James Ring Adams

THE BIG FIX

The Savings and Loan Crisis has become the nation's biggest economic problem and—thanks to the United States Congress—its biggest political scandal.

Two billboards on I-30 West catch the spirit of present-day Dallas. One, over a portrait of a tractor-trailer, reads:

> Data SHRED
> Mobile Document Disintegration
> On-site destruction

The second, further west, offers a competitor's challenge:

> Why shred? We pulp.

The Texas thrift crisis should well be making a growth industry of on-site document disintegration. As investigators pull at the strands, they are unraveling a network of fraud and shady dealing far wider and older than anyone had suspected just a few months earlier. The most expensive of the thrift failures are turning out to be the products of a close-knit cabal designed to plunder deposits and obstruct regulators. The most notorious thrift owners have already been connected both with suspected agents of organized crime and with powerful members of Congress.

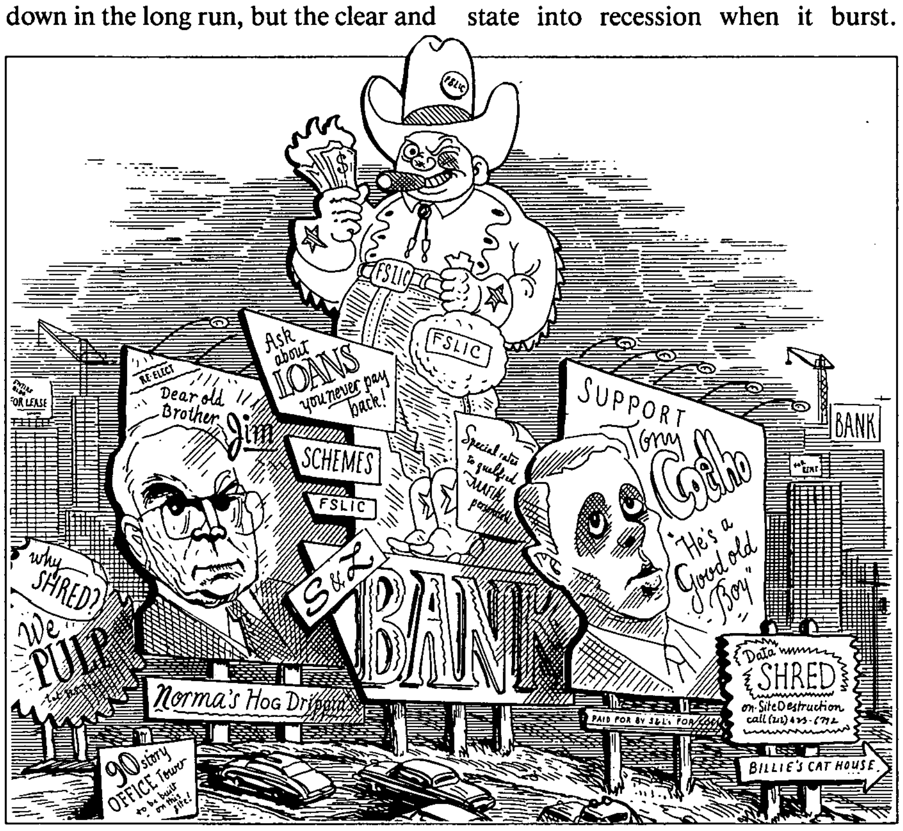
These ties preoccupy an FBI-IRS-Justice Department North Dallas Task Force of eighty agents and staff, the largest single white-collar crime investigation in memory. The Task Force has already charged twenty-eight individuals and convicted seventeen, and its members are settling in for a three-to-five year run. In an earlier thrift case involving development along I-30, the U.S. attorney's office in Dallas won more than one hundred convictions.

This activity puts a new perspective on the savings and loan crisis, which is clearly the single most immediate threat to economic stability in the United States. A consensus is emerging that the thrift industry is now about $100 billion in the hole and that sooner or later the taxpayer will foot most of the bill for the cleanup. This part of the financial system, originally designed to finance home mortgages, is now surviving on blind faith, baling wire, or, depending on your viewpoint, the incredible prestidigitation of Danny Wall, chairman of the Federal Home Loan Bank Board.

The Bank Board supervises the fund that thrift depositors rely on to guarantee their money. That is the Federal Savings and Loan Insurance Corporation, also called FSLIC, (pronounced "fizz-lick"), and this fund has been broke for two years in a row. If this fact suddenly sank in on every depositor, we could have a bank panic to equal 1933. According to Milton Friedman, bank runs triggered the Great Depression, and it's anyone's guess what damage they could do today. The federal deficit might grind us down in the long run, but the clear and present danger comes from the bankruptcy of the humble neighborhood thrifts.

But it's still a disaster made in Washington. The thrifts are bankrupt from human failure, not, as the trade associations would like us to think, from an ailing regional economy. Federal studies of recent bank and thrift failures have found that no more than 10 percent can be attributed solely to popular scapegoats like declining oil prices or farm troubles.

