sometimes true. Highly leveraged companies, though, court disaster if threatened by a recession or other unforeseen development; dismemberment or bankruptcy may be the only escape. Some deals can run into trouble even in the absence of a downturn. In mid-August, Seamen's Furniture Company, a New York firm, and SCI Television Inc., both KKR buyouts, announced they couldn't make their debt payments.

LBOs, and the marketing of junk bonds to finance them, increased at a spectacular rate during the mid-1980s, thanks in part to the prowess of junk-bond magician Michael Milken, recently indicted for insider trading and numerous other securities law violations. Yet it wasn't until the RJR buyout that Washington too serious notice. The sheer size of the deal guaranteed attention; at $25 billion, it was more than triple the largest previous LBO. But added to the huge price tag were some particularly unsavory features.

There was, for example, the fact that RJR head Ross Johnson had put his own company into play and proposed an LBO that would have enriched him by more than $100 million. There was the widely publicized braggadocio of Kravis: Soon after hearing of Johnson's bid, Kravis vowed to do the deal to protect KKR's status as No. 1 LBO agent. And when the dust settled, there were some disturbing numbers. KKR reportedly was putting up only $15 million of its own money to leverage a $25 billion deal – the equivalent of putting down $60 on a $100,000 house – and earned $75 million in fees for engineering the deal. Ultimately KKR is expected to earn even more in fees by selling off parts of RJR and taking the company public again.

All this gave substance to the widespread belief that LBOs were being driven by greed. And there was no telling when the buyout binge was going to stop. "All but a few of the largest [American] corporations may be candidates for an LBO," concluded a Salomon Brothers study in the wake of the RJR deal.

Sensing popular discontent, key members of Congress spoke out immediately following the bidding war for RJR. In early November, Senate Minority Leader Robert Dole (R-Kansas) told an American Stock Exchange conference that corporate buyouts did not contribute to the U.S. economy and that LBO loans fed on loopholes in the tax code. Then House Speaker Jim Wright (D-Texas) told reporters in late November that the governments should act swiftly to stem LBOs, saying the "intensification and concentration of economic wealth into the hands of fewer and fewer have begun to erode the broad base of the American economy." Shortly afterward, Sen. Lloyd Bentsen (D-Texas), chairman of the Senate Finance Committee, scheduled hearings, saying leveraged buyouts "have gotten out of hand."

By New Year's Day no fewer than nine congressional committees had announced that they would hold hearings. On Wall Street a few investment bankers who had qualms about some of the deals quietly welcomed the scrutiny. But the toughest players on the Street were prepared to do battle because of their huge stakes in the lucrative system.

As one investment banker has acknowledged, “Never before have so many people made so much money for doing so little.” While traditional Wall Street is in a slump (more than 17,000 employees have lost their jobs since October 1987), the kingpins of mergers, LBOs, and junk bonds still pull in staggering salaries. Most can’t match the $550 million pay of junk bond czar Milken in 1987, but senior buyout engineers at KKR each took in about $50 million last year, according to *Financial World*. Today more than 150 buyout boutiques and departments of long-established Wall Street firms are doing LBOs – up from half-a-dozen in 1981 – and their deals totaled more than $65 billion in 1988.

The fever that’s seized Wall Street has completely changed the rules of the financial world. The new crowd views old-fashioned stock and bond traders as drudges and says traditional corporate indicators like net earnings don’t count for much anymore. A corporation is prized more for its breakup value and cash flow, because the higher a company’s cash flow, the more a buyout artist can borrow to buy it. Stocks are increasingly bought and sold solely according to whether a firm is likely to attract a bid. “What’s going on,” says Louis Lowenstein, a professor of finance and law at Columbia University, “is that people are trying to guess the next takeover target.”

Put it another way, “There’s pervasive greed going on,” says Representative Byron Dorgan (D-North Dakota), one of the Ways and Means members pushing hardest to curb the buyout binge. With the fees, profits, and environment that make these deals attractive at risk, the buyout barons were hardly going to sit idly by while Washington threatened.

A Leveraged Administration

While most of the criticism was coming from Congress, both Wall Street and Capitol Hill knew that any effort not supported by the administration would be tough going, if only because of the LBO interests’ economic and political clout. Everyone realized it “would stir up very powerful political forces – very powerful and well-financed forces,” as Jamie Heard, a consultant to institutional investors, notes. But there was another reason why the Democrat-controlled Congress was wary about pursuing the complex issue without executive branch leadership.

