14 July 1991

Inside KKR's Buyout Boutique

The Money Machine:
How KKR Manufactured Power & Profits
By Sarah Bartlett
Warner Books. 345 pp. $24.95

By Max Holland

Move over, Michael Milken and Drexel, Lambert. In *The Money Machine*, author Sarah Bartlett nominates a serious rival for their dubious reputations. The financiers who epitomize the excesses of the 1980s, Bartlett convincingly argues, are actually named Henry Kravis and George Roberts, from the firm of Kohlberg, Kravis & Roberts (KKR).

In less than a decade, Kravis and Roberts parlayed a financing technique known as the leveraged buyout into one of the largest corporate empires in the world. They did it by weaving a web of greed, deceit, and conflict of interest that stretched from Wall Street to Washington, and all the way to Oregon. Their web attracted several of the nation's biggest banks, insurance companies, pension funds and a dozen esteemed investment houses and law firms along with scores of CEOs. What's more, every deal engineered by KKR was legal, or has stood up in court when tested. And that, Bartlett contends, is what finally makes Kravis and Roberts more characteristic of the era than Milken. The 1980s were not about illegality on Wall Street, although there was plenty of that. First and foremost it was about the stunning lack of business ethics by America's best and brightest while they flipped corporations like hamburgers.

By zeroing in on KKR, Bartlett clearly aims to follow in the footsteps of such influential (and successful) books as Connie Bruck's *The Predator's Ball* and *Barbarians at the Gate* by Bryan Burrough and John Helyar. Bruck was the first to expose the inner workings of Milken's Drexel, and Burrough and Helyar took readers on a financial roller-coaster ride by recreating the biggest deal of them all, the leveraging of RJR/Nabisco. Not coincidentally, the winner of that deal was KKR, making a book about this particular buyout boutique overdue.

Bartlett, a financial reporter for *The New York Times*, advances our understanding of the 1980s by showing how KKR raised the huge pools of capital necessary to leverage corporate America. When state pension funds arrived on the investment markets in the 1970s, they were hailed as a stable source of capital for the revitalization of the economy, their arrival serendipitous because Americans' savings rate was declining. Bartlett shows how KKR's buyout artists wooed and dined pension fund managers who controlled hundreds of millions of dollars, and how KKR contributed thousands of dollars to influence obscure, but pivotal, state races. A manager who helped KKR tap into public pension funds, such as Roger Meier, chairman of the Oregon Investment Council, was amply rewarded. Meier funneled a cool $500 million KKR's way by the mid-1980s, and in return KKR handed him seats on the board of companies it acquired like so many $15,000 trinkets. Later, in what can only be interpreted as a *quid pro quo* for putting KKR on the map, Meier was even permitted to become an investor in certain deals from KKR's portfolio.

This pattern of corruption by inclusion marked many of KKR's relationships, and goes a long way toward explaining why KKR became a financial juggernaut and the most imitated firm on Wall Street in the 1980s. Longstanding pillars of that elite community, such as the venerable law firm of Simpson, Thacher & Bartlett, home to former Secretary of State Cyrus Vance, even proved vulnerable to KKR's calculated largesse. With KKR generating enormous fees for Simpson Thacher, the law firm allowed partner Richard Beattie, a prominent Democrat who handled the KKR account, to invest in his client's deals. Again, this was nothing illegal. It only violated a longstanding ethical notion that lawyers should not invest in their clients' businesses. Although Bartlett did not make the connection, with liberals like Richard Beattie it's no wonder the Democratic Party is in shambles. Beattie, who was general counsel of the Department of Health, Education, and Welfare under Joseph Califano during the Carter Administration, has pulled the laboring oar for the most virulently anti-union, anti-worker phenomenon on Wall Street in recent history.

Despite her considerable achievement in exposing KKR's means of ascent, Bartlett's book has serious flaws and omissions. *The Money Machine* strives for an intimate tone and ends up long on gossip and short on substance. Admittedly, much of the personal information goes to the heart of "Henry's" and "George's" lack of character and the sources of their ambition (the book annoyingly refers to Kravis and Roberts by their first names). Yet something is out of kilter when the manipulation of the corporate tax code, which makes or breaks so many deals, is referred to only in passing, while paragraphs are spent on the sexual preferences of Kravis's elder brother. It's as if the book were written by a reporter from *People* magazine rather than one of the chief financial journalists for the *Times*.

Even more regrettable is Bartlett's apparent failure to investigate what happened at some or any of the scores of companies that were subject to KKR's financial engineering. After all, if this is a story about two arrogant financiers who became conspicuously rich, why bother? Bartlett approvingly cites one critic towards the end of the book: "Acquisitions of companies are . . . serious matters. They are economic events that affect the lives and fortunes of investors, employees, suppliers, and customers." A *Wall Street Journal* reporter just won a Pulitzer prize for revealing the dark side of KKR's Safeway buyout. Bartlett sheds no additional light on this decisive question, however, aside from referring to a few deals that have gone sour from the investors' point of view. This reportorial lapse is an inexplicable omission, especially given that Bartlett castigates colleagues in the financial press for being intimidated or suckered by KKR.

Bartlett's instincts were sound as could be. But the book on KKR, and Wall Street speculation in the 1980s, still waits to be written.

This article first appeared in *Washington Post Book World*, 14 July 1991