Profile: H. Ross Perot

'I'm not a legend, I'm a myth'

by Leo F. Scanlon

There is a saying which warns: "Be careful what you ask for—because you just might get it." The admonition would be well taken by those who are looking to the independent presidential candidacy of Ross Perot as an alternative to the twin monstrosities of Bush and Clinton.

"The fact that they want me for President means they're desperate," Perot says. His supporters imagine that Perot is an enemy of the hated "establishment." They imagine that he will "drive the money changers out of the temple," and that he will wipe out corruption in the government. But Perot didn't do it when he "took on Wall Street," he didn't do it when he "took on GM," and he won't do it in Washington.

The richest Texan Wall Street ever invented

The first element of the Perot myth perpetuated by the popular media is the idea that he is an entrepreneurial giant in the tradition of Westinghouse, Edison, Ford, or the thousands of small manufacturers who built the American economy in the last century. Perot has never *produced* anything—never developed a manufacturing process, never engineered a dam or highway, and never made an advance in scientific knowledge. He is a manager and salesman who built a business providing consulting services to the data-processing divisions of major corporations and the government.

Raised in a middle class family from the Texarkana area, Ross Perot attended the U.S. Naval Academy in Annapolis in the 1950s. Soon after graduating he resigned his commission in order to pursue a career in business, signing on with IBM. Perot quickly became a top salesman, and then realized that IBM had become big enough to miss an emerging sales opportunity.

IBM's practice of leasing its computers to its customers made them captives of IBM software and technicians. An anti-trust suit in the late 1950s ended that practice, and forced IBM to allow customers to buy computers, and to also buy software. A secondary market developed in leasing unused computer time, bought from companies which needed large machines, but didn't need them 24 hours a day, and sold to companies which needed computer time, but couldn't afford to buy or lease the entire machine. While still a salesman for IBM, Perot began to set up a side business in the niche which would grow exponentially in the next few years.

In 1962 Perot joined Texas Blue Cross/Blue Shield (BCBS) as a consulting data-processing manager, and formed Electronic Data Services (EDS). In 1963, with the small group of computer systems specialists he recruited to EDS, Perot was offered the contract to computerize the nationwide sales and distribution of Frito-Lay snack foods. The contract was money in the bank for EDS, and allowed the company to expand its recruitment of IBM specialists. In the 1970s, Perot would refine his recruiting methods, and targeted military personnel who were ending their careers. He set up shop in military towns like Fayetteville, North Carolina, and put out the word that there was a job for any officer who wanted to join a company that did business the way a Special Forces team made war.

Perot's patronage of these recruits, and his commitment to them (such as his privately funded rescue to EDS employees jailed during the Iranian revolution) allegedly built a fanatical loyalty among employees. His use of "golden handcuffs"—low pay with lots of potentially lucrative stock options—was a variant on the IBM system which gave his employees an incentive to extraordinary exertions.

In 1965 the passage of the Medicare bill opened a major market for data-processing services, with the need for tracking payments for medical services through the labyrinth of Blue Cross/Blue Shield, private insurers, and public facilities. By 1967 Perot resigned from Blue Cross of Texas and signed a contract to manage the data processing for that company. According to *Ramparts* magazine, Perot got the contract—even though the Texas Blue Cross system was working better than any other in the country at the time—because certain BCBS board members were planning to invest in EDS. The company was private, but Perot was planning to take it public, and the only real asset behind the value of that stock would be the size of the contracts held by EDS when it went public.

Whether *Ramparts*' implication of a stock manipulation scheme is accurate or not, the story points to the chasm between Perot and the independent entrepreneurs who built the country *against* Wall Street. Perot is a creature of the stock market. His millions depended on the speculative value attached to EDS stock by Wall Street, which is the model of the collectivist consensus politics which Perot proposes to bring to national government. If you "obey the rules" written by the private financial institutions which control the credit dispensed by the stock market, you can be as eccentric as you wish, and like Perot, still be lavishly rewarded by "the market." Perot is the first to admit that stock valuations are a big joke—but as his career shows, he is more than willing to pocket the cash and go along with the gag.

EDS was brought out at 118 times its earnings in 1968 by stock underwriter Ken Langone, of R.W. Pressprich and Company. There were 650,000 shares issued for sale, which represented 6% of the 11.5 million total shares in the company. They began trading at $38 a share, but quickly shot up to $160, an increase from 118 to 500 times the earnings (from the contracts held) of EDS. Of the approximately $10 million cash "earned" by EDS that day, Perot got $5 million and the company got $5 million. Another $57 million worth of stock was held by employees—who could not sell for seven years—and Perot held another 9.5 million shares privately, the value of which increased from $200 million to $1.5 billion in a matter of hours. Perot was the fastest, richest Texan ever invented by Wall Street.