Back in the fall of 1987, with the stock market rising on a seemingly inexhaustible pyramid of speculation and creative debt, Ways and Means approved a measure that would have slowed down takeovers and buyouts by limited the deductibility of interest for debt incurred in such transactions. Less than a week later, “Black Monday” brought the biggest one-day plunge in the history of the stock exchange, and some observers say that the proposal was at least a trigger. A study released last May by the Securities and Exchange Commission’s Office of Economic Analysis suggested that the bill’s restrictions “were a fundamental economic event” that helped precipitate the crash.

The Democrats could have used the episode as proof that the market was riding on sheer speculation rather than sound economics. Instead, they became defense and backed off. Being blamed for the crash "is a factor," says Representative Sander Levin (D-Michigan), "even though I don't think we had much to do with it."

If the administration's position was pivotal, then the LBO community had every reason to believe it was at least holding several aces, if not all the cards. First, there's a certain traditional coziness between the financial community and the parts of the executive branch that bear most closely on its interests – especially under Republican administrations. Brady was co-chairman of the Dillon, Read investment banking house until he was tapped by Reagan and then Bush to head Treasury. Peter Peterson, a founding partner of one of the largest LBO firms, the Blackstone Group, was Secretary of Commerce under Nixon, and David Stockman, director of the Office of Management and Budget in the early '80s, went first to Salomon Brothers and then to Blackstone.

And during the campaign, Bush had pushed all the right buttons with Wall Street by proclaiming himself heir to the pro-market, anti-regulatory economic environment nurtured under Reagan. The buyout interests had responded by going all out financially for the Bush campaign, apparently banking on the hope that if elected, he would keep America safe for deals.

The high-flying financiers of Wall Street with their European suits, Armani ties and (as writer Tom Wolfe would put it) "masters of the universe" egos are in an exalted league when it comes to their relationships with Washington policymakers. Small in number, big in clout, Wall Streeters, and particularly some of the prominent LBO artists, are profligate political spenders.

The support of buyout interests for Bush was plain early on – witness the Kravis fund-raising lunch only six weeks after the stock market meltdown. More than $1.3 million in individual contributions went to the Bush campaign from 239 of those prominent in the buyout world and their families. Those individuals gave at least $103,300 directly to Bush, compared with $30,450 for Dukakis. But the big bucks, often in contributions as large as $100,000 each, went to "soft" money accounts – at least $1.2 million to Bush, compared with $269,000 to Dukakis. (Soft money allows large donors to skirt the $1,000 per candidate per election contribution limit. Ostensibly earmarked for party-building activities, soft money is in fact generally given and used to support the presidential candidates. Each party has voluntarily disclosed some, but not all, of its soft money receipts). Another $516,900 went to Republican national committees, as against $141,650 to comparable Democratic committees.

Only Hollywood and the Oil Patch rival Wall Street's ability to raise political money from wealthy individuals. As Ed Zuckerman, editor of the newsletter *PACS and Lobbies,* has noted "the real money [from Wall Street] is going through the personal checkbook." Wall Street partners "tithe Washington," says Bart Naylor, a former investigator for the Senate Banking committee, much as some Americans give to the church of their choice.

The impact of just one buyout boutique, KKR, is impressive. Kravis and his partner George Roberts each gave at least $100,000 to the Bush soft money drive, thereby earning a place on "Team 100." KKR has only 19 professionals, but they and a few of their wives managed to give a total of $418,200 to the Bush presidential bid and various political committees. Other $100,000 donors included Nicholas and Theodore Forstmann and Brian Little of Forstmann, Little; Stephen Schwarzman of the Blackstone Group; and Frank Richardson and Raymond Chambers from Wesray. Some of the firms themselves gave soft money to the Bush effort. Wesray anted up with at least $100,000, as did PaineWebber (which does a number of things besides buyouts); Blackstone gave at least $90,000. Not all the money went to Republicans, of course – Jerome Kohlberg, a founding partner of KKR who left to start another firm, Kohlberg & Company, was a managing trustee of the Democrats' soft money Victory Fund, meaning he pledged to raise $500,000 for Dukakis. But the GOP was clearly favored.

The clout of the buyout industry, moreover, is not limited to the artists themselves. There are also the contributions of the mammoth commercial banks and insurance companies that finance these deals, and especially the small, tight circle of Wall Street law firms retained whenever "premium dealwork" promises to yield millions of dollars in legal fees. The runaway favorite of many buyout artists, Skadden, Arps, Slate, Meagher & Flom, reportedly lobbied on its own behalf when LBOs were under fire.

