

Felix the Fixer to the Rescue

by Murray N. Rothbard

It is, as everyone knows, the Age of Conservatism. Hordes of flacks and flunkies who until recently had to be content with gracing the offices of conservative think tanks are busily jostling at the trough for cushy jobs in the Reagan administration. Every group in America is "reexamining" itself and shifting sharply rightward. Liberals are hunkering down in the trenches, hoping to minimize the damage.

With liberalism on the defensive, the "corporate liberal" – the well-connected big businessman – is one of the most effective members of the club. Most businessmen have conservative instincts. Though willing to go along with what is now euphemistically called "the partnership of government and industry" – and grateful *for* the power and boodle that come along with it – they are obscurely uncomfortable moving too far from their own free enterprise rhetoric. The "cognitive dissonance" becomes a bit disquieting. What's needed is a corporate spokesman who embraces the government-business partnership with enthusiasm and joy – a kind of Big-Businessman-as-Philosopher. When such a champion emerges, Mr. and Ms. America, keep a sharp eye on your wallets – you are about to be fleeced.

For a while Thornton Bradshaw, former president of ARCO and big daddy of the trendy Aspen Institute, looked like the front-runner. But he faded in the stretch, and, as every "in" person now knows, there is only one man for the job – Felix Rohatyn.

Rohatyn first came into the public eye in the spring of 1973, when *Business Week*, adept at spotting likely comers, put the unknown financial whiz on its cover. Our hero, then forty-four, was already a leading partner in the extremely powerful international banking firm of Lazard Frères. Not only that; he was the handpicked protégé and "son" of Lazard's legendary octogenarian guru and senior partner, André Meyer. Rohatyn, a demon negotiator and behind-the-scenes manipulator, was touted by *BW* as "dynamic," "remarkable," and a merger man supreme.

He did not exactly rise to his post by the Horatio Alger route. Rohatyn and his family, wealthy Viennese bankers, fled from the Nazis to New York during World War II. Rohatyn's mother divorced his father and, luckily for young Felix, married Henry Plessner, a partner in the Paris branch of Lazard Frères. Thanks to Plessner, Felix landed a summer job at the New York branch of the bank while still in college; after he graduated in 1949, he went to Paris to work personally under Meyer. From then on, there was no looking back.

Rohatyn became Lazard's man on ITT's board of directors, and also a merger man there and a disciple of ITT chairman Harold Geneen. As a negotiator for ITT, the short, wiry, bucktoothed, perpetually grinning Felix found himself the object of sustained serious criticism for the first time in his career. In the early 1970s, the Nixon administration was hitting ITT with a series of whopping antitrust suits, and Rohatyn started shuttling to Washington. Using his far-flung contacts and negotiating talents, he met many times with Deputy Attorney General Richard Kleindienst, and with White House aide and ex-Wall Streeter Peter Flanigan.

Recollections differ about what was discussed. Rohatyn insists that the conversations were solely about broad antitrust philosophy. Flanigan remembers it differently; he says that the specific ITT suits were hashed over. At any rate, the upshot was a dropping of the suits and a favorable out-of-court settlement for ITT, followed swiftly by a hefty \$400,000 ITT contribution to the Republican party for its 1972 convention. The affair led Nicholas von Hoffman to dub Rohatyn "Felix the Fixer," an encomium which, we are assured, he cannot abide. By way of justification, Felix claims to have been given a clean bill of health by Leon Jaworski who, *pace* his recent performance on Alexander Haig, seems to have become an expert in granting such Watergate indulgences.

Some ordinary liberals, inexpert in the ways of their corporate liberal comrades, see an anomaly in Felix's ITT record and his rise as a leading liberal Democrat in New York City. Not so; Felix is simply more consistent than others in applying the government-business partnership concept. Corporate liberalism is nothing *if not* fundamentally bipartisan. At the same time that he was *fixing* things for ITT, Rohatyn became a good friend of Dorothy Schiff – of the international banking family of Kuhn, Loeb – who was then owner of the major organ of New York liberalism, the *New York Post*. He also became a fund raiser for good gray Senator Edmund Muskie.

