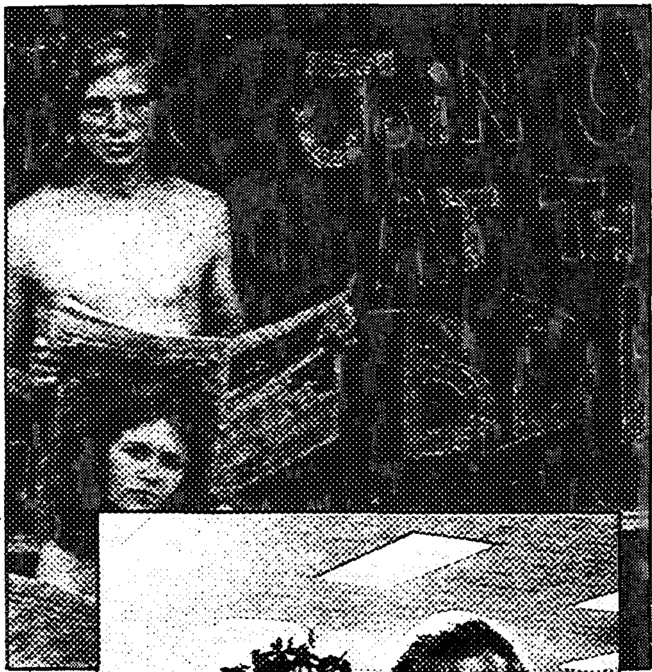
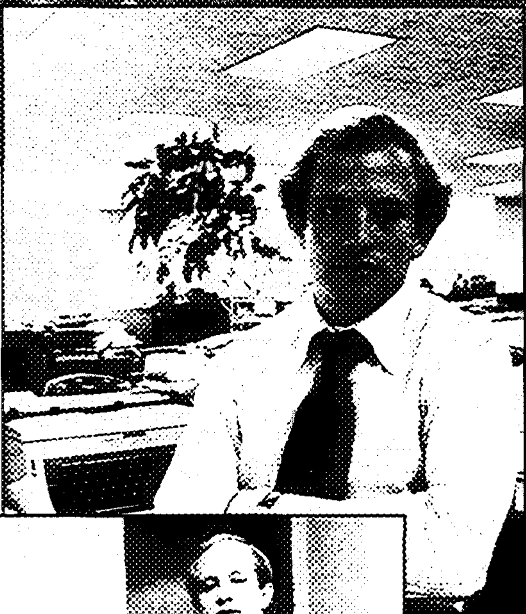


Photo: Brown Daily Herald



The New York Times Photo: Jean Gwaltney

Morgan Stanley Photo: Joe Mattingly

HELLO S
MERGER

On a night in August 1982, in a loud New York restaurant off Union Square, Steven Rattner, a London correspondent for *The New York Times*, and Roger Altman, an investment banker at Lehman Brothers Kuhn Loeb, met for dinner to discuss Rattner's future. The two had become good friends a couple of years earlier when Altman was an assistant secretary of the treasury and Rattner was covering Jimmy Carter's economic policy for the *Times*. Now Rattner, at the age of 30, had decided he wanted to leave journalism.

Rattner was one of the *Times*'s ablest writers. His rise in the organization had been rapid: at 22, clerk to James Reston, at 23, covering energy, one of the most important stories in the country, at 24, a full member of the Washington bureau, at 29, a foreign correspondent in a prestige bureau. But by the summer of 1982, Rattner felt he needed a change. Coming home on vacation, he had considered several options. He'd stopped in on G. William Miller, the former secretary of the treasury, whom Rattner had covered two years before. Miller now ran a merchant banking firm in Washington. He thought Rattner was a "brilliant guy" and was eager to take him on. There were other ideas: venture capital, for example, and management consulting, though Rattner worried that consulting was like being a business reporter for the *Times* "without 950,000 daily readers."

Most attractive was investment banking. The field had lured a stream of former Carter officials: Altman and Peter Solomon from Treasury, Josh Gotbaum and Ralph L. Schlosstein from Stuart Eizenstat's domestic policy office, David Aaron from the National Security Coun-

Philip Weiss is a New York writer.

WEETHEART, GET ME
AND ACQUISITIONS

THE RISE OF STEVEN RATTNER

by Philip Weiss

cil. Most of them were at Lehman Brothers, which, in contrast to the more hidebound, blue-blooded banks, frequently hired people on the basis of experience (and connections) in government. Peter G. Peterson, the man at the top, had been Richard Nixon's commerce secretary.

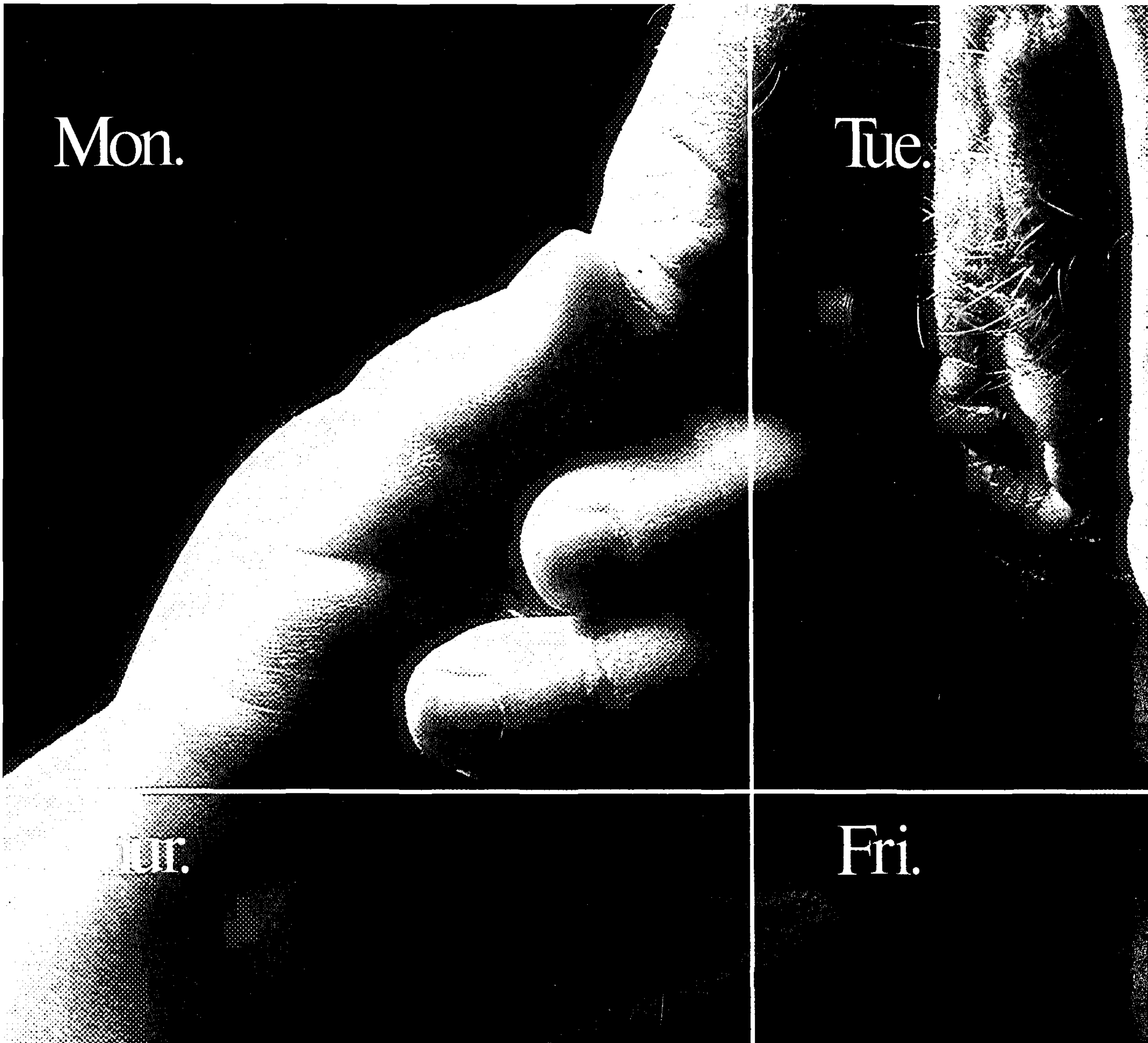
Over dinner, Altman lobbied his young friend on behalf of Lehman. It was a good time to become an investment banker. Banking was changing, and Rattner had the personality for its competitive new environment of short-term relationships. His persuasive skills would be useful for selling clients on deals, Altman told him. Working a client wasn't so different from working a source. Rattner also knew how to handle himself in the presence of important people like Paul Volcker. Finally, Rattner's skill in reporting on complex economic matters would help him on Wall Street. "He could understand the interplay of legal, tax, regulatory, and finance questions, very complex stuff," Altman says now, "to look at things like a three-dimensional chess game."

