rhetoric was seductively entrepreneurial, these people were fundamentally anti-capitalist. Their focus was on the short rather than the long term, on consuming rather than producing, on taking rather than giving. We learned the hard way that a culture dominated by materialism actually suppresses the spirit of enterprise.

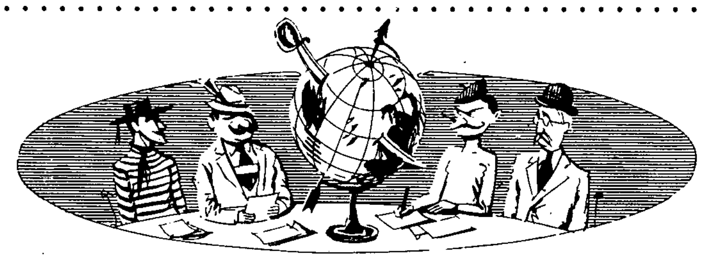
Our experiences at Forstmann Little have been typical of the entrepreneurial experience. In corporate America in the 1970s, management was well entrenched and shareholders virtually disenfranchised. There was no credit available for takeovers and very little for friendly mergers and acquisitions. The macroeconomic context included high marginal tax rates, permissive monetary policies, and ever-increasing federal regulation. The result, as we know, was "stagflation": high inflation and low real growth.

Forstmann Little's response to the calamity was thought revolutionary at the time. Our conception was based on a novel form of corporate evaluation and reorganization. First, we sought to acquire companies with a predictable cash flow, as evaluated by their applicability to the business and financial criteria we had developed. Secondly, we wanted to impose the "right capital structure," one which entailed using what looked like a lot more debt than had previously been thought viable. (It should be pointed out that the perception of increased leverage was largely illusory, as we employed our own subordinated debt at rates 50 percent or more under the market, but with real equity ownership attached.)

Thirdly, and of signal importance, we envisioned senior managers as full partners. It was our task to avoid risk by keeping appropriate businesses and selling those that were inappropriate; and by providing a capital structure that would decrease real risk and increase real reward. It was management's task to make the right operational decisions. All participants were to have a significant equity in the business, which they had bought and paid for. Our managers, and many like them elsewhere, thought more like owners, and were compensated as such. What we were after was unanimity of purpose, with all partners seeing risk and reward in precisely the same way.

Imitators appeared by the hundreds, of course; despite junk-bond-driven excesses over the last ten years, the macroeconomic climate for entrepreneurship was favorable. But mysteriously, societal values were not, and what had begun as a worthwhile entrepreneurial exercise became a free-for-all that disintegrated in its own excesses. □

SPECTATOR'S JOURNAL



PLO, INC.

by Daniel Pipes

When Kuwait disappeared into the Iraqi maw last August 2, the Palestine Liberation Organization (PLO) found itself bereft of its second largest source of funds. To make matters worse, Yasir Arafat's enthusiastic endorsement of Saddam Hussein's aggression caused the Saudi government, his largest donor, to cut off financial support. The United Arab Emirates, Qatar, and Egypt followed suit.

The alienation of so many contributors has serious consequences. In November, Arafat estimated the financial loss to his organization to be $10 billion. PLO income appears to be about half of what it was before August 2. PLO employees, armed and not, have already experienced pay cuts and more reductions lie ahead. Though the PLO is an organization that can be counted on to rebound from adversity, this blow will severely crimp its activities and its ambition to remain the dominant Palestinian organization.

PLO spending has been a matter of dispute for some time. *Forbes* and the *Wall Street Journal* estimate the 1986 budget at $154 and $156 million, respectively. The *Economist* put it at $250 million. Janet and John Wallach, authors of a recent biography of Arafat, opt for $300-400 million. James Adams, author of *The Financing of Terror* (1986), reckons it was $1.25 billion. Looking at the 1989 budget, Neil C. Livingstone and David Halevy, authors of *Inside the PLO*, estimate $675 million; the *Near East Report* has the highest figure of all, $2 billion.