Felix Rohatyn's next big leap into the limelight came with his role as the savior of New York City's finances. In 1975, as the city's government was sliding toward bankruptcy, Felix set up and became chairman of Big MAC (the Municipal Assistance Corporation), which managed to engineer partial default and dub it a mere "stretchout" from short-term debt into long-term municipal bonds. In addition to the compulsory stretchout, the main idea of this New York State-run outfit was to put the rather shaky credit and prestige of the state squarely behind the collapsing credit of the city. It worked – for a time

– although eventually state *and* city will go down the fiscal tubes together. But, heck, that's a long way off, by that time Felix will be out for bigger and better things. *Après Felix, le deluge.*

As organizer and chairman of Big MAC, Rohatyn managed to induce the reluctant Ford administration to kick in the requisite massive aid to save his financial package. His success there seems to have completed the flowering of Felix as an economic philosopher on a grand national scale. For if some federal aid could save the bankers, municipal officials, and bondholders of New York, why couldn't still more federal aid produce more such good deeds? Rohatyn had discovered the soul-satisfying humanitarian expansiveness of post-New Deal liberalism.

He started small. Why shouldn't the federal government assume all state and local welfare costs throughout the nation? Wouldn't that be a marvelous bonanza for hard-pressed urban and state governments? (Yes, it sure would. In practice, it would mean that these governments would have more money to lavish on massive construction contracts, school administrators, and legions of what are known in the Bronx as invisible "pothole inspectors." But Felix, oh Felix, where would the federal government get the money? Did you ever give one thought to that, O Wizard of Lazard?) In addition, Rohatyn called for a massive new "domestic Marshall Plan" to reconstruct our shattered inner cities by creating a new and more magnificent version of the Hoover – FDR Reconstruction Finance Corporation, which had used taxpayer money for massive handouts to quasi-bankrupt corporations and their anxious creditors, many of whom happened to hail from Felix's own bailiwick of investment banking. (More on this later.) Felix the Fixer may not know where the money is going to come from, but he sure knows where it's going to go.

In early 1977 it was revealed that Felix was also pretty sure where *his* money was coming from. The previous summer, Rohatyn, as the top official in Big MAC, was forced, by executive order of New York Governor Hugh Carey, to make a public disclosure of his finances, something he did with considerable reluctance. Not *for* Felix any nonsense about owning any Big MAC bonds personally – he didn't get this *far* by being a dodo. Indeed, he owned precious little stock in the various corporations he helped direct. Much of his money, interestingly enough, was invested in tax-sheltered real estate. His major real estate shelter, in which he managed to combine his quest for big bucks and his enthusiasm for social significance, was Lambert Houses, a publicly subsidized development in the Bronx. Rohatyn's personal devotion to government-business partnership was also reflected in his investment in the Stevens New Haven Associates urban renewal project, as well as in the National Corporation for Housing Partnerships (an organization created by Congress in 1968 to attract private capital for the construction of publicly aided housing).

At the end of 1978, his salvage task accomplished, Rohatyn resigned his powerful though unpaid post as chairman of Big MAC and returned to Lazard Frères, though still keeping a hand in state affairs

as chairman of the New York State Council on Economic Development. Going back with him to Lazard was Eugene Keilin, the most emphatically *not* unpaid executive director of Big MAC under Rohatyn, and now Lazard's unofficial man on Big MAC's board of directors. In March of the following year, Big MAC announced as its financial adviser (for an annual fee of a quarter of a million dollars) the investment-banking firm of – you guessed it – Lazard Frères. No other investment banking firms were considered. At this point, New York's outspoken and rather buffoonish mayor, Ed Koch, denounced the deal as a "moral conflict of interest" – at which Lazard withdrew in a huff, loftily professing to be unable to understand why such an act of altruistic public service should subject the firm to "needless abuse" from the peanut gallery.