Altman was certainly right about its being a good time for banking. The new spirit of competition brought about by deregulation combined with the rise of a new materialist ethic, especially in Manhattan, had made investment banking glamorous in much the same way that journalism had been in the years after Watergate. Investment bankers and arbitragers like Bruce Wasserstein and Ivan Boesky were being profiled in mainstream publications like *Esquire* and *The Atlantic*. Expanded newspaper financial sections reported on the human drama behind merger battles. Radio stations quoted the gold price between rock songs.

But was this the right world for Rattner? As a student at Brown, Rattner had written idealistic editorials proclaiming that the country's moral fiber was "weak" and denouncing "global. . .corruption and disdain." It would seem only natural for such a person to wonder aloud whether Lehman Brothers offered avenues for socially useful work. It's possible to imagine circumstances in which it might: raising capital for new companies that would create jobs, for example, or helping workers to buy a factory, as Rattner's friend Josh Gotbaum had done for Weirton Steel while working at Lazard Freres. Indeed, such possibilities might conceivably have promised greater idealistic fulfillment than reporting for the *Times*. But Altman does not recall that Rattner raised the question of whether investment banking was meaningful work except, he said, "in this sense. He wanted to know whether he'd be fulfilled by banking. Was it overly narrow?" Rattner asked Altman whether investment bankers ever lifted their noses from their spread sheets. He was a young man who had lived abroad and traveled widely. He had a feeling for good art. Altman assured Rattner that he would meet people who shared his intellectual curiosity and cultivation.

Rattner took the job at Lehman. Barely a year and a half later he moved to the *New York Times* of investment banking, Morgan Stanley & Company, where in 1985 he brought in a stunning $33 million in fees. After just 18 months at Morgan Stanley, he was promoted, at age 33, to "principal," a partner who cannot vote on firm policy. The jump usually takes six years.

When he left the *Times*, Rattner was earning about $50,000 a year; last year he is said to have made as much as a million. At Morgan Stanley Rattner specializes in deals involving communications companies. Most of his time is devoted to mergers and acquisitions—helping to buy and sell media properties. In some cases, these efforts



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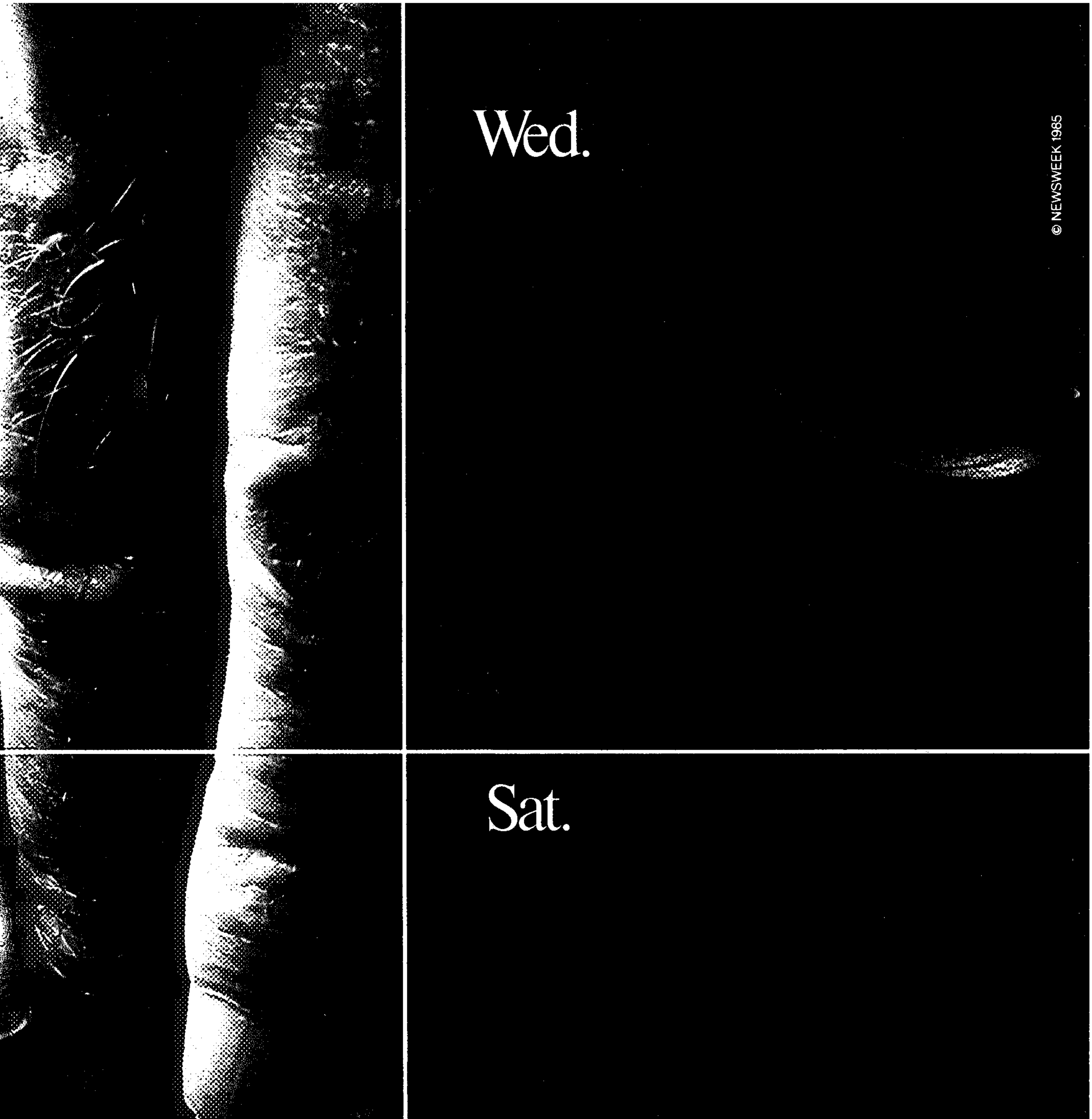

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may have served to compromise the editorial quality of news organizations that, like *The New York Times*, have been known for valuing the product more than the bottom line.