Regulators are practically shouting from the housetops that we're up against bad management, bank looting, and big-time fraud, unimaginable fraud so massive that it's the corrupt thrifts that have been hurting the economy. In Texas, the heart of the crisis, one economist put the question to his computer, which happened to hold the most elaborate model of the state economy. He found that wild over-lending by the thrifts had created an artificial bubble that plopped the state into recession when it burst. Developers put up malls and condos just to justify huge loans from compliant thrifts. They left behind a thoroughly glutted and depressed real estate market.



So where were the regulators? Federal examiners have the duty of chasing crooks out of the thrifts and keeping loans on the straight and narrow. It's their job to protect the deposit insurance fund. Why didn't they do their work? The answer is simple, but you won't hear it from a congressional investigation. The examiners tried. Sometimes they tried heroically. But they were frustrated by political interference.

The cabal of thrift-owners had one very big trump, the United States Congress. Judicious fund-raising and personal favors gave them the ear of representatives from Rhode Island to California. When examiners grew too pesky, phone calls to Fernand St Germain, Tony Coelho, and Jim Wright were enough to shoo them off. The cabal had the influence to strangle FSLIC itself. With or without full awareness, a huge majority of the House and Senate voted to withhold the money FSLIC needed to close down the crooks. It may well be the most extensive case of congressional corruption since the Crédit Mobilier scandal of 1878.

To understand the thrift crisis, look at one leader of this cabal, the owner of the Vernon Savings and Loan in the Dallas suburb of Vernon, a self-made hometown boy named Don Ray Dixon. With his gold chains, open shirts, and at one point a well-groomed beard, Dixon reminded the *Texas Monthly* of the country singer Kenny Rogers. But Dixon lived like a gambler; he didn't just sing about it.

Dixon was born in Vernon fifty years ago. He went away to UCLA for his business degree, then kicked around in a series of jobs, including a stint of

James Ring Adams, a former member of the Wall Street Journal *editorial board, is now writing a book on bank supervision under a grant from the Bradley Foundation.*

unemployment, until the late seventies, when he launched his own Dallas development company. From this base, with some interesting outside help, he bought a hometown thrift and embarked on his now notorious financial career. Dixon did at least a billion dollars of damage in his six years in finance, but he is not unique. Regulators talk about the "Texas 40," the two-score or more insolvent thrifts destroyed by owners just as unscrupulous as Dixon. But we know the most about Dixon, thanks to a flood of documents that FSLIC saw fit to release when it sued him for fraud.

Don Dixon was a man of expensive tastes. He liked exotic cars, Western art, $2 million beach houses and three-star restaurants in France. "That first night in Paris we had dinner at Castel's, the 'in,' very chic private club in St. Germain," wrote Dana Dixon, Don's wife, in a paper later found by federal examiners in the files of Dixon's Vernon Savings and Loan. Under the title "Gastronomique—Fantastique!" Mrs. Dixon gushed about an October 1983 tour of the ritziest restaurants in France. Ostensibly "a bit of market study" for a "world class restaurant" for Dallas, the Dixons and another Vernon couple toured by private plane and 1954 Silver Dawn Rolls Royce in the company of Yolande and Jean Castel, owners of that " 'in,' very chic" club. Ushered by their "charming," "witty," and "twinkling" escorts, the Dixons hopped from La Tour d'Argent and Brasserie Lipp in Paris to the Troisgros in Roanne, to the restaurant of Paul Bocuse in Lyon, to Moulin de Mougins in Nice. On the Riviera, they lunched with "a famous French artist, Cesar, and also a movie script writer."

"It was truly a dream trip," exclaimed Mrs. Dixon, "a trip hardly to be imagined by most, and barely to be believed even by those of us who experienced it at first hand." The trip was also paid for by the Vernon Savings and Loan.

Over the next two years, Dixon took further dream trips to France, England, Ireland, Denmark, and Italy, with frequent side trips to Geneva on undisclosed business. On his 1985 jaunt to Italy, Dixon squeezed in stops at both the Bulgari Spa and the Gucci Spa. Overall, according to FSLIC examiners, the Vernon thrift picked up a travel tab of $68,036.98. Dixon at one point submitted a one-month American Express Card bill (including overdue balance) of $34,444.42.

Vernon Savings owned a subsidiary called Vernon Capital Corporation, which in turn owned a California company called Symbolic Cars of La Jolla, Inc., devoted to Dixon's passion of buying and selling classic autos. In July 1986, Symbolic held an auction that sold eight of Dixon's cars for $1.8 million and still managed to lose $200,000. Dixon even had the Vernon subsidiary absorb a $200 charge for towing his classic Hispano-Suiza.