Given his record, we could have predicted to a tee what stand Felix would take on the Chrysler bail-out question. Writing in the *New York Times* on January 13, 1980, Rohatyn explained that the Chrysler bail-out – the federal rescue of a corporation *not* tied in with defense contracts as was Lockheed – had set an unshakable precedent: Every large-scale business must now be a candidate for federal rescue. Any refusal to bail out a large corporation henceforth and forevermore would be unjust discrimination; moreover, such refusal would involve terrible "dangers to the economy" and "untold human suffering" (not least, of course, among the big stockholders of some future Chrysler). Felix also had the gall to say that the bankruptcy of a large corporation would cost the taxpayers a lot of money, a fascinating inversion of the obvious fact that it is the federal *rescue* of inefficient and insolvent corporations that will cost the taxpayer – and the consumer, because it perpetuates the inefficient use of resources – all too dear.

And precisely how are future bailouts to be performed? Not by Congress, warns Felix: too subject to political pressures (i.e., complaints of voters) and too chancy. What is needed is a mighty federal agency, staffed with financial experts, removed from the vulgar pushing and pulling of the political arena, able to spot insolvent or troubled corporations far in advance and move in, quietly and efficiently, to help. In short: SuperFelix! Why confine Rohatyn's wondrous talents to one city, however big? The entire nation needs him!

Besides, Rohatyn goes on, the bailout by the federal government should not be *quite* automatic. For how can the government, staffed by the best financial brains, force corporations to toe the governmental line without having the threat of bankruptcy as a weapon? As Rohatyn writes, "The possibility of bankruptcy must not be eliminated since that is the only real leverage." Once again he suggests that what is needed is a massive new Reconstruction Finance Corporation. The new RFC should be run by professionals, as part of an "overall plan." It should be free to make any form of investment in a corporation it wishes: equity, preferred stock, loans, loan guarantees – leave that to

Felix and his friends.

In particular, the new RFC should be able to invest in corporate stock – the original RFC having been hobbled, one supposes, by being limited to old-fashioned loans. Felix cautions that RFC investment should be "limited" to 50 percent of corporate stock in any one firm. (Anyone familiar with the business world knows, of course, that 50 percent is more than sufficient, thank you, to ensure total control and domination of the enterprise.) It is also important to give the new Big RFC enough power to do the job; it must be able to "do unpleasant but necessary things such as changing the board of a company it invests in and replacing management."

One of the nice things about being a corporate liberal is that it allows one the luxury of being in the comfortable middle of the road. And so Felix gives us the familiar incantation: He knows, sadly but wisely, that his plan will be attacked from left and right. "The specter of socialism will be raised by the conservatives [Heavens, *why?*] and the cry of 'big business bail-out' by the liberals [again, *why?*]." Of course, he adds, such objections will have to be discussed and even heeded a bit, but they must not be allowed to stand as roadblocks in the path of social progress. Besides, he assures us, Big RFC would not really be "mammoth"; its bail-outs and investments would only be "temporary" (like Chrysler?) and would, initially at least, be limited to a mere \$5 billion fund contributed by the Treasury Department plus another \$10 billion in guaranteed U.S. bonds of the sort with which our banking wizard is all too familiar.

Felix concludes by warding off criticism in advance. "Public-private partnership," he exults, "is here to stay." Even if Chrysler "ultimately fails," he warns, that would not mean that we shouldn't have bailed out that company; it would only "prove that the right medicine [Big RFC] was not applied at the right time." Give the job and the tools to SuperFelix and we will be sure that, as he puts it, "the right medicine" will be "available in the future."