In any age, there are certain people who, because they are both very smart and unusually reactive to their society, help illuminate prevailing values through their actions. One thinks of Gerald and Sara Murphy, who presided over a salon of expatriate writers in the south of France during the 1920s, or, on a more frivolous level, Jerry Rubin, who went from yippie to a Studio 54 "networker" in the 1960s and 1970s. Rattner's life hasn't been as glamorous as the Murphys' or as opportunistic as Rubin's, but it seems similarly emblematic of the spirit of the times. Rattner is extremely talented. "I hate to sound like a sap, but he has a brilliant mind," says *Times* reporter James Brooke. But Rattner's career path, impressive as it is, has a conformist quality that calls to mind the Woody Allen character Zelig, the "chameleon man" who always took on the coloration of those around him. When journalism defined the spirit and values of a generation, Rattner was a journalist. Now that investment banking defines those things, he is an investment banker. This chameleon quality makes Rattner an instructive case study of the process by which many of today's best and brightest have lost interest in making a difference with their lives. In trying to understand Rattner's life choices, we might help ourselves understand what has gone wrong with our culture.

The nobrainer

"It's tough to be a first child brought up in a place like Great Neck [Long Island] and not be a little hard-driving," Rattner told me when we met one Saturday afternoon at a delicatessen near Central Park. Especially, one imagines, in a family of achievers like the Rattners. One associate of Rattner suggested that half of Rattner's motivation in life was the desire to please his mother, a forceful woman well known for her preservationist activities on behalf of Grace Church in Greenwich Village. When I called Selma Rattner she wanted to be sure that I didn't overlook the achievements of Steve's siblings—a doctor daughter and an architect son.

Beginning with an artist grandmother who dabbled in the stock market, Rattner's family has tended to mix business with culture. His father, a paint manufacturer on Long Island, also writes serious plays, while his mother has acquired a graduate degree in architecture. In high school Steve was interested in photography, and it was to take pictures that he joined his high school paper. He ended up second in command. "Clearly committed...to educational and political reform," he wrote of the paper in his 1970 yearbook.

At Brown University, he soon got on the *Brown Daily Herald.* He was a liberal Democrat on a left-liberal paper with countercultural tendencies. Other students wrote about protest marches and Bob Dylan concerts. Rattner wrote about school finances in a sharp, detailed way.

His best college journalism was muckraking. Once he even went through the trash outside a school office. But his stance was never subversive; he was trying to make Brown a better school. He criticized planning that had resulted in a dorm squeeze, mismanagement in the bookstore, and the waste of $1.5 million on unused building plans. He hammered the school for not devoting more resources to undergraduate education, a policy which threatened to turn Brown into a "semiversity." He was outspoken about the low numbers of minority students in a science program. In 1973 he took over as editor. The photo of his editorial board showed him in a western shirt with his hair down to his shoulders, affecting almost a Dennis Hopper cool.

A major theme of Rattner's writing for the *Herald* was responsible activism. Again and again he rapped Brown president Donald F. Hornig for his isolation, and for a time he ran a box every issue indicating how many days it had been since Hornig had last met with students. He tried to whip up student outrage: administrators made big changes "by fiat," students had abandoned "politics" and "social action" for "apathy." His final piece was virtually a demand that Hornig resign (he left two years later). He also called for impeachment proceedings against Richard Nixon and spoke of "the murderously protracted and illegal bombings of Indochina and...the mockery of the last presidential election."

Rattner had worked hard, and at year's end the paper seemed punchy. Large photos of nude women showed up out of nowhere on the features pages, and in a parting photo, Rattner and three other staff members were pictured naked themselves, judiciously holding *Herald*s before them (see page 28). His hair was still shoulder length. His look was now looser, more confident.

The accompanying copy was the most forceful statement Rattner gave of his aims: "[Don't let] those folks in University Hall and the office building and in all the departmental offices get away with things that they shouldn't get away with. And that's one of the main things that we tried to prevent this past year...for God's sake let the *Herald* know when your blood boils."

An economics major (he'd happened on an econ class and seen a "wonderful new world unfold," he later wrote), Rattner was planning to use a fellowship he'd won to attend the London School of Economics in the fall of 1974 and go on from there to law school. Everyone knew he was going to law school. In the meantime he needed a summer job. He applied first to *The Vineyard Gazette*, traveling to Martha's Vineyard to meet its owner, James Reston, the legendary columnist of *The New York Times*, and his wife, Sally. Reston did not have a job for him, so Rattner took a summer job with *Forbes* magazine in New York. Then one day in June he got a call from the columnist. Did Rattner want to come to Washington as Reston's clerk?

"Well, that was a nobrainer," Rattner said, sitting in the delicatessen.

I looked back blankly.

"It's an expression we use in investment banking. An obvious decision."

The columnist had started his clerkship program in 1961, inspired by Felix Frankfurter. The first hire was Jonathan Yardley, today book critic at *The Washington Post*. Others included *Times* reporters David K. Shipler and Linda Greenhouse; assistant managing editor Craig Whitney; and *Post* publisher Donald E. Graham. "It's everything from being a jazzed up secretary to writing stories for the *Times*," says a former clerk. The clerk's life includes setting up Reston's speaking tours and hotel reservations, watching football games and drinking beer with the boss in stockinged feet on weekends, researching the column and being the first to read it. (If a column is supposed to be funny and the clerk doesn't laugh, Reston will can it.) The young man—20 of 22 clerks have been men, most of them Ivy League—occupies one of the few private offices in the Washington bureau, where he often sits inking up the Reston signature stamp and carefully applying it to letters.

Rattner was helpful in other ways. Harrison Salisbury has said that the *Vineyard Gazette* presented Reston with "piddling but endless problems," and Rattner, who'd started a successful weekly supplement to the Brown *Herald* called "Fresh Fruit," made a dozen trips to the Vineyard to oversee the conversion to offset printing of Reston's briny appendage.

What gives the job its electric quality, what makes those jump-to-ing clerks jump-to a bit more quickly, is the awareness that at year's end Reston will talk to New York and give a recommendation to hire or not.

Today Rattner is thankful to Reston for saving him from law school. Reston declined to talk, saying, through his clerk of course, that Rattner's career choices were "a private matter." But by several accounts, the bond between them was very close. Through the late sixties, Reston had urged reporters to be more cerebral. He feared journalism was becoming too event-oriented to deal with an increasingly complex world. He wanted journalists to be specialists, interpreters. Rattner was sophisticated about financial matters, an area of reporting in which Reston felt particularly inadequate; he has jokingly admitted in *The New Republic* that he's an economic "idiot."

One day Reston asked what Rattner had heard from New York. Nothing, Rattner said. Five minutes later the clerk got a call from the metro editor saying that New York was looking forward to his arrival in September.