The PLO did publish a budget in 1987, pegging it at $197 million. Two years later the figure had reached $274 million. However, like Soviet military budgets, these figures hide more than they reveal. Most important, they appear to exclude expenditures by Fatah and other constituent groups of the PLO. The Fatah Fund, the Chairman's Secret Fund, and other clandestine operations match the visible income. My estimate, based on the reports of spending patterns and income, is that PLO expenditures reach $500 million a year—about the same as the budget of an American city the size of Cincinnati.

Historically, money for this impressive budget has derived primarily from three sources: dividends and interest on investments; legal and illegal commercial activities; and contributions from governments. Fearing liens and other legal problems, the PLO breathes not a word about its assets. As Atallah Atallah, a renegade PLO intelligence chief, explains, Arafat uses "Mafia techniques [designed] not to leave a trace." Instead, he hides behind front names and pleads poverty.

To a degree, these techniques work: estimates of PLO holdings differ by several orders of magnitude. *Forbes* estimated the assets (excluding armaments) in 1986 at a mere $1 billion. Adams reckoned the figure at $5 billion. *Der Spiegel* said $6 billion. An Arab banker in the know puts it at $6.5 billion as of 1990. The *Economist* came in at around $9 billion for 1986. *October*, an Egyptian magazine, and the Swiss newspaper *Tages Anzeiger* (1988) count $14 billion. Others go beyond mere numbers and enter the realm of hyperbole. Walid Jumblat, the Druze militia leader, has declared that Arafat "has enough money to buy half of Lebanon, not to say all of it." I estimate that PLO investments total about $2-3 billion.

Some of this money is held in gold and real estate, but much of it is highly liquid. Investments have been made around the world, especially in the West. Several institutions hold PLO funds, including the Gulf Bank, the Central Bank of Algeria, and the National Bank of Kuwait. (Presumably assets in Kuwaiti banks are now history.) But the most important bank by far is the Arab Bank, with some 350 branches around the world, $1 billion in capital base and $13 billion in deposits. Owned in part by the PLO, the Arab Bank handles the organization's working accounts. Key investment decisions used to be made in Luxembourg, but have been moved to the bank's Zurich branch. The PLO has many connections to the Arab Bank; to mention just one, the bank's chairman, Abd al Majid

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Shoman, once directed PLO finances.

In the early 1980s, when assets were greater and expenditures fewer, the PLO virtually lived off of interest and dividends—but no longer. Assuming an annual return of about 7 percent, the income from PLO assets amounts to some $150-200 million a year. If the budget is $500 million a year, the PLO is experiencing a shortfall of some $300-350 million.

From 1970 to 1982, when the PLO ran a state within a state in Lebanon, its revenues derived mostly from a wide array of legal and illegal commercial activities. On the legal side, the PLO got involved in some interesting ventures, like the Modern Mechanical Establishment, an iron-and-steel company south of Sidon that paid no taxes, used coercive sales methods, and engaged in predatory pricing. Then, after forcing the competition to go out of business, it raised prices.

Lebanon's anarchy offered unbounded opportunities for illegal activities: drug trafficking, protection rackets, robberies, hijackings, and the training of foreign terrorists. While drug trafficking was by far the steadiest and most lucrative racket during the Lebanon years, other activities brought the most spectacular results. The December 1975 capture of OPEC oil ministers reportedly netted the PLO $20 million. A few months later, the PLO participated in what the *Guinness Book of World Records* calls the largest bank heist of all time; robbing the Beirut branch of the British Bank of the Middle East brought the PLO one-third of the loot, between $16 and $33 million.

The expulsion from Beirut in 1982 ended this financial golden era. The PLO has since re-established its operations in Lebanon; even today, James Adams comments, it remains "a major economic influence in the country—or what's left of it." But Lebanon's economy has fallen apart since 1982, so revenues from there are a fraction of what they were earlier. Also, while annual Soviet-bloc aid once amounted to the equivalent of tens of millions of dollars in cash, arms, training, and intelligence, Eastern Europe's liberation and the ravages of perestroika have dried up this source.