Financial generosity goes hand-in-hand with becoming part of the Washington scene. "Obviously the people who give want to be invited to the party, the White House, the lunch, the dinner," says veteran political consultant David Garth. "They're doing nothing but trying to get some access." And high-level entrée is enjoyed by major donors. In late June, for instance, Kravis and his fashion designer wife, Carolyne Roehm, helicoptered down to Washington for dinner at the home of top Bush fundraiser and Commerce Secretary Robert Mosbacher and his wife Georgette, where they mingled with the likes of Republican National Committee chairman Lee Atwater, House Speaker Tom Foley (D-Washington) and Michael Boskin, chairman of the president's Council of Economic Advisers.

Still, administration support wasn't a *fait accompli*. Before his January testimony, the Treasury secretary himself, despite his Wall Street background, was viewed as a potential obstacle. One of the most intriguing divisions on Wall Street pits old money, in the person of Treasury's Brady, against the new, cocky, and frequently ostentatious buyout entrepreneurs who now reign. Brady is a man of caution. Uncomfortable with the speculative excesses that LBOs represent, he had avoided using junk bonds while at Dillon, Read – and even wrote and testified against their use.

His unease, in part, reflects his concern about where most of the cash needed to pay for LBOs is coming from – the federal government's shrinking coffers. "The substitution of tax-deductible interest charges for [taxable] income is the mill in which the grist of takeover premiums is ground," Brady told Congress in late January. Under the tax code, companies can write off interest payments on debt. Nearly every leveraged company pays no income taxes during the first two years or so after a buyout. Some even get large refunds because the interest write-offs can be applied against past taxes. RJR Nabisco, for example, may get back a substantial chunk of the $1 billion it paid in taxes in the three years prior to the buyout.

But if Brady is reluctant to endorse the go-go new ways of Wall Street, he has hardly led a charge to stop them. When Treasury's acting assistant secretary for tax policy testified at a May hearing, he rejected 25 of the Ways and Means panel's 27 ideas for dampening LBO fervor, urged extreme caution if the committee pursued the other two – and offered no ideas of his own.

In July the administration finally made one recommendation having to do with eliminating the interest deduction for certain types of bonds used to help finance some LBOs. But congressional staffers say the proposal would only marginally affect the price of some deals and probably wouldn't make a dent in the trend. All that's left is Brady's plaintive plea to the Wall Street "gladiators," as he called them in his testimony, "to put the same intensity and effort into evaluating where we are going as they have into taking us there." As Representative Dorgan puts it, "Treasury's taken a vacation on this issue." Treasury officials have refused repeated requests for interviews from *Common Cause* magazine.

Neutralizing Congress

The focus on the administration didn't mean buyout interests ignored Capitol Hill. Although key players in the buyout world overwhelmingly favor the Republican Party and its presidential candidates, they are more pragmatic than partisan when giving to members of Congress – particularly when it comes to members on the banking and tax-writing committees. Democrats, who control both houses, received $517,500 from the 239 buyout activists and their families, versus $440,000 to Republicans in 1987-88. The top 10 Banking and Finance recipients in the Senate – far more popular than the House with this group – took in $222,000 in individual contributions from LBO players. While PACs connected with firms with LBO funds give negligible amounts to presidential contenders, they donated a generous $255,197 to the top 10 Senate Banking and Finance recipients. Two of the 10 senators weren't up for reelection in that cycle.

Both of New York's senators, Democrat Daniel Moynihan (who sits on the Finance Committee) and Republican Alfonse D'Amato (on Banking) are widely perceived as being well disposed to Wall Street's perspective. The latter is considered more than sympathetic. "They own D'Amato," says critical Louis Lowenstein. In 1985, when D'Amato chaired a Senate securities subcommittee, he killed a junk bond amendment opposed by Drexel Burnham Lambert, which pioneered the financing mechanism, during a period when he received more than $41,000 in political contributions from Drexel partners, according to *The Wall Street Journal*. In 1987-88 D'Amato, who wasn't up for reelection, took in more than $30,000 from LBO interests, including their PACs. Moynihan received more than $50,000.