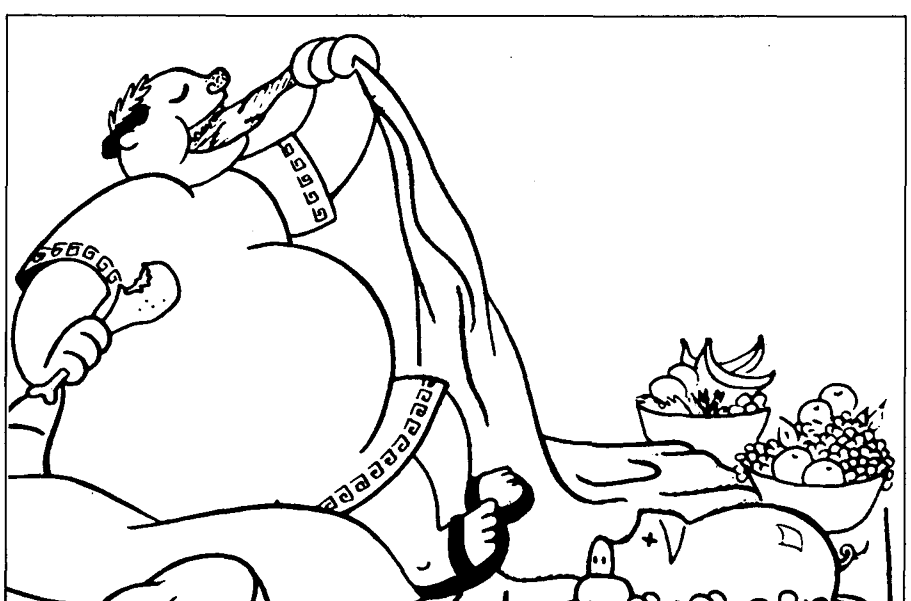
When Dixon desired a *pied-à-terre* in California, Vernon obligingly put up $2 million for a beach house in Del Mar. The Dixons moved in, rent free, during June 1985 and spent nearly $200,000 from a special Vernon account to furnish it. A separate bill for flowers came to $36,780. When the Dixons began building another house in Rancho Santa Fe, California, they flew to London to consult with an interior decorator and buy $489,000 of furnishings. A Vernon subsidiary covered the shopping trip by issuing a half-million dollar note. Dixon covered his walls with Western art, listed on Vernon's books as an asset worth $5.5 million. The feds are still looking for forty missing pieces.

The savings and loan debacle is no longer the product of regional recession, or declining oil prices.

And so it went, in an orgy of vulgar consumption. This tabloid lifestyle may disappoint those looking for some grand scheme behind Dixon's corruption, but it's all too typical of the greatest frauds. Expecting a crash at any moment, they try to spend their money as quickly as they can.

One of Dixon's playthings, however, was no mere self-indulgence. Dixon wanted a yacht, so he bought the 112-foot *High Spirits*, launched in 1928 as the sister ship to the *Sequoia*, the presidential yacht of the Nixon years. Dixon brought the richly appointed ship to a mooring on the Potomac near Washington, D.C.'s soft-shell crab boats, and he placed it at the disposal of the Democratic Congressional Campaign Committee.

There's been a fair amount of press about this yacht, and much more about House Speaker Jim Wright's wire-pulling on behalf of Dixon, but somehow it doesn't convey the extent to which Dixon's cabal penetrated the congressional leadership. The "D-triple-C" was the personal creation and nationwide Tammany of California Congressman Tony Coelho, who has parlayed his fund-raising prowess into the third-ranking position in the House of Representative's Democratic hierarchy. As portrayed by *Wall Street Journal* reporter Brooks Jackson in the important new book *Honest Graft* (Knopf), Coelho was a contradiction, engagingly open about his Campaign Committee yet willing to ignore legal restraints in accepting Dixon's help. Coelho used the yacht at least eleven times in 1985 and 1986 to entertain D-triple-C contributors, but he claims not to have noticed that the *High Spirits* captain never billed him for the $2,000 a half-day charter fee or the additional costs for food and drink, often running upwards of $1,300. Other congressmen could use the yacht on similar terms, for a time making arrangements through Martin Franks, Coelho's chief of staff. The bills went straight to Vernon, in apparent violation of the federal campaign finance law. When the story hit the press, an embarrassed Coelho reimbursed the thrift by nearly $50,000.



These congressional party-givers, at a minimum including Texas Representatives J. J. Pickle and Jim Chapman and Coelho himself, may not have realized how deep a swamp they were entering. As champagne poured on dinner cruises down the Potomac, the yacht itself was the center of one of Dixon's typically shady business deals. After buying the *High Spirits*, Dixon sold partnership shares to cronies, Vernon officers, and borrowers, some of whom grumbled that they didn't want it. (One partner was the cabal's Austin lobbyist, a gregarious and persuasive character named Durward Curlee, who lived on the yacht when he came to Washington. When Brooks Jackson questioned Rep. Chapman's parties on the *High Spirits*, the congressman's staff replied that election law allowed Curlee, as a volunteer, to donate the use of his residence.)

This partnership looked bad on Vernon's books, and some partners refused to pay on their notes, so Dixon decided to unload the yacht on two reluctant businessmen who were desperate for a loan. "I continually balked at doing the boat loan," said one of these victims, describing a talk with Dixon, "and he said that's the only way we are going to get the shopping center loan done." In mid-1986, as congressmen feted their donors in the yacht's salon, the two very unhappy borrowers bought it with part of a loan intended to refurbish a San Antonio mall. But they refused to register the title, causing months of aggravation when FSLIC foreclosed on the boat a year later.