Bailing out Wall Street

Perot was soon handed the bill for his ride on the Wall Street roller coaster. Perot's millions, after all, didn't represent any work done by EDS, they were "earnings" granted to EDS by the market—and when the market needed them back, it asked. The arrangement is the essence of the Wall Street system. Thus has a small group of investment banking houses been able to dictate investment policies which have destroyed the vitality of American manufacturing firms. Perot articulates a populist contempt for the corporate culture this system cultivates, but he loves the system, and when it called, he answered.

In 1971 the U.S. economy was undergoing a variety of shocks set off by the collapse of the Bretton Woods monetary system. One effect of the global financial reorganization was a collapse of certain categories of Wall Street investment houses. One such institution, du Pont Glore Forgam, was a brokerage owned by a branch of the same du Pont family which had been a major backer of the General Motors conglomerate. In 1971 the brokerage house was failing, and threatening to take down a number of others. Perot was approached by a committee composed of Attorney General John Mitchell, Treasury Secretary John Connally, and Peter Flannigan of the White House staff, which begged him to agree to a bailout plan developed by Lazard Frères investment banker Felix Rohatyn (representing the New York Stock Exchange in the negotiation).

Perot agreed, and began sinking EDS millions into the failing brokerage. NYSE Chairman Bernard J. Lasker gushed to *Business Week*, "as long as there is a Wall Street, we will owe a tremendous debt of gratitude to Ross Perot."

Perot immediately proposed a $250,000 program to study the feasibility of having EDS become the facilities manager for Wall Street, which badly needed to have its trading and accounting mechanisms computerized. Rohatyn and the NYSE were more interested in bailing out du Pont, at least $40 million in debt at the time. By 1973 Perot would have $93 million on the line to the brokerage, and when the final collapse of the Bretton Woods system rippled through the U.S. economy, the securities market went down along with Penn Central, Lockheed, and many other companies. EDS took a $500 million loss. The collapse of stock trading volume postponed the need for a computerization of the street, preventing EDS from getting its trademark payoff—control of the computer facilities management division.

Perot had captured the public imagination in 1969, when he financed a private effort to bring supplies and letters to POWs held in North Vietnam, just as the public was beginning to get sick of the Cold War carnage in Vietnam. The myth machine transferred this popular image to Perot's activities on Wall Street.

Perot was using the bailout of du Pont as a soapbox to preach "reform" of the speculative practices of Wall Street. He hired young military veterans and put them to work "boiling" phone lists beginning at 8 a.m. (heresy among the bluebloods at the brokerages, who punctuate a 9 to 3 day with martinis at lunch). Perot began advocating sales of a very conservative investment portfolio, aimed at small investers and savers, utilizing the now-standard financial planning "pyramid" (70% for security, 20% for income, and 10% for growth, etc.). He presented this as a populist scheme for involving millions of normal citizens in the stock market, as investors in the "conservative" portfolios, and thus diluting, or simply overwhelming, the "speculators" who use the market as a gambling casino.

Even Frank Capra never made a movie with such a naive theme; it is unlikely that someone as sharp as Perot believed that the deregulation of international financial markets, the explosion of the black-market drug financing, and the speculative binge financed by those events, could be stopped by selling "slow growth" investment portfolios. When the collapse of the securities market proved the foolishness of the scheme, Perot scrapped the venture and pronounced his judgment on stock brokers, eagerly recorded by the myth machine: "Where else are there so many mediocre people with absolutely unbelievable incomes?"

Roger and Ross take on GM for Wall Street

The current phase of the Perot myth is based primarily on his exploits at General Motors. In the popular (media) mind, Perot is the archetypal "little guy" who struck the corporate dragon and in so doing, struck a blow for the workers and shareholders, who were being sold out by a lazy bureaucracy too stupid to beat the Japanese in the auto market. The people who believe such myths usually also believe that shareholder revolts can overthrow corporate boards, and that loudmouth talk show hosts influence congressional legislation. Movies such as "Roger and Me," "Wall Street," "Other People's Money," and other humorous pieces of entertainment have created a safe haven for criticism of the speculators without identifying any of the real problems these practices create. The media assume that Perot will fit right into this profile.