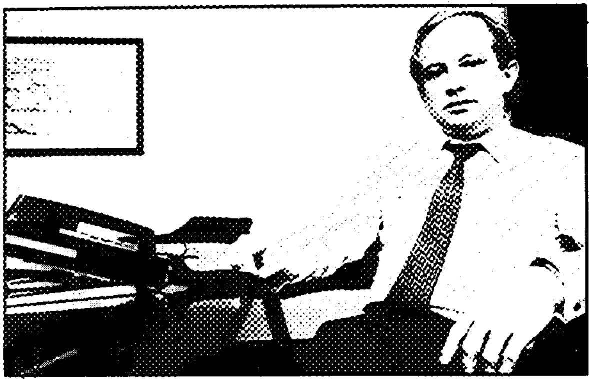
Dining at Mel's

In New York Rattner joined a group of young reporters who were thrilled with the idea of working at the *Times*. One *Times* veteran can still picture Rattner, then 23, and Paul Goldberger, then 25 (and now the *Times*'s architecture critic) chasing one another through the newsroom. The two were close friends. In the view of one observer, Rattner tended to model himself on Goldberger, to the point of shopping for clothes at Paul Stuart, going to galleries with him, and even purchasing an art poster similar to one in Goldberger's place.

After a brief stint on the metro desk, Rattner ended up with the energy beat. With three trips to the Mideast, his rapid rise had begun. "I don't know how people get to be so smart, so savvy," John Lee, then the business editor, recalls. "He walked in the door and knew what to do." In April 1977 he was assigned to cover Jimmy Carter's energy initiative, which meant the Washington bureau, "something no one of my age [24] or experience had any right to," Rattner says. Later he had the economics beat.

It was Rattner's heyday, a Democrat covering Democrats who shared his liberal views and, to some degree, his background. Rattner was much younger than most reporters, but the same age as a tier of bright members of the Carter administration. Among his friends were Josh Gotbaum and Kitty Schirmer, both in Stu Eizenstat's office, Richard Cavanaugh at OMB, and Walter Shapiro, who was press secretary at the Depart-

Photo: Joe Mattingly



Rattner says he often felt his fellow reporters were motivated by the desire to "hobnob with the great and near great." It's a point to consider. But in recognizing that no *profession* is inherently moral, he also seems to have given up on the idea that *individuals* can strive to be useful to society.

ment of Labor and later a Carter speechwriter. Rattner rented a summer place on Martha's Vineyard with Ralph L. Schlosstein, from Eizenstat's office, who also visited the Blue Goose, the place Rattner shared on Maryland's eastern shore with, among others, Arthur O. Sulzberger Jr., the son of the *Times* publisher. "I went to a party at his house," one friend recalls. "I had the impression that these are the people who are running the government."

Once, in writing about Carter's inflation-fighter, Robert Strauss, Rattner had observed approvingly, "Mr. Strauss has always been careful, as he collects friends, not to collect them indiscriminately." The same might be said of Rattner. In addition to his friendships with peers in the administration, Rattner developed warm relationships with older men of importance. "He talked about Punch [the nickname for Arthur Ochs Sulzberger, publisher of the *Times*]," recalls Joe Laitin, spokesman for the Treasury Department in the Carter years. "I asked him if he was from the Sulzberger family, and he said, 'No, but you're not the first person to ask me that.'" Philip Shenon, a Brown alum whom Rattner helped get the Reston clerkship, recalls Rattner taking him to lunch at Mel Krupin's. "I remember being terribly impressed. He was on a first-name basis with the maitre d'. Frank Reynolds was behind us, David Brinkley on the other side."

Rattner worried about his closeness to officials. In a piece he wrote for the *Brown Alumni Monthly* in 1980 he spoke of how some reporters avoided all friendships with Carter administration officials while others became romantically involved with their subjects. "For my part I have tried to walk something of a middle line, although frequently wondering whether my friendship with people working in government on issues similar to those I report on compromises me. I have particularly avoided friendships with officials with a leadership role on issues I cover."

Above all, Rattner wanted his journalism to have influence on events. Although the tone was calmer and the focus narrower than that of his *Brown Daily Herald* editorials, a strong sense of purpose remained. "The thing I loved about reporting was the actual impact on events," Rattner recalls. "Helping inform intelligent opinion, affect administrators' judgments of things." When he thought he had influenced policy, "it made me feel it's all worthwhile."

Courting the respectables

A common criticism of journalists like Rattner who want to influence policymakers is that they slant the news according to their personal agendas. In fact, the more common problem is that they adopt the beliefs of those they write about. To have influence, after all, you need access, and the prerequisite to access is usually respectability.

Rattner was excellent at explaining the intricate workings of policymaking to the layman. A piece on Carter's election-year effort to expand the economy showed how Paul Volcker, chairman of the Federal Reserve Board, had used back channels to temper the proposals. Rattner also revealed how Carter had quietly compromised on his insistence that new gas not be deregulated. One especially savvy story showed how the White House had politicked with the Energy Department to have final control over regulations on which companies could burn coal.

Rattner was less effective at stepping back and subjecting these policies to the sort of original analysis that might shake up the boys at the Brookings Institution. The problem wasn't that Rattner didn't have opinions. "I always had views on things," he recalls. "I never saw a policy change that I didn't have an opinion on." It was just that his views tended to hew to a familiar line. Carter "zigzagged" on policy, and "grievously" underestimated the dangers of inflation; later, Reagan's "dramatic" supply-side rhetoric struck Rattner like "doubtful economics." These criticisms were sound enough but hardly eye-opening.

Another problem with Rattner's writing was that it tended to be deferential. In May 1980 Rattner wrote a cover story for *The New York Times Magazine* about G. William Miller, then secretary of the treasury. The piece began with an image of Miller striding into a press conference on inflation and taking charge. "Does he always take over like that?" a newcomer to Treasury press conferences whispers. In another passage, "Bill Miller" is described as "businesslike as his dark suit, white shirt, and striped tie. Poise and self-confidence are key components of that executive image, as is a strong measure of personal control." Harsh judgments by "liberal and conservative economists" on the Carter economic record were mentioned, but not prominently.

In the spirit of bipartisanship, Rattner gave the same treatment to George Shultz in a profile that appeared in 1980, when Shultz was still chairman at Bechtel: "The lack of force in Mr. Shultz's manner belies an abundance of force in Mr. Shultz's ideas."

Rattner's conventional approach toward policy and his respectful coverage of the powerful were in keeping with the values of his newspaper. The *Times* is in many respects a great institution; no other newspaper in America provides as thorough and reliable coverage of events around the world, and none, save perhaps *The Wall Street Journal*, is as free of circulation-enhancing frivolity. At the same time, probably none is as solicitous toward the establishment. The *Times* has always sought to provide news of interest to the "respected men of finance and state," in the words of former *Times*man David Halberstam. These included men like Robert Moses, the planner, who virtually ran New York in the postwar period. Moses was a *Times* "hero," in the estimation of Moses's biographer, Robert Caro; he counted on the paper's support and even its reluctance to follow up reports of scandal as he destroyed poor neighborhoods to build up the city. Lately, as the paper has taken a neoconservative tilt, the list of favorites has included Henry Kissinger and Jerzy Kosinski. The connecting thread has always been respectability; with a few notable exceptions (its courageous publication of the Pentagon Papers, for example), the *Times* has never aspired to iconoclasm.

In Rattner's case, the *Times*'s tendency to foster respect for power may have gotten out of hand. Certainly Rattner got too close to Charles Schultze, chairman of the Council of Economic Advisors. "My view was not that different from Charlie Schultze's view," Rattner told me. Rattner's choice of guru showed discrimination; Schultze was without question one of the best minds of the Carter administration. But in February 1979 Rattner carried the relationship beyond the interests of the *Times* and applied for a job as special assistant to Schultze at the council— "a person Friday," Schultze says.