The yacht deal stinks, but it was hardly Dixon's only breach of banking law. Dixon and his officers constantly made insider loans to themselves and their cronies, including shady developers and other "go-go" thrift owners. They faked minutes for directors meetings, adding loans the board never approved. Occasionally they diverted the directors by providing prostitutes. According to a Justice Department indictment, up to twelve women, including two flown from Dallas, were paid to provide sexual favors during a three-day Vernon board meeting in San Diego in June 1985. When FSLIC finally took over Vernon in March 1987, it found that 96 percent of the loans were worthless, possibly a new world record. It ultimately cost the federal insurers $1.3 billion to clean up the mess.

Dixon didn't act alone in his misdeeds. Vernon's books are a catalogue of sleazy thrift-owners who sold each other bad loans to prettify their own balance sheets. (Loans are considered a bank or thrift's "assets." Banks and thrifts often sell shares, or "participations," in a loan to other institutions to spread the risk. This practice is okay if the loan is basically sound, i.e., the borrower is paying it back. But the Dallas thrifts were passing around their garbage, giving the seller an influx of cash and the buyer a fresh asset that wouldn't start to smell for several months.)

"A list was circulated at a meeting," testified Vernon officer Gregory McCormick about one such cleanup. "Friendly lending institutions were thrown out on the table, or tabled as to who might take what and how much they may buy." Some of these "friendly institutions" had their own congressional friendships, neatly complementing Dixon's relations with Coelho. Thomas Gaubert, the big, bluff owner of Independent American Savings and Loan, had become close friends of Speaker Wright and his staff. Gaubert gave so much to Coelho's D-triple-C that he was named its finance chairman, and he harbored hopes of rising to national chairman of the Democratic party. Gaubert's thrift shared deals with Vernon, and he had free use of the *High Spirits*.

Dixon also did multi-million dollar Florida real estate deals with Raleigh Greene's Florida Federal Savings and Loan in St. Petersburg. Greene was best buddies with Rhode Island congressman Fernand J. St Germain, chairman of the House Committee on Banking, Finance and Urban Affairs. According to Brooks Jackson, who broke the story about their dealings, the two met when Greene was president of the National Savings and Loan League, the big-thrift trade association. Greene cut St Germain in on a number of Florida real estate deals. St Germain's staff lobbied the Federal Home Loan Bank Board (parent of FSLIC) to approve the conversion of Greene's thrift to a stock corporation, and St Germain subsequently bought 1,500 shares of the stock. Former Florida state regulators remember vividly the fawning treatment Greene received from FSLIC staff. (Both Greene and St Germain have fallen from grace. Rhode Island voters narrowly defeated St Germain in the 1988 election, and he is reportedly under renewed Justice Department investigation. Greene left Florida Federal after a series of massive losses, and the FBI and the U.S. Department of Education are now looking into the thrift's conduct of its student-loan program.)

Local connections had less glamour but they increased fund-raising prowess. Edwin T. McBirney, who shared $18 million of some Vernon stock loans, ran his Dallas-based Sunbelt Savings Association so recklessly that locals called it "Gunbelt." (In 1985, Gunbelt financed the purchase of eighty-four Rolls Royces, some painted with peacocks and geese, from the collection of the Bhagwan Shree Rajneesh at Rancho Rajneesh, Oregon.) The stock loans that Vernon shared with McBirney helped officers of NorthPark Savings Association in Richardson buy control of their institution.

These names show up on the records of East Texas First, a PAC organized by Thomas Gaubert for the sole purpose of beating the Republican candidate in the now famous 1985 special election in Texas's First Congressional District. The PAC raised nearly $100,000, tipping the vote narrowly to the Democrat, Jim Chapman, delighting Tony Coelho and helping Jim Wright win the Speakership. NorthPark officers contributed $7,000 so soon after their stock loan was refinanced that a prosecutor might ask whether there was some connection. (The Justice Department Task Force has already issued one indictment over East Texas First in mid-January, charging the president of a smaller thrift with illegally reimbursing his employees for their contributions to the PAC.)

Ultimately, FSLIC took over both McBirney's Sunbelt and Gaubert's Independent American, with combined losses of nearly $2.8 billion. The network of loan swapping was so intricate that, rather than sort it out, FSLIC combined the two with six other thrifts and reopened them as a single new "phoenix."

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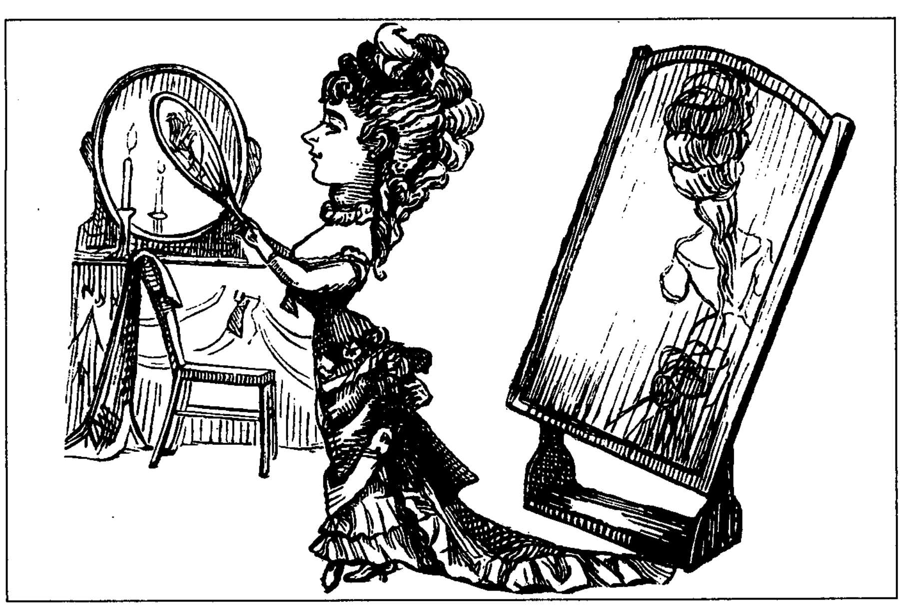
But Dixon and Vernon had even more surprising clients. Vernon sank $13 million into projects with John Connally, former Texas governor, U.S. treasury secretary, and presidential candidate, and his protégé Ben Barnes, whose political career was wrecked in the Sharpstown bank scandal twenty years earlier. When Vernon tried to foreclose on the projects, Barnes and Connally warned "it was a bad business move because it ruins their business relationship." The thrift backed off.