Perot's "confrontation" with General Motors was scripted long before the movie "Roger and Me" was dreamed up, by the junk-bond kings who ruled Wall Street during the last decade. By 1980 EDS had captured about as much of the market for data-processing facilities management as it could. As a public company, EDS owed a primary responsibility to its shareholders. A typical group of shareholders came to Perot to explain what he was going to have to do for them.

The Salomon Brothers investment house, a prime mover in the junk bond swindles and similar criminal financial schemes, did a study in 1980 which proved that EDS sales income was flat, and advised that EDS would have to sell itself to GM, AT&T, or ITT. The largest existing markets for data-processing management services, each had enormous in-house computer-programming staffs. With the changes in electronics technology then under way, these companies were scheduled for shakeups. If EDS could take over the in-house contracting for data processing, the "earnings" increases would boost EDS stock value, and the target company could trumpet "cost savings" to its stockholders as it moved its data-processing costs to outside contractors.

In 1982 Felix Rohatyn joined the EDS board and began working on the takeover, which culminated when EDS was merged with GM. Rohatyn left EDS in 1984. The formal proposal for merging with GM came from John Gutfreund of Salomon Brothers and a group of GM financiers who had hatched the plan at the Plaza Hotel in New York. The patron of "Project Plaza" was Roger Smith, the chairman of the GM board. Gutfreund later became notorious for his role in building the junk-bond disasters which blew out in the late 1980s, and he was also a major player in a bid-rigging scheme which controlled the price of U.S. Treasury bonds marketed to Wall Street investment houses.

Gutfreund and the outside board members of GM—representing the Wall Street interests which control that company—were working with Roger Smith, the consummate GM insider, to reorganize one of the largest industrial corporations in the United States. Their aim was to speed up the shift of GM investment from car production to financial speculation and other activities which would create value "for the stockholders." Critical in this was the need to invest large amounts of money in the effort to computerize these financial operations, and to tighten up GM operations by eliminating scores of programmers and managers. Roger Smith called these workers "the frozen middle" and vilified them as recalcitrant bureaucrats who were destroying the vitality of the auto industry. In the eyes of Smith, and Gutfreund, Perot and EDS would be the perfect instrument for this bloodletting. As in the case of du Pont Glore Forgam, Perot's assault on the citadel of bureaucratic corruption was planned and directed—from Wall Street.

Salomon Brothers knew that GM spent about $3 billion and employed thousands of employees to operate one of the largest computer design networks in the world. If that expenditure could be consolidated and given as a contract to EDS, EDS would overnight grow by that amount, with a corresponding hike in its stock value. If Smith could move that contract to an outside company he could also break the back of the wage and pension agreements which protected these programmers and managers—who were operating in the shadow of industry-wide wage bargaining agreements secured by the United Auto Workers (UAW), the auto workers union.

The acquisition of EDS was designed to be cost-free to GM. Step one was the creation of a special category of stock by Salomon, called GME, which would appreciate fourfold once the $3 billion data-processing division of GM was transferred to EDS. Since GM owned 85% of the GME shares, this guaranteed appreciation in the value of EDS (GME) would accrue to GM. Author Todd Mason points out, "Granted, GM was merely moving its $3 billion data processing budget from one pocket to the other. But in the stock market, it was shifting profits from GM common stock, trading at a multiple of six times its earnings, to a stock that trades at 16 times its earnings." The increase in the value of the GME stock more than offset the cost of the takeover of EDS.

According to Mason, the meetings which convened to plan what EDS would actually do when it merged with GM, were held *after* the financial maneuverings were over. Perot walked away with a cool $900 million in cash, and still controlled EDS for all practical purposes.

Roger Smith's reorganization of GM was under way. This fiasco has been the topic of numerous books and scores of news articles. Lionized as a great futurist, and vilified as a Dickensian bureaucrat, Smith spent more money on robotics, computers, and advanced electronic research than any corporate executive in recent years—but he saw this technology only as a means to eliminate labor costs. He represented a philosophy directly opposed to the outlook of the auto industry's founders. In 1914 Henry Ford established the $5 day when most companies were paying $1 a day. He justified this by saying, "The best wages are not the lowest wages, but the wages that can be reasonably sustained. It is right that the worker shares in the fruits of his labors." According to Albert Lee's book *Call Me Roger,* Ford was paying three times the wages of GM in 1916, produced the lowest priced car, and outsold GM 2 to 1.