The apotheosis of Felix Rohatyn as corporate liberal philosopher came with two elaborate think pieces in that prestigious oracle of the left-liberal intelligentsia, the *New York Review of Books* (December 4, 1980; March 5, 1981). Stamped with this imprimatur, Felix has now succeeded in scaling the heights of intellect as well as those of big business, finance, the media, and government. With such conquests to his credit, can the entire nation be far behind?

Rohatyn's *New York Review* articles elevate him to the status of Global Thinker. He urges the "reconstructing of America," but it is clear that now the whole world is his oyster. We are in grave crisis, says our philosopher, and to cure it we cannot be content with the old ways; a radical rearrangement of America and the world is necessary. Liberal measures for public spending have failed, says he, but so has conservative monetarism, which Felix repeatedly terms "theological." But do not despair, fellow Americans, there is an Answer, temporarily unpleasant and austere though some of it may be.

As Felix unrolls his proffered solution, it becomes clear that he is calling for nothing less than all-out collectivism. Big RFC is now only a cog in the great machine that looms before us. A vast network of taxes and subsidies will revitalize industry and, particularly important, direct it into the channels desired by government. A "stiff" gasoline tax will force Americans to use less gas; massive government subsidies to coal and nuclear power will beef up energy supplies. Big RFC and other subsidies to business are a far better means of revitalizing industry than are tax credits because, Rohatyn explains, the former gives the reins to the government.

How about inflation? That is to be stopped cold, first by a "temporary" price-wage freeze, to be succeeded by what Felix repeatedly calls a "tough incomes policy." Translated into English this means tightly controlling wages while permitting prices to rise, one of the fascinating "humanitarian" outcroppings of left-liberal thought.

One turns with justified alarm to Rohatyn's geopolitical ideas. Predictably, he calls upon us to learn before it is too late, from the examples of Germany and Japan, that we must have continued, pervasive "partnership of business and labor in government." Furthermore, the Middle East, "vital to our security and our economy," must be secured; the Third World must be aided and brought to its senses; and the United States must greatly beef up its air force and conventional arms, in which we are "dangerously deficient" compared to the Soviet Union. In particular, "we must have an adequate conscripted army with low pay" and *everyone* except the halt and the lame must be drafted. The low pay scale, of course, should not extend into the upper ranks; there, we need a "highly professional, highly paid cadre of officers and non-coms." One reason the conscript army may be needed, in Rohatyn's view, is that oil-rich Mexico doesn't seem to have quite the proper deferential attitude toward the United States.

Felix knows that his plan will be greeted with "cries of elitism" and of a "new establishment"; he is prepared to live with these quibbles because any other course of action would be "infinitely worse." But Rohatyn's recent writings are filled with apocalyptic despair. A few piddling reforms and holding operations may take place, but he sees that his fundamental shift to all-out collectivism is not likely to occur in the normal course of events. Democracy is just too darned messy and diverse and "balkanized." Only a major crisis of some sort can put his collectivist program into effect. Felix the revolutionary thinker doesn't know what form this crisis will take, or when it will come, but he is confident that come it must.

And then, *then*, fellow Americans, "when a crisis of sufficient magnitude creates the possibility for fundamental change, it will carry with it enough of a popular majority for action so that a president with a real vision of the future will be able to put his program through." Then Americans will decide "that the drift has got to stop, and a president with a sense of the future [will] give direction to the power that will be unleashed." Felix recognizes, with some delicacy, that this will pose a "risk for democracy," but it is, after all, also a great hope.

And who will play the role of this updated and well-scrubbed Mussolini, conscripting everyone, collectivizing industry in a giant partnership of government and business, and unleashing all that mighty power through swift and revolutionary change of our political institutions? No one can say – but it won't be Felix Rohatyn, who by lucky accident was born in Vienna and thus is constitutionally ineligible. Well, we can't have everything. But we can all rest assured that when the Man on the White Horse, our humanitarian armed with the guillotine, arrives on the scene, Felix the Fixer will be at his right hand.