The job involved dealing with the press, directing staff, working on economic reports. Susan Irving, who got the job over Rattner, calls it "the world's best job in economic policy if you're not a big enough shot to be a principal."

In some ways, Rattner's attempted leap to the other side of the fence may be viewed as laudable; few journalists have the intellectual curiosity to take on jobs that will let them witness firsthand what happens inside the government. Even fewer care enough about policy to want to have a voice. On the other hand, Rattner couldn't help but be compromised as a reporter by his pursuit of a job with an official he was assigned to write about for the *Times*. Around the time that Schultze interviewed Rattner for the position, Rattner interviewed Schultze for a story on page three of the "Week in Review" section, a Q&A on the priorities shaping the budget. Days after Irving took over the job, Rattner wrote a front-page piece for the *Times* on regulatory reform that gave great prominence to Schultze. Three months later another piece by Rattner on the "awesome momentum" of the movement appeared in the *Times* magazine. It led with a description of the "gravelly voiced" Schultze's career and his "impeccable liberal credentials." Schultze's 1976 Godkin lectures at Harvard were "a modern classic, the *Das Kapital* of the regulatory reform movement."

Three faces of Steve

Rattner's pursuit of the job at the Council of Economic Advisors reflected his growing restlessness in his berth at the *Times*. In the spring of 1981, he was already considering investment banking when the paper offered him a prestige post: London. He decided to take it. He could always be an investment banker, but life wasn't likely to again offer him the opportunity to be a London correspondent for *The New York Times*.

London proved to be something of a come-down after the excitement and intensity of Washington. Rattner did manage to write some excellent stories; in one fine piece of reporting, for instance, he compared a Ford plant in England with a similar plant in Germany that had twice the productivity. But like most of Rattner's coverage from abroad, the story ended up on the front page of the business section. In general, Rattner's London stories were less compelling than his Washington pieces had been.

The basic problem was that, 40 years after the blitz, London just wasn't the news town it once had been. London has maintained its status as a prestige assignment for diplomats and journalists almost entirely on the strength of its amenities, which are undeniably enticing. London is regarded as a particularly plump plum at the *Times*. Paris and London are its largest foreign bureaus. Some top *Times*men own flats in London, and many *Times* editors not only have been posted there but suffer years later from acute Anglophilia (how else to explain a recent front page that gave bigger play to a fire that damaged Henry VIII's palace than to a plane crash that killed 166 in Mexico?). One *Times* reporter, reflecting these priorities, groused to me: "When they send me abroad it'll be to Managua. The place is a dump. There are no good restaurants."

Rattner was probably on his way out anyway by the time he hit the British isles. "He could write his ticket at the *Times*. The one thing the *Times* could not give him was enough money," one friend explains. Even so, the paper might have improved its chances of hanging on to Rattner had it provided a greater challenge to Rattner's brains and energy than London business.

One of the things that drew Rattner to investment banking was that it would test him. He liked the idea of going into a "totally different world, playing by a totally different set of rules," his friend Walter Shapiro says. He had no business degree; he was "giving the field a one-lap lead. He would be pushing himself and even faking it a little at first, and saying to himself, Let's see how good I can be in three or four years."

Of course, there were other factors. Rattner himself says that he thought of journalists (and lawyers and academics, too, for that matter) as being agents. He wanted to be a principal. Investment banking seemed to him to be a lot closer to actually running things.

Maureen White, an investment banker at First Boston who's engaged to be married to Rattner this summer, expresses it this way: "It begins to get on you after a while that you are writing about people who have more power than you, more influence, and more money, and are not any more capable. Why in God's name are you trailing them around the world and writing about them when you are smart enough to make the money and have influence commensurate to theirs?"

Some acquaintances suggest that Rattner's motivation was base. "He wrote about what he liked, money," says one. Another compares him to Sammy Glick of *What Makes Sammy Run?* Rattner's friends say that analogy is simplistic. "Steve's not running for the sake of running. He has goals. He wants to make an impact on the world, to make a difference," says David Ignatius, an editor at *The Washington Post*.

Paul Goldberger of the *Times* says, "To understand Steve well you have to think of both/and, not either/or. I don't think of him as particularly idealistic. He's a very tough, smart realist who has a broader and more sensitive world view than other tough, smart realists in the yuppie world of investment banking. He's very much one of them, but neither is he the same as them. He delights in the thought that he is among the most cultivated of investment bankers as opposed to being the most financially oriented of journalists."

When Rattner informed his bosses at the *Times* of his choice, they tried to hold him by assuring him of his brilliant future at the paper. But Rattner was realistic about those prospects. The track for hallowed writers at the paper (Russell Baker and Tom Wicker, for instance) was not for him. He didn't have a singular style, nor the disposition for that type of advancement. "As the years advanced, I'd be sitting in Nairobi waiting for a king to be toppled." Meanwhile, if he went up through management, the rewards were dubious. "There's only one Abe Rosenthal, you can't decide to be Abe Rosenthal."

"Steve is a very intelligent young man and he knows it," says Craig Whitney, then the foreign editor, who got nowhere during a dinner with Rattner in London in the fall of 1982. "I'm sure the word arrogant has come up in various people's assessments of him. Certainly there was an ebullient self-confidence bordering on arrogance, a feeling of, I don't have to do this, I can go off and do something else."

And so Rattner came back to New York.

The roof blows off

A glimpse at popular culture gives some idea of how fast the securities industry was changing when Steve Rattner entered it. Twenty-five years ago, Walker Percy cast the hero of his novel, *The Moviegoer*, as a stockbroker with an old family firm so that his spinning anxiety would stand out against "the most ordinary life imaginable... quitting work at five like everyone else." In those days, though, interest rates were stable and commissions were fixed. When the Securities and Exchange Commission ended the fixed commission in 1975, the roof blew off. Enticed by the prospect of making huge commissions, newly competitive brokerages expanded the financial market, offering more and more ways for people to invest (or, increasingly, to speculate). Strip bonds and interest rate snaps: some of the financial instruments sounded like erotic paraphernalia. By winter 1986, when a film called *9½ Weeks* came out featuring a sado-sex-crammed affair between two box office stars, the male protagonist was, naturally, a stockbroker.

Ambitious yuppies flocked to the profession. Before 1982 Harvard didn't bother to keep statistics on the number of interviews investment banks conducted with seniors. By 1985 investment banks were conducting more interviews than representatives from any other profession—672 (including followups), compared to 595 for all high-tech-related fields and 418 for consulting firms. The world of public affairs made its contribution, too. Recent Wall Street recruits have included New York's former City Council president, Carol Bellamy (Morgan Stanley), and David Stockman (Salomon Brothers).

Just before Rattner got into the business, the Securities and Exchange Commission issued Rule 415, a landmark ruling that abolished the last vestige of fixed commissions dealing with investment banking. Coupled with other regulatory changes, the rule allowed a corporation that wanted to raise capital to eliminate a lot of the red tape preceding a stock or bond offering. What in the past had taken weeks now took hours. The red tape had been profitable to investment houses; a bank had been able, at a dignified pace, to assemble a syndicate of banks to buy up the offering. Now a bank had to fight it out for the right to underwrite the offering and sometimes had to buy the entire offering itself. Investment banks traditionally had gotten much of their business from underwriting, and their leaders were outraged. John Whitehead of Goldman, Sachs was quoted in *Fortune* calling the rule change "the ultimate abandonment of responsibility."