Deprived of these sources, the PLO has in recent years become heavily dependent on handouts from Arab presidents, kings, and emirs—a demeaning return to pre-1970 circumstances. Gone are the days when Arafat had the leeway to act independently of his state sponsors. The PLO has steadily received at least $100 million per year from the Arab states since 1973, but the annual amount has edged toward $300 million. Arab states agreed to take up the slack for both offensive reasons (to gain influence) and defensive ones (to avoid retribution).

Nearly all of this income came from Kuwait, Saudi Arabia, and other states that have just now cut the PLO off. According to PLO records made public in 1988, the Saudi authorities donated $855 million over the previous decade. In fact, the total contribution was much more, for the Saudis funneled massive amounts to Arafat personally. Abu Musa, a onetime ally of Arafat, indirectly confirmed this point in 1983: "Saudi Arabia gives him tens, hundreds of millions, to corrupt—not to develop—the revolution. It does not appear in the books. It is much more than the official contributions."

Not all the money came from government coffers. Palestinians living in Arab countries are supposed to pay 3 to 7.5 percent of their salaries as a tax to the PLO. While it is unclear when and where these funds were actually collected and transmitted, it appears that Kuwait, Saudi Arabia, and the UAE were the only states to do so regularly; and they have stopped providing this service since August 2.

The PLO's operations and political prominence depend heavily on money, so the sudden disappearance of half the organization's budget is causing many problems. Money gives Yasir Arafat control over some 20,000 gunmen in both conventional and irregular forces. It permits diplomacy on a grand scale; the PLO has two more "embassies" than Israel and Arafat sometimes visits three or four capitals in his own plane on a single day.

Money permits him to influence states by moving around liquid assets. Some $700 million was moved out of Jordan in 1986 to protest King Hussein's policies; $200 million was once transferred into Tunisia as a reward. Funds are on occasion lent to allies in need, such as $12 million to the Nicaraguan government in 1981 and $100 million to Iraq in 1986. "Friendship" projects have included factories and farms in places like Syria, Guinea, the Maldives, and Poland. Arafat also has the means to do the odd favor. In 1985, he is said to have won the release of three Soviet hostages held in Beirut by paying $15 million to fundamentalist Muslims.

Money sways public opinion by allowing the PLO to subsidize the media. In February 1986, for example, a payment of $150,000 to the pro-Jordanian Jerusalem newspaper *Al-Quds* rapidly turned around that paper's editorial stance.

Money reduces the chances that a rival Palestinian organization will challenge Arafat's leadership. Half a year after the *intifada* erupted, the PLO offered $50 million to its leadership—a clear attempt to bring an unruly upstart under company control. Hamas, the fundamentalist Muslim group that has emerged as the PLO's only serious rival, hopes to tap the PLO's funds.

Money makes it possible to provision social, welfare, economic, cultural, and educational services which win Palestinian allegiance to the PLO. When traveling in poor countries, Arafat dispenses money freely. Not to be overlooked is the opulence that money makes possible. Notwithstanding the talk of Arafat's abstemious ways, he and other higher-ups live like pashas—elegant villas in Tunisia, first-class travel, and all other perquisites of power. Wadi Haddad, the PLO explosive expert killed in 1978, is said by his comrades-in-arms to have left his sister a bequest of $140 million. The Egyptian editor Anis Mansur holds that Palestinian leaders are "the richest people in Egypt"; Mustafa Tallas, the Syrian defense minister, calls Arafat "one of the world's ten richest men."

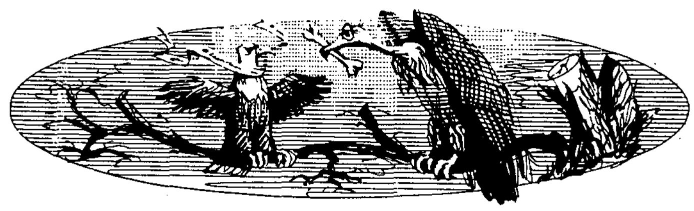
To maintain close control over PLO finances, Arafat personally makes deposits and signs large checks. While this highly centralized control leads to resentments and inefficiencies, it also makes Arafat indispensable. As one Jordanian official put it, "They have to keep Arafat because if he goes, no one will know where the money is."