Connally's relations with Vernon may have been the last stage in his descent into personal bankruptcy. But the thrift had even more lurid interests out of state, lending to California figures who had ruined thrifts up and down the West Coast. One, Jack Franks, managed the *High Spirits* partnership for a time. He also worked with developers in California who, according to a civil suit, once enforced a disadvantageous business deal by cracking the ribs of their negotiating partner. Franks has pled guilty to fraud charges in Texas and California. Vernon also lent money to a business partner of Morris Shenker, a St. Louis lawyer and Las Vegas casino owner who has figured in Mafia investigations for years. Shenker, formerly the lawyer for Jimmy Hoffa and the Teamsters Central States Pension Fund, has, however, never been convicted of a crime.

But the most curious character is a Shreveport, Louisiana, bank and insurance man named Herman K. Beebe. Now in jail on savings and loan fraud charges, Beebe is on his second generation of scandals. He was identified as a financier of the Texas "rent-a-bank" scheme of the early seventies, some of whose figures have emerged once more as owners of failing thrifts.

Much of the foregoing was uncovered by Allen Pusey of the *Dallas Morning News*. Pusey is a superb investigator who has done more than any other reporter to expose the S&L scandal, and he sees the "rent-a-bank" case of 1972 to 1976 as the blueprint for the present debacle. "The same schemes, the same problems and many of the same people," he writes. "A network of insider loans, self-dealing transactions and stock purchases . . . allowed them to float bad loans through the regulatory system." In the "rent-a-bank" system, eight investor groups controlled twenty banks, swapping control and lending each other large amounts they didn't bother to pay back.



Behind this network stood the peculiar Herman Beebe, a product of the central Louisiana pinelands, who controlled a network of banks, thrifts, and insurance companies. Pusey calls him a man of wry humor, who gave one daughter the name Easter Bunny Beebe. A constant worry to federal bank regulators and target of an unsuccessful task force, Beebe hired former Louisiana governors Edwin Edwards, a cajun Democrat, and David Treen, a hard-nosed Republican. The reputedly untouchable Treen acted briefly as Beebe's lawyer. Edwards received a retainer of $100,000 a year during the interval between his second and third terms as governor.

Beebe also acted as banker to Carlos Marcello, the legendary head of the New Orleans Mafia. (A congressional report singles out the 79-year-old Marcello as the most prestigious Cosa Nostra leader, partly because his "family" was the first to be established in the New World, in the 1890s.) At one point a Marcello associate tried to buy a bank from Beebe.

It's not clear that Marcello is deeply involved in the Texas thrift crisis, but Beebe certainly is. Pusey reports that Beebe gave Don Dixon his start, bankrolling his purchase of Vernon Savings and Loan. From 1981 on, the two were joint investors in real estate from Louisiana to California. Vernon financed some of the ventures, ultimately lending Beebe's companies at least $9 million. Beebe is now serving a year-and-a-day federal sentence for bank fraud in Louisiana, and has signed a plea agreement with the North Dallas task force on a separate five-year count.

This background puts quite a different slant on the savings and loan debacle. It's no longer the product of regional recession, or declining oil prices. The deregulations of the early 1980s played a role, but not necessarily the one argued by Reagan's critics. The root cause is the one singled out by the regulators—fraud and mismanagement. The Garn-St Germain

Act of 1982 deregulated thrifts, broadening the range of their activities and making it easier for the wrong sort of developer and high roller to enter the industry. Further easing of rules in Texas and California gave them the power to make truly foolish investments. As a result, said former FSLIC General Counsel William K. Black in June 1987, the "staggering carnage" among fraudulent thrifts like "the Texas 40" explains "virtually all FSLIC's recent and pending major losses." Since Black spoke, the Texas 40 has grown to about 200 and FSLIC's losses have escalated from $20 billion to $70 billion and now possibly $100 billion. Or we should say since Black tried to speak. The remarks on fraud were prepared for a House Banking Committee hearing that then Chairman St Germain abruptly canceled when he learned what Black meant to say.

But there is fraud and fraud. Looting through sham loans and phoney expenses looks petty when compared to the grand con game that is keeping much of the financial system in business. This scam is based on the very nature of deposit insurance. Perhaps it is too gigantic even to be considered a crime.