Rule 415 helped dissolve the clubby, old-school-tie connections of banking and business. It made banking more competitive and increased the pressure on banks to come up with new investment instruments to intrigue corporations. The number of bankers soared, and the emphasis shifted from waiting for the client to say what it wanted to identifying a market and then trying to interest someone in it.

The current merger mania on Wall Street has been widely noted. In 1980, $44 billion was spent on corporate mergers; last year, the figure was up to nearly $200 billion. This frenzy of buying and selling has been fueled largely by the Reagan tax bill of 1981, which slashed corporate taxes. But the way investment banks collect their fees also plays a role. To defend a corporation against takeover, an investment bank receives a flat fee. To participate in a sale, however, the bank is now usually paid on a sliding scale according to the size of the deal. Thus there's a new, built-in incentive for investment bankers to participate in merger deals.

Rattner had been at Lehman Brothers for a little more than a year when the partners decided to sell out to Shearson/American Express. Rattner was then a vice president. The sellout to a publicly held company meant that he could never become a partner. In Ken Auletta's new book, *Greed and Glory on Wall Street*, Rattner speaks of the associates' "deep resentment" over the sellout.

The new entity, Shearson/Lehman Brothers, tried to hang on to Rattner. He was already a rising star. One friend says Rattner cleverly used his broad experience and cultivation to position himself in the banking community as a near-peer of partners. "He was not another of these young, goddamn MBA types," he explains. Rattner's cosmopolitan air especially impressed older men who were at last hopeful of taking on a little Felix Rohatynesque class after a life at Mammon's feet. In any case, Rattner wanted to work where he might become a partner, and in spring 1984 he followed Eric J. Gleacher, a former Lehman partner, to Morgan Stanley. Today he heads a communications group there.

Split off from the J.P. Morgan bank in 1935 after Congress declared that commercial and investment banking must be separate activities, Morgan Stanley is the most blueblooded of banking firms. In the new world of banking it has been dogged by what the *Times* characterized in 1984 as a "stodgy" image. Gleacher and Rattner may be helping to change that. A wiry former Marine, Gleacher, 45, last year brought in $202 million in fees through his mergers and acquisitions department and is now a darling of the financial press.

Rattner, too, gets a lot of press. *The New York Times* recently lumped him among Wall Street's hugely paid "upstarts." The upscale television magazine *Channels* also featured him in a story on bankers. Rattner talked of the "big money" to be made, the companies "ripe" for deals. He said that it was "frightening" how similar his work is to reporting. "I used to develop sources, now I develop clients."

As to what he's making, Rattner won't tell, though he did say he has a "high savings rate." The lowest estimate of Rattner's earnings I got was $500,000. Two independent observers, noting Eric Gleacher's penchant for rewarding his favorites, guessed that Rattner is making closer to $1 million and possibly more.

Ideals to deals

When Steven Rattner of *The New York Times* had dinner with Roger Altman of Lehman Brothers on that fateful August evening, Rattner never asked how his work as an investment banker would affect society. That question is worth bringing up today.

Until recently, communications was, in Rattner's words, a "somnolent" industry. But in the past few years Wall Street has begun to alter the way it values media companies, with the result that the business has become a lot more attractive. The mood changed in large part because of the Reagan administration's relaxed attitude toward the concentration of media ownership, specifically the Federal Communications Commission's increase of the number of TV or radio broadcasting properties one group could own from seven to twelve. Other factors were a new awareness of both the steady return from advertising in good times or bad and the glamor of media companies.

In the past, Wall Street tended to look at the asset value of a media company or its net earnings to see what it was worth. Rattner argues that both are deceptive measures because they fail to take into account the year-in, year-out ability of a newspaper or TV or radio station to generate cash. Despite fears of growing competition from cable and videocassettes, television stations have shown double-digit growth for years. Efficiently run media companies can be counted on to have operating margins (before tax and depreciation are subtracted) of 25 percent for a tightly run newspaper and 50 percent for TV stations.

Most of us look at a newspaper or a TV station as something that might inform us, amuse us, and perhaps enlighten us. Today, when Rattner looks, he sees a cash cow. "Why do people pay 25 times net income for these companies?" Rattner told *The Washington Post* last year. "A daily newspaper is an unregulated monopoly, and as a result of that, these properties have been able to produce growth in revenue and profitability that you don't see in many other businesses."

Rattner's amoral view of newspapers as moneymaking ventures has come to take precedence over what he wrote in the *Brown Daily Herald*—that newspapers should keep people from getting away with things they shouldn't get away with. Not long ago, Rattner was quoted in the *Times* suggesting that "a major newspaper operator" would know how to cut costs at the the *Courier-Journal* in Louisville, which the Bingham family is now selling. The irony was striking: Rattner, formerly a reporter for a newspaper that is famous for embodying what's best about family control—concern for the quality of the product above considerations of profit—seemed to be proposing that a similarly idealistic, family-run newspaper ought to be run by someone who knew how to maximize profits.

In fairness, Rattner has done some work to be proud of. He helped the Morgan team that was protecting CBS against Ted Turner last year, thereby keeping intact a corporation that has traditionally shown a dedication to excellence, particularly (at least until recent years) in its news division. Now he is helping defend the Pulitzer family, which publishes the St. Louis *Post-Dispatch*, from a hostile takeover bid by Alfred A. Taubman.

Deals like these are a reminder that investment banking doesn't have to be predatory and destructive. Beyond warding off unwanted takeovers, investment bankers can help foster the creation of new jobs or promote worker ownership. An example where Rattner managed to do both was his work for Jeff Smulyan in Indianapolis. Smulyan held a 42 percent interest in a company that owned four radio stations. He was impatient and wanted more growth. Last December Rattner convinced Morgan to put together $61 million so Smulyan and a partner could buy out the other owners and also pick up three more radio stations in major markets. As part of the deal Smulyan has set up an employee ownership plan.

On the other hand, Rattner has also helped to undermine the efforts of companies to put out a good product. Consider Rattner's battles with the Cowles family over the *Des Moines Register* and the *Minneapolis Star and Tribune*, two of the better newspapers in the country.

The *Register* has done the toughest, smartest reporting on farm policy in the midwest. It is known particularly for aggressive investigative reporting by first-rate journalists like Clark Mollenhoff. The *Star and Tribune* has distinguished itself in a costly area of the news business—

special projects. Lately, for example, two reporters spent three months on an investigation of the state utility commission that already has resulted in one resignation and the legislature's introduction and passage of reforms.

Unfortunately, neither of these newspapers' ledgers read as well as the daily product. In 1982 the *Register* suffered its first loss in its 75-year history, and though it beefed up its net earnings in 1984 to 3.5 percent of $97 million in revenue, that's still low by Wall Street standards. The *Star and Tribune* has had only slightly higher returns, lately about 7 percent net earnings.

In 1984, the *Register* and the *Star and Tribune* were both family enterprises; the Cowles family controlled ownership of both papers through two separate companies. With only a few public stockholders to answer to, both papers had enjoyed a long tradition of putting newsgathering before profits, as family-owned newspapers often do. Unfortunately, as the ownership of a family paper passes to succeeding generations, there is always the danger that the stock will be spread among relations who have no more commitment to journalism than outsiders who bought public stock on the advice of their brokers.