Members of the leadership are also favorite money targets. In March 1988, when Representative Foley was House majority leader, 41 executives of the securities firm Salomon Brothers (which has many interests, including a growing LBO fund) attended a $500-per-person breakfast fundraiser for him or sent in their checks. In all, Foley took in at least $27,500 from Salomon executives in 1987-88.

The largest amount, however, went to Sen. Bill Bradley (D-New Jersey), a smart, economically conservative member of the Finance Committee. Bradley is not up for reelection until 1990, but is considered possible presidential material. In 1987-88 he took in at least $96,000 from individuals in the buyout community, including more than 60 individual contributions of $1,000 each from employees of just two firms that are heavily into buyouts, Wesray and Hambrecht & Quist. William Hambrecht and his wife and children alone gave Bradley $114,000, some of it at a fundraiser Hambrecht held for the candidate at his California home in February 1987. Bradley's staffer on the issue says the senator isn't sure there is a buyout problem or how to fix it if there is one.

Supplementing Wall Street money are the skill and PAC contributions of its trade group, the Securities Industry Association (SIA). The current SIA chairman, Hardwick Simmons, is also vice chairman of Shearson Lehman Hutton and personally lobbies members of Congress. "The SIA has been very active," Simmons says. "We've tried to play the role of wise counselor."

Add the lobbying of powerhouse law firms like Cadwalader, Wickersham & Taft or Davis, Polk & Wardwell and it makes for a formidable interest group. The connections of these firms are telling. Cadwalader's J. Roger Mentz, for instance, a lobbyist for leading buyout firm Clayton & Dubilier, is former deputy assistant secretary of Treasury for tax policy. Former Senate Finance Committee staff director William Diefenderfer's firm, Wunder & Diefenderfer, registered to lobby for KKR in February. To show how quickly the door can spin, he's now back in government as deputy director at the Office of Management and Budget.

"Access is available to those who pay lobbyists, who make contributions," says Jon Sheiner, a staffer to Ways and Means Committee member Representative Charles Rangel (D-New York). "Money makes a difference – it creates the access, the camaraderie." Sheiner says Rangel met with Kravis because "he knew the lobbyist representing him."

Some argue that Wall Street's contributions haven't been especially significant on the LBO issue. Says Representative Levin, "There are so many hoops, you never know which one is decisive. In this case, if [Wall Street's contributions] are a hoop, it's a small hoop. The main reason we haven't done anything is there's tremendous uncertainty."

Diversionary Tactics

But, by using its relatively easy access, the LBO gang was able to effectively exploit that uncertainty and cultivate confusion. Armed with data and a host of reports prepared or paid for by the industry itself, Wall Street sought to prevent Congress from arriving at a consensus on how to approach the LBO issue.

At a Ways and Means hearing in early February, after more than a day of testimony pro and con, Representative Levin went to the heart of the matter, asking respected economist Henry Kaufman whether Congress needed to move even in the absence of an administration position. “If you were here, instead of where you are,” Levin queried Kaufman, “would you act this session?” Replied Kaufman, “If I were there, which is a difficult place to be, I would, based on my recommendations, certainly act.”

The suggestions of Kaufman and others included imposing an excise tax on the fees earned in these types of transactions; penalizing short-term capital gains; prohibiting federally insured banks and pension funds from making LBO loans; and eliminating the deductibility of interest for takeover and buyout-related debt, or in some other way equalizing the tax treatment of equity and debt (the current system does not allow corporations to deduct dividends paid to shareholders, which provides one incentive for going into debt).

But befuddlement and fear had eroded December’s blustery congressional front. The buyout interests had come up with two refrains. First, they said, buyouts are good for the economy. Second, they warned, if there is something wrong, the cure could be worse than the disease.

To document the first contention, some of the top firms prepared their own studies. The first and most important was a KKR report released in January, when Congress was hearing a drumbeat of mostly critical news reports about LBOs, KKR claimed outstanding results, not only for investors, but the economy as a whole. According to its study, KKR’s buyouts increased employment, led to more research and development, yielded higher taxes to the government and kept capital spending high.

Independent confirmation – or refutation – of these claims was hard to come by because once a buyout target goes private it usually stops reporting to the Securities and Exchange Commission. This added to the KKR report’s impact, as did its selective distribution. Most of the press was shut out, but key members of Congress, especially friendly ones, were given copies. Once, after AFL-CIO chairman Lane Kirkland finished his testimony before the Senate Finance Committee, Sen. Robert Packwood (R-Oregon) held up the study and said it contradicted Kirkland’s testimony – KKR claimed its buyouts had added 37,000 jobs to the economy. Kirkland was, of course, unable to refute a figure based on information he wasn’t privy to.

Not everyone on the Hill swallowed the report. But only the House Subcommittee on Telecommunications and Finance asked some of the buyout firms for detailed data on their deals. The request, made of KKR, Merrill Lynch, and Shearson Lehman Hutton, was met with howls of protest. One buyout lobbyist labeled the request a “witch-hunt.”

Weeks passed, and most of the information never came. Meanwhile, though, the telecommunications subcommittee, chaired by Representative Ed Markey (D-Massachusetts), had another hearing. This time, Bill Long, a former Federal Trade Commission economist who was researching buyouts at the Brookings Institution, took part the KKR study's methodology, arguing that the report proved only that its LBOs yielded high profits to investors. Nearly all the other claims were misleading, Long argued; the study's avowed increases in R&D, employment, and capital spending rested not on actual figures but optimistic projections.

But Long's testimony came late – in May – well after the KKR study was accepted on Capitol Hill as "self-serving but solid," in the words of financial columnist Jerry Knight of *The Washington Post*.

Meanwhile, the LBO lobby fed the Democrats' nagging fear of being blamed for another "Black Monday." In a June full-page ad in *Roll Call*, a Capitol Hill newspaper, under the headline "A word to those who would limit LBOs through tax proposals," Merrill Lynch warned that limited the interest deduction for debt "could have a serious negative effect on the stock market, just as many concluded that similar proposals had in October 1987."

The buyout crowd also frequently pointed out that attempts to limit interest deductions would given foreign bidders an advantage over U.S. bidders in acquiring American corporations. Congress generally missed the hypocrisy: Buyout artists often sell off parts of their acquisitions to foreign purchasers, who are increasingly Japanese, to help reduce their debt on deals. And the Japanese own significant chunks of some of the buyout firms themselves, including Blackstone, the Lodestar Group, and Wasserstein, Perella & Co.

Their arguments, however, were almost never made publicly. When House Banking Committee Chairman Henry Gonzalez (D-Texas) opened his hearings, he asked leading commercial and investment banking houses to testify. All said no. "This desire by both groups to be silent clearly says volumes," Gonzalez observed. His committee was not the only one that was having trouble rounding up key witnesses. At 17 days of hearings over five months, only two buyout boutiques agreed to testify, and they weren't from the top ten buyout firms.

Instead, the top buyout people like Kravis, Forstmann and Kohlberg and their lobbyists made their rounds at private meetings on Capitol Hill. In addition to visiting most members of the Senate Finance Committee, Kravis sought out some of the harshest critics of buyouts. "The big guys come around here and get in to see everybody," says Representative Dorgan.

Even in private the buyout artists set some limits. At one point Rostenkowski wanted to arrange a breakfast seminar for committee members, one that would feature Kravis, the no-holds-barred LBO advocate; Forstmann, a Kravis rival who differs with him on some LBO financing techniques; and Lowenstein, a prominent critic of the whole game. But Kravis would not agree to be in the same room with the others, and the powerful

Rostenkowski accommodated him. Kravis came with his partner Roberts to one breakfast, and Forstmann and Lowenstein debated at another.

The Sobering Finale

If Congress started out intent on doing something, the absence of leadership from the executive branch, coupled with a tenacious and intimidating lobby, dulled its impulse. Currently, the only congressional proposals that would directly affect buyouts and are viewed as having a chance of passing are one from Senator Bentsen to stop leveraged companies from getting refunds on taxes paid before the deal; and one from Ways and Means, similar to the administration's only proposal, to disallow interest deductions on certain types of financing instruments. Most experts believe both proposals, while they might marginally affect the pricing of buyouts, would do little to hamper the deals themselves.

Economist Kaufman predicts that LBOs will become a more potent political issue when a recession hits and hundreds of companies with weakened financial structures prove unable to serve their bloated debts. A downturn like that of 1981-82, according to some estimates, could double the number of corporate bankruptcies, and the government would be pressured to bail out failing companies. Worse still, the crisis could spill over to banks, pension funds, and insurance companies involved in the buyout mania, requiring further federal intervention. Washington's delay in dealing with the corporate debt situation, exemplified by LBOs, suggests sobering parallels to Third World debt and the S&L crisis.

"I think we're very much thrashing around," says Representative Levin. "All is far from well."

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