GM is one of the most studied corporate entities in the world, and the work of Alfred Sloan, who designed the GM system, as chronicled by management guru Peter Drucker, is dogma in U.S. business schools. Smith is a product of that system. He crusaded for all manner of "reforms" of U.S.

industry. Behind the rhetoric is a labor philosophy which subordinates human interests to money. As the Japanese showed—when they took the most decrepit plants GM closed down and by applying their management philosophy, produced better cars at lower cost than Smith's super-robotic assembly plants—it is incompetent as a business philosophy, as well as immoral.

Smith's reorganization of the data-processing division of GM was the first stage of a program which led to the closing of dozens of GM facilities, and the layoff of hundreds of thousands of American auto workers. First came the transfer of 7,800 GM employees to EDS, most of them longtime GM men who were looking toward retirement and the stock and pension benefits they had accrued—none of which followed them to EDS. The "savings" which this cheap scheme generated allowed GM to snicker while EDS hired 16,700 college graduates to replace the senior GM employees robbed of their pensions. EDS employees were eventually rewarded with $280 million worth of incentive stock, 7 million shares spread among 1,000 employees.

The secondary benefit of expanding the EDS role in GM was the ability to bring EDS data management skills into the growing area of GM Assistance Corp. (GMAC) financing activity. On paper, the tracking of auto production receivables is very similar to processing financing applications. As GMAC grew to become the major profit making element of GM, EDS grew with it. Eventually Smith subcontracted more and more of GM production to low-bid entities outside the GM network, and finally started moving assembly operations wholesale to Mexico, where he got labor rates one-twentieth of that paid to the UAW. GM quality dropped, and no amount of technology could make up for it.

Perot began stalking around the company and raising a ruckus among unhappy dealers, plant managers, and the UAW. The management practices of Smith and his allies were a natural target for Perot. As in the days of his "attack" on Wall Street, he used the occasion of his merger to attack his host. This coincided with a growing popular hatred of everything Smith et al. represented. Once again, Perot was fêted by the media as the populist attacks on the board of directors and the GM chairman became better known.

By 1987 Perot was tired of GM, and GM was tired of his attacks on the board. Smith proposed to buy out Perot's interest in EDS for about $2 billion and throw in a $700 million sweetener for Perot. Perot was finding himself on the outs with the GM establishment, and the Washington establishment as well.

The GM buyout was one of the largest settlements ever recorded, and created a tidy nest-egg for Perot. As usual, tax writeoffs and other financial maneuverings guaranteed that it didn't cost GM a penny. In real terms, Perot never did anything more than ruffle feathers among the hard-core miscreants at GM, who used him as the foil for a very brutal attack on the livelihoods of American workers.

The myth machine has merged all of these events into one process which portrays Perot as a leader of a grassroots revolt against fat-cat corporate bureaucrats. This myth alleges that the eventual shakeup of the GM board, organized by "independent shareholders" angered at the excesses represented by Smith, was a by-product of Perot's campaign. In fact, the same people who sponsored Perot's move into GM are the people who organized the "shareholders revolt." The independent investors who reorganized the GM board after Perot was bought out, were led by New York State Comptroller Harrison J. Goldin, the president of the Council of Institutional Investors. The council is a amalgam of city and state pension fund investors, and major labor union investors, which organized much of the liquidity for the junk bond market—the market controlled by John Gutfreund and the "Project Plaza" financiers who merged EDS with GM in the first place.

Top Wall Street figures line up behind Perot

Wall Street made Ross Perot a billionaire businessman, and Wall Street might make him President. The "anti-establishment" candidate is garnering significant support from leading bankers and businessmen for his undeclared presidential bid.

According to an article in the April 27 *Business Week,* which was ironically headlined, "Ross Perot's Grass-Roots Army," Bear Stearns Chairman Alan "Ace" Greenberg is one of Perot's biggest Wall Street boosters. Greenberg told *Business Week* that he thinks Perot will be "good at anything he does. If he decides to run, I'll support him." Other moneybags who are leaning toward Perot include Josh Weston, chief executive officer of Automatic Data Processing, Inc., and Texas lumber baron Arthur Temple, a former director of Time, Inc. Democrat Thomas Barr, a senior litigator at the patrician New York firm of Cravath, Swaine and Moore, who has represented Perot, says he is organizing for Perot because both parties "are incapable of changing the system, because they built the system."

EIR has learned that elite New York Council on Foreign Relations member James Sebenius, a former business partner of CFR chairman Peter Peterson and co-author with him of a paper demanding cuts in entitlement programs (Social Security, Medicare, etc.), has been approached by Perot's top lieutenant, Thomas Luce, to act as an adviser to Perot on policy issues.