In 1984 Kingsley H. Murphy came to Morgan Stanley to discuss his 17 percent block of private stock in the *Star and Tribune*. Murphy's family had once owned the *Minneapolis Tribune*. It sold out in the 1950s, and Murphy had inherited the stock. Now he wanted to get rid of it.

The timing was fortuitous. The Cowles family had just received an unexpected offer for the *Register*. It was a low ball, but the fact that the family agreed to consider any offer suggested to Wall Street that both the *Register* and the *Star and Tribune* might end up on the market. The more people who thought that, the higher a price Murphy would be able to get for his stock.

Rattner and Murphy started talking two or three times a day. Murphy remembers Rattner wanted to get both papers "into play" so that Murphy's block would be attractive. With that in mind, Rattner sought, in his own words, to "contribute to the general ruckus" over the Des Moines paper. "If that company wasn't sold, it would be 50 times harder to get the Murphy deal going." Rattner sent to The Washington Post Company and other potential bidders long documents and statements from embittered members of the Cowles family, seeking to convince them of the strength, magnitude and legitimacy of the dissidents' criticism of management.

Happily for Rattner and Murphy, the Cowles family took bids on the *Register*, including one from the Post company. But then, to their dismay, the family circled the wagons at the *Star and Tribune*. In January 1985 the Cowles family announced it had gotten more than 50 percent ownership of the paper into a family trust, with a verbal agreement to renew that trust through the year 2000, when it expires in 1990.

"That was a setback," Murphy recalls. But Rattner called him up and said, "Let's attack." Murphy sued the Cowles family in a Delaware court to protest the family trust. Murphy later dropped the suit, but while it was pending, it managed to create expectations that the Minneapolis paper would soon be up for grabs—expectations further fueled by the acquisition of the *Register* by Gannett in January 1985. The Post company and Gannett both found themselves bidding for Murphy's *Star and Tribune* stock. In the end, the Post Company bought for about $56 million what Murphy had been unable to sell six months before.

It's true that Rattner's efforts didn't end up shaking the *Star and Tribune* loose from the Cowles family, but his contribution to the "general ruckus" probably helped lead to the purchase of the *Register* by Gannett, which is notorious for cutting back on its papers until they return upwards of 20 percent. Gannett has already begun cutting away at the *Register*: management has shut down two weekly regional editions of the paper and, according to one report, has cut the travel budget for reporting.

Rattner's efforts on Murphy's behalf also probably increased the chances that the *Star and Tribune* will be bought out sometime in the future. Days after Murphy sold out, Gannett bought a smaller piece of the Minneapolis paper that came on the market out of the Cowles's liquidated *Register* company. As a result, Gannett is now hovering over the *Star and Tribune* too, along with the Washington Post Company, waiting for the family to crack.

It would be unfair to suggest Rattner's deals are typically this destructive to valuable enterprises; more often, they simply sop up dollars for morally neutral, if pointless purposes. Take Rattner's biggest deal of 1985: helping the owners of KTLA, an independent television station in Los Angeles, sell out to the Tribune Company of Chicago for $510 million, the most ever spent for a TV station. Golden West, Rattner's client, was in essence a group of speculators (including seven investment bankers and the station's managers) who had bought the station for $245 million just three years before from the former cowboy star Gene Autry. Though they operated the station, their primary interest (at least that of the outsiders) was in seeing its value go up. The only mistake they made, the leader of the group told the *Los Angeles Times*, was in thinking it might take eight years to get $500 million.

The KTLA deal was a classic "asset play." Ninety percent of the shares were owned by seven investment bankers who weren't particularly interested in running the TV station. Mostly they were waiting for the value of the investment to increase. In helping the owners sell off this unwanted asset at a stupendous price, Rattner served to bid up the price of a TV station without doing anything to make it a better station.

In an article he wrote for *Channels* about merger mania, Rattner said that, apart from Rupert Murdoch's ventures, none of today's media trading activity was "likely to affect the content of television (or newspapers)." What about the pressures that profit maximization and debt place on newspapers to cut back on lengthy investigations, foreign reporting, or even more basic editorial expenses such as the number of reporters a paper can afford to send to city hall? When I asked Rattner about the dangers of forcing great newspapers to return high profits, he said, "Until the public or the government decides to voluntarily contribute to the financial success of newspapers, it's a little off-base for people to feel that the equity owners in these newspapers should be penalized. It's a special asset, but it's an asset. As long as newspapers are part of our capital environment, it's unfair to expect these people to make sacrifices." There are two answers to this. First, Rattner isn't just an innocent bystander who respects stockholders' rights; he makes his living by *encouraging* them to be dissatisfied with their return. Stockholders don't want to make "sacrifices" in large part because there is an industry dedicated to convincing them not to be suckers. Second, anyone who puts money into a newspaper—or any other enterprise, for that matter—assumes some responsibility for that company's actions. In the case of a newspaper, that means resisting the temptation to raise profits by inhibiting that newspaper's ability to inform.

During our talk in the deli, I asked Rattner to compare the social worth of reporting with that of investment banking.

He sat back and held the bridge of his nose.

"I have two answers," he began. "I guess in the cold light of—No, I don't know if that's true either." It was about the first time he'd faltered that afternoon. He paused, then spoke slowly. "It's something I've thought a lot about. I don't view investment banking as the ultimate social fulfillment to me. I do it because I like what I'm doing. And yet we all do have a responsibility to put something back.

"Being an investment banker for the last three years has made me realize more what all of us should do. I'm a failure at discharging all my social responsibilities. When you're a journalist, though, you convince yourself of your social usefulness and you don't worry about it. Being an investment banker strips that away. I won't tell you that it is a socially responsible profession, whatever the hell that means, but I won't say journalists are either."

Later, he said he often felt that reporters were motivated by the desire for glory and to "hobnob with the great and near great." It's a point to consider. Much as we might want it to, no job confers virtue automatically. What matters is the moral content of our actions in that job. What is troubling about Rattner is that in recognizing that no *profession* is inherently moral, he also seems to have given up on the idea that *individuals* should strive to be useful to society.

'All that intelligence'

It took a few minutes in the lobby of *The New York Times*—not far from the bust of Adolph Ochs—before the guard figured out which of the four or five numbers he had for Ochs's great-grandson was correct. Arthur O. Sulzberger Jr., 34, has been moved around frequently so that he can learn different aspects of the family business.

The (more than likely) future publisher of the *Times* was cheery, handsome, and dapper. He smoked a pipe, wore suspenders and a pink shirt with white collar and cuffs, and during our talk took a couple of calls having to do not with his latest job, production coordination, but with his pet concern, the North Carolina Outward Bound School. "There is no one outside my family to whom I'm closer than Steve Rattner," said Sulzberger.

The two met in 1978 in the *Times* Washington bureau, where the proximity of their desks fostered a friendship. Today the two live in the same building and run together in Central Park. The oft-repeated line among *Times* employees—it comes around six beats after they ask if you know how much Rattner is making—is that with Sulzberger's blessing, Rattner will come back someday on the corporate side, perhaps as president. I asked Sulzberger about this. He said he didn't know whether Rattner would want to return or what position would be appropriate.