Wealth has become so central to the PLO's presence and influence, it sometimes looms larger than military considerations. "Money is [Arafat's] only weapon at present," Abu Musa declared in 1983. Thus, when the PLO evacuated Beirut in 1982, James Adams explains, its leaders "feared the Israeli seizure of their assets more than they did a military defeat." (Not without reason; that exodus did cost them some $400 million.) Heavy dependence on large amounts of money has taken its toll; as a Jordanian official once put it, "The PLO isn't a revolution. It's a corporation."

Every attempt until now to count out the PLO has proven wrong; no one can predict its demise with confidence. But the current situation, described by *Foreign Report* as a "financial catastrophe," is likely to translate into a severe decline in the popularity of Yasir Arafat and the authority of the PLO.

Some may find this development unfortunate because it obstructs resolution of Palestinian-Israeli issues. But that grants the PLO too much. It is actually today's representative of that radical Palestinian tradition that, as Abba Eban put it, has never missed an opportunity to miss an opportunity. Far from serving as a force for peace, the PLO has bludgeoned and suppressed more moderate elements willing to coexist with Israel. For this reason, its financial predicament offers not just the likelihood of less violence in the Middle East but also a rare opportunity for alternative Palestinian voices to make themselves heard. ☐

THE NATION'S PULSE



RIEGLE BEAGLES

by Terence P. Jeffrey

I don't think there's any question that his testimony to date will cause his indictment.
—Senator Howell Heflin of the Iran-contra committee, on Gen. Richard V. Secord, May 7, 1987.

*

President Reagan did not solicit money for the Nicaraguan contras from King Fahd of Saudi Arabia.
—Reagan spokesman Marlin Fitzwater, May 12, 1987. On May 13, 1987, Reagan revealed that his diary indicated that the Saudi monarch had initiated the subject of aid to the contras in a White House meeting and that "the king, before he left, told me he was doing that, and that he was going to increase aid."

*

There's no question in my mind that there was a solicitation.
—Senator Warren Rudman, vice chairman of the Iran-contra committee, speaking to reporters on May 14, 1987.

On the morning of November 15, the Senate Select Committee on Ethics began public hearings to ask not only what five senators—John McCain, John Glenn, Dennis DeConcini, Donald Riegle, and Alan Cranston—had done for Charlie Keating, but also what the former owner of bankrupt Lincoln Savings and Loan had done for them. But any fear the hearings might disintegrate into an intramural Iran-contra-style inquisition was swiftly dissipated by the placid disposition of committee chairman Howell Heflin. Three years ago, Heflin and Keating Fiver DeConcini were the last Democrats on the Senate Judiciary Committee to awaken to the threat Bob Bork posed to America. Now Heflin was proving once again he was a man whose principles would not be sold short.

As the hearings progressed, Heflin's judicial reserve seemed to deepen. Someone unfamiliar with his posture and demeanor, entering the hearing room at, say, quarter to five, might have honestly wondered whether the chairman was in fact sitting behind the dais, or had been wheeled there on a gurney. Sitting mutely, he displayed a depth of character that was almost horizontal.

Warren Rudman, the committee's Republican vice chairman, may have lacked Heflin's gravitas, but shared his innate sense of priorities. During a short recess on one of the first days of testimony, Rudman was ambushed by journalists as he rushed through the hall outside the hearing room. "I've already seen all the evidence," he shouted nonchalantly. It was unclear what question he was answering. But it begs the question of why they were having public hearings at all.

Before the hearings were an hour old, Heflin, Rudman, and Senator David Pryor of Arkansas had taken turns addressing the deficiencies of the press and the American people. The former for presumably harboring an insidious bias against liberal politicians; the latter for believing their lies. After that, there were no further displays of indignation from the committee.

"As we start these hearings," Heflin said, "many of our fellow citizens apparently believe that your services were bought by Charles Keating, that you were bribed, that you sold your office, that you traded your honor and your good names for contributions and benefits.

"Many of these same people also apparently believe that your action, and perhaps the actions of other senators and congressmen, were solely responsible for the savings and loan failures of scandalous proportion."

But