The Bank Board has been struggling to close the one-third of the nation's thrifts that are now hopelessly insolvent; that's about 500. By stretching every line of credit to the outer limit, it plans somehow to deal with about 200 of them. It just doesn't have the money to do more.

In the meantime, the open but insolvent thrifts, the "living dead" as they are merrily called, are losing money at a rate of up to $30 million a day. The reason is that the insolvent thrifts are trying to stay open by expanding. As their loans default, they can't earn enough to cover the interest they pay their depositors. So they try to bolster their cash flow by attracting more depositors.

This is a classic Ponzi scheme, paying your older investors by suckering in new ones, and most people wouldn't fall for it for any number of toasters if it weren't for three things. One, bad thrifts offer the highest interest rates in the market. That's called a risk premium, or nowadays, a "Texas premium." Two, a national market has grown up in money brokers who package large deposits and chase high interest rates across the country. The worse off a thrift becomes, the more it depends on this "hot money." Three, it's all insured anyway, so what's the difference. One of the turning points to the S&L crisis may well have been the decision to raise federal deposit insurance to $100,000 an account, which made it feasible for the brokers to market "jumbo CDs" in that amount.

We owe this achievement to Chairman St Germain. In 1980, reports Brooks Jackson, the Senate had voted to raise the insurance level to $50,000. The House hadn't acted at all, so in conference committee St Germain "compromised" at $100,000. The ensuing boom in deposit brokering has attracted the ever alert financial scam community. One major player with some Texas thrifts has been the First United Fund Ltd. of Garden City, New York. Its leader, Mario Renda, apparently pioneered the technique of linking deposits to some reciprocal favor. Following earlier plea bargains in Florida and Kansas, he was recently convicted in the federal district court in Brooklyn on charges that he marketed money from several union welfare funds in return for kickbacks. A witness in one of his trials claimed, without corroboration, that Renda had bragged of handling money for Paul Castellano, late head of New York's Gambino crime family.

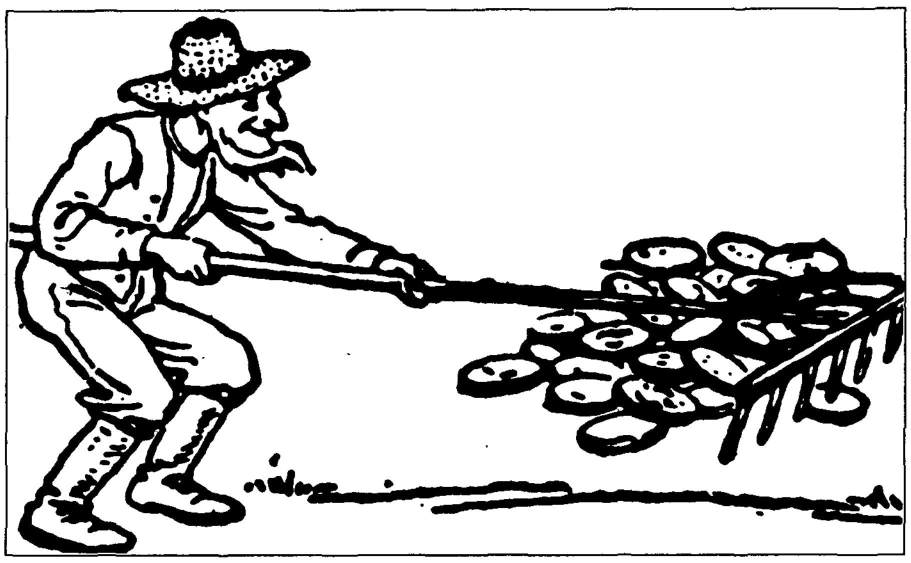
Even in legitimate hands, the brokering of large deposits perverts the original intent of federal deposit insurance, which was to protect the small saver but preserve market discipline on imprudent management. It's worth recalling that Franklin Delano Roosevelt opposed deposit insurance in 1933, on the grounds that sound institutions would wind up subsidizing the bad ones. This has now come to pass. And the more the rotten thrifts try to stay alive by expanding their deposit base, the greater the charge they leave for the deposit insurance corporation, and ultimately, the taxpayer.

The logical response would have been to close down the insolvent thrifts before they built up further claims on deposit insurance. But Congress made this impossible. Back in 1985, the Bank Board, the Treasury, and the White House began to plead for more money to recapitalize FSLIC. (In those days, the administration thought it would take $15 billion, to be raised by floating off-budget bonds backed by industry dues.) The industry fought the plan tooth and nail. The United States League of Savings Institutions and its ilk feared that FSLIC would use the money to close the most corrupt thrifts. Why the league clawed and scratched on behalf of the crooks rather than the honest thrifts or the depositors remains a mystery.

As investigators pull at the strands of the Texas thrift crisis, they are unraveling a network of fraud and shady dealing far wider and older than anyone had suspected just a few months earlier.

In the meantime, the Bank Board tightened its supervision. In 1986, Speaker Wright began to hear loud complaints from Coelho, Gaubert, Dixon, and his hometown thrifts about "draconian" meddling from federal examiners. The regulators were indeed beginning to catch up with high living and bad loans, but their response was still so feeble that the industry's complaints seem ludicrous in retrospect.

Look at the examiners' struggle with Vernon Savings and Loan. From the moment Dixon bought it in January 1982, Bank Board regulators were trying to control its lending. In August 1984, FSLIC slapped Vernon with a "supervisory agreement" to correct its sloppy loan procedures. But judging from FSLIC's fraud suit, and Vernon's own business records, these warnings didn't slow it down a step. From 1982 to 1986, Vernon's deposits grew from $80 million to nearly $1.6 billion, an increase of nearly 2,000 percent.



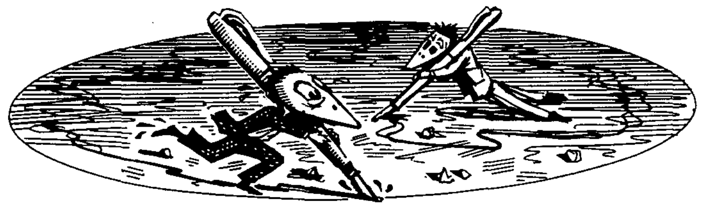
The Bank Board really got serious in early 1986, and shortly after, the *High Spirits* showed up on the Potomac. In April, a federal examination forced out Vernon's top officers (one of whom gave himself a $200,000 loan on the way out the door). Coelho started using the *High Spirits* in May.

In July, the Bank Board imposed a Cease and Desist order on Vernon after several months of negotiation. In September, Dixon's surviving board sought "voluntary supervision" by the Texas Commissioner of Savings and Loan Associations, hoping for a "less confined environment." In August and September, Coelho used Dixon's planes for trips to California. And now the shoe dropped. Speaker Wright started calling Bank Board Chairman Edwin Gray with personal attacks on the most able of the Bank Board examiners. He made his point by freezing the bill to recapitalize the insolvent FSLIC. Congress would spare no more than $5 billion.

Wright suddenly reversed himself in April 1987, when FSLIC brought a fraud suit against Vernon Savings and Don Dixon. The cars, the houses, even the text of "Gastronomique—Fantastique" were laid out in public view. But Coelho plunged ahead with the fight. In August 1987, Congress finally approved a recap of $10.8 billion in a bill laden with restrictions on the examiners. Estimates of the size of the problem had once more doubled.

As Congress scurries and postures on the thrift crisis, you may expect a great deal of indignation about everything but its real cause, the politicization of federal supervision. The underpaid, undertrained examiners will be scapegoats, even though their hands were tied by Congress. Representatives like the lightweight Charles Schumer will rant about the Bank Board's midnight deals to dispose of the "living dead." But the House denied FSLIC the money to do anything else. Rival regulators like the Federal Deposit Insurance Corporation (which insures commercial banks) will try to build an empire on the ruin of the thrifts, but the FDIC has gone through billion dollar failures itself. Its own insurance fund is under ominous pressure. Every regulator, bar none, is hiding a case in which higher-ups went easy on a crooked banker with high-level political connections. The FSLIC scandal just happens to be the hardest to conceal.

But the ultimate villains have their lairs in the House and Senate office buildings, and they do their work on the floor of Congress. With the exception of St Germain, they have been immune from judgment, and they will be for two more years. Will the thrift crisis finally arouse the voters? If it doesn't, it won't be the last. □



QUARK BITES

by Joe Queenan

It is generally agreed that Galileo was the last Catholic who really knew Science cold. It is no coincidence that he didn't go to parochial school. At the schools I attended—Our Lady of the Tramps, Holy Innocents Until Proven Guilty—there were no microscopes, no voltometers, no experimental infrastructure to speak of: Even the creatures we cut apart in biology class were *used* frogs.

What's more, the nuns and priests who ran our science classes actively discouraged our learning anything about the universe in which we lived. If you asked how God stopped the sun at the Battle of Jericho, they'd hit you. If you asked about evolution, they'd hit you. Eventually you got the message and stuck close to safe queries: what sort of seasoning the Iroquois used when they gnawed off St. Isaac Jogues's fingers; why fantasizing about a girl's skirt being three inches shorter was a venial sin, while fantasizing about it being six inches shorter was a mortal sin. This was not the way to get into MIT.

As a result of my formative experiences in this intellectual ghetto, I have spent much of my adult life trying to collage together some notion of how Reality works. This meant not only reading *Microbe Hunters* and *The Incredible Journey* but also watching dozens of David Attenborough's bizarre BBC specials, and devouring the four stories about the fate of the dinosaurs that appear in the *New York Times* each morning.

More recently, I have dipped into books such as James Glieck's *Chaos*, which covers The Butterfly Effect. The Butterfly Effect is the theory that an insect fluttering its wings in Peking could inadvertently set in motion a chain of events leading to an earthquake in Rio de Janeiro. It is also known as The Rozelle Effect; on the last weekend of the football season, a pass deflected by a Cleveland Brown tackle away from a Los Angeles Ram tight end could lead to a San Francisco 49ers backup quarterback facing an all-out blitz from a Minnesota Viking safety in a first-round playoff game in Candlestick instead of a second-round playoff game in Dallas. Of course, I am oversimplifying Glieck's book, just as I am oversimplifying the NFL's playoff system.

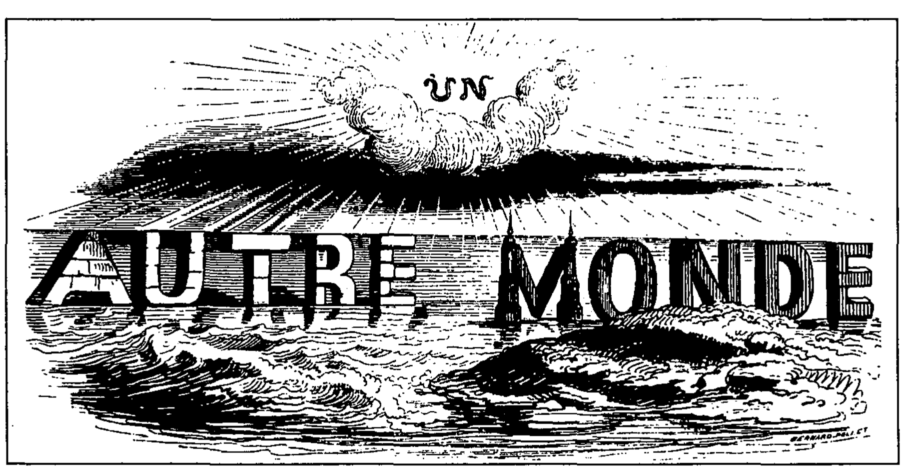
What made it possible to get through *Chaos* is the fact that the author is a journalist, and thus has to write lucid prose for a living. Scientists, on the other hand, only get paid to be smart for a living and are generally abysmal writers. This is why I've run into so many problems reading "popular" scientific works by actual scientists. A good example is *Frozen Star* by George Greenstein. This book, which came out in 1983, is described on its dust jacket as "a magnificent achievement in the history of popular science." This is not true. *Frozen Star* is a 274-page brainbuster about pulsars, black holes, and neutron stars that is incredibly hard to understand unless you went to Amherst, which is where Greenstein teaches astronomy. I don't object to Greenstein's writing books that are incredibly hard to understand, but I do resent being told that they aren't. Especially at $16.95 a pop.

An even better example of this phenomenon is *A Brief History of Time: From the Big Bang to Black Holes*, by Stephen W. Hawking. This is the book that everyone is talking about, presumably because the longer you talk about it, the longer you can put off actually reading it. Hawking is an admirable Englishman who has not allowed Lou Gehrig's disease to prevent him from becoming, if the bio on his book sleeve is to be believed, "the most brilliant theoretical physicist since Einstein." Seemingly, at some point in 1970, he and a colleague proved that the universe had to have an actual beginning in historical Time. Apparently the UPI didn't pick up on this item, because I missed it entirely.

Last year, Hawking unveiled what his publisher, Bantam, calls "a classic introduction to today's most important scientific ideas about the cosmos." Well, not quite. What he's actually written is a dreadful, boring, sloppy, incomprehensible book. His book isn't about black holes: It *is* a black hole. It is a profoundly unreadable 750-page doctoral thesis masquerading as a snappy, 198-page book that you could give to your mother. There are phone books out there that make more interesting reading than this. *Chinese* phone books. Just consider this passage of translucent clarity:

"We have no direct evidence as to whether the matter in other galaxies is made up of protons and neutrons or antiprotons and antineutrons, but it must be one or the other: There cannot be a mixture in a single galaxy because in that case we would again observe a lot of radiation from annihilations. We therefore believe that all galaxies are composed of quarks rather than antiquarks; it seems implausible that some galaxies should be matter and some antimatter."

Moving right along . . .



"All the known particles in the universe can be divided into two groups: particles of spin 1/2, which make up the matter in the universe, and particles of spin 0, 1, and 2, which, as we shall see, give rise to forces between the matter particles. The matter particles obey what is called Pauli's exclusion principle."

How does a book that is this atrocious get so much attention? Simple. This is an infinitely expanding universe. In an infinitely expanding universe there will be an infinite number of civilizations. Among that infinite number of civilizations there will be one in which an infinite number of people will believe the dumb blurbs that they read on the backs of an infinite number of books. *Ours* is that civilization.

Kurt Vonnegut once said that all modern art is a conspiracy between artists and rich people to make everyone else feel stupid. This is equally true of Science. Particularly irksome are the assumptions these guys make about how much a reader already knows about the universe before he opens the book that is supposed to teach him all the things he doesn't know about the universe. If I were writing a popular introduction to the stock market, I wouldn't assume that the average reader already knows why a price/earnings ratio of 24-1 is risky, why you can leverage $600 million capital into a $5 billion LBO, or what the expression "triple witching hour" means. But folks like Hawking throw around all kinds of facts and figures without any explanation whatsoever. As he writes:

"If we add up the masses of all the stars that we can see in our galaxy and other galaxies, the total is less than one-hundredth of the amount required to halt the expansion of the universe, even for the lowest estimate of the rate of expansion."

Can I see your paperwork on that, Steve? And while we're at it, where'd you cook up the estimate that the mere fact of a person having read your work

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