Sulzberger said Rattner had many layers—implying, as other close friends have, that if I took his banker's bluster at face value I would miss out on his deeper concerns. "He's a very complicated sort of man, with a lot of things going on in his life, some of which he'll let you know about and some of which he won't."

After that Sulzberger spoke of the quality of Rattner's mind. Then he broke off and said, "All that intelligence—why doesn't he put it to good use?"

"Are you joking?"

Sulzberger shook his head. He said he teases his friend about the social worth of his work. On one hand he thinks his "moral values" have not changed and it's good to have people in business with a sense of social purpose. On the other hand, as his investment-banker friends know, Sulzberger is "troubled" by the values of banking.

He may also be worried that Rattner has started an exodus of *Times* reporters to Wall Street. Last year Michael W. Blumstein, 29, left the business desk of the *Times* to become an analyst at First Boston. He said he had always loved journalism, and even thought he was making a social contribution when he wrote about such corporate maneuvers as "defeasance," a complex way to escape debt. But he didn't feel he could afford to live in Manhattan on an income in the high forties. It also distressed him that by age 30 his salary would be topping out.

When he finally heeded "the tape" (Wall Street's expression for the direction of the market) and left the *Times*, no one told him he had sold out. "People thought, you're making a smart move for yourself," he says.

Scotty's lament

About two years after Steve Rattner's dinner with Roger Altman, Rattner attended a dinner held by James Reston on the eleventh floor of the *Times*. The columnist was turning 75, and he wanted to throw a party for his clerks. Eight tables were set up in the publisher's dining room, but when Reston saw the arrangement he directed that there be one big table because the clerks were a family.

Fourteen clerks came. One of the absent cabled greetings from Angola. Donald Graham explained he'd make the trip only if it was the retirement party. Abe Rosenthal showed up. A book full of clerks' reminiscences and testimonials in oversized print—the second edition in the space of a few years—was presented to the columnist. There was also a bagpiper.

Reston ran the show. In his casual way he went around the table, apostrophizing one after another of those present.

"And then there was the one who came up to me after a speech in Chapel Hill, with his hands dirty with printers' ink," he said, and everyone understood that he was talking about Jonathan Yardley. Then Yardley took up the conversation and recounted a story about Reston. Reston next got in a dig at Abe Rosenthal about one of Rosenthal's great frustrations, how long it had taken him to get on the foreign desk.

Then it was Rattner's turn. Reston looked down the table in a fatherly way and said, "And then there was the one who left the fold. When are you coming back?"

Rattner defused the tension with a joke, but behind it there was apparently a lot of feeling. "Mr. Reston thought very highly of Steve, and I think was very disappointed but understanding when Steve made the career choice he did," Philip Shenon says. Beyond the personal attachment, some clerks say that those who signed on as clerks implicitly made a pact with Reston, and when one left the family, Reston was said to feel it as a personal failure.

It's hard to think of Reston—aging, ponderous, respectful of the establishment—as a role model for an aggressive reporter today. It might even be that Reston is the person Rattner had in mind when he told me he thinks journalists are motivated by their desire for glory and the chance to hobnob.

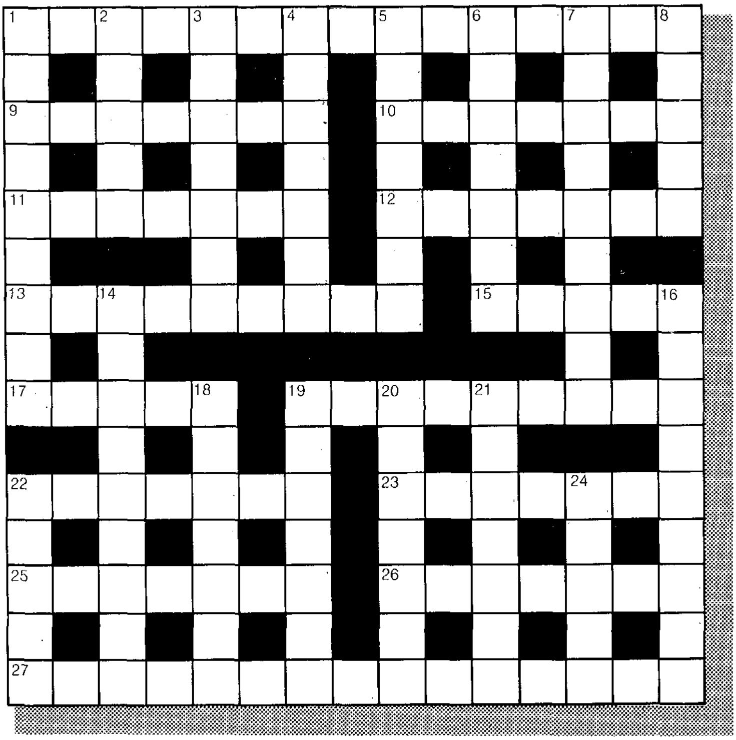
Both the *Times* and journalism in general invite such disregard. As former *Times*man J. Anthony Lukas points out, reporters don't have pure motives. "Especially after the civil rights movement, Vietnam, and Watergate, we were able to feather our financial and professional nests at the same time we were exposing inequities. The journalist is not an unmitigated crusader. He is an ambiguous figure." This is much more apparent today than it was in the 1970s, when Steve Rattner was inducted into the profession. As the glamor of journalism wears off—at least in the realm beyond the Capital Beltway—we discover that not every reporter is out to make the world a better place to live in.

But the answer isn't to conclude that what you do doesn't matter. For all his complacency, James Reston understands that. The other day, in one of his benign rambling columns, Reston expressed the hope that youth today doesn't just want security but is looking for "purpose and even service." I wonder if anybody was reading. ■

POLITICAL PUZZLE

by John Barclay

The numbers indicate the number of letters and words, e.g., (2, 3) means a two-letter word followed by a three-letter word. Groups of letters, e.g., USA, are treated as one word.



ACROSS

1. Hot Washington story "He Turns After Weight Rattled Drum." (5-6, 4)
9. Actress puts skirt around addition. (7)
10. About 1001 tissue reversed for big man. (7)
11. Little thing in a bomb explosion. (7)
12. Tree of nicer composition. (7)
13. Dialect distorted worm angle. (3, 6)
15. Caviar in a train? Backwards and wrong! (5)
17. Arranges that it's better to be in than out of. (5)
19. Presses so hard to take back. (9)
22. Sent Sam ornery flower parts. (7)
23. Heathen plays infield badly. (7)
25. Unite coming back in about train. (7)
26. Nymph throws garland around Russian city. (7)
27. Find gender lapse organized goal of 1 Across. (7, 8)

DOWN

1. Plucky dances for star athletes? (4, 5)
2. Variety of manna for Vietnam. (5)
3. Uneasiness when he takes in middle of waist. (7)
4. Wildly mourn if costumed adopted. (7)
5. Indian in macho posture. (7)
6. One mine surprisingly chosen by party. (7)
7. Focus deer unreasonably suppressed. (4, 5)
8. Wrongly fears less dangerous route. (5)
14. Justified rate drawn unfairly. (9)
16. Breaking into pieces untrue love's ring. (9)
18. Grimmer bovine swallows nurse. (7)
19. Give letters again for seller confused about plant start. (7)
20. He takes medical dose up after Greek letter. (7)
21. Spice arranged for fans. (7)
22. Fires back part of letter. (5)
24. Held awkwardly one Indian city. (5)

Answers to last month's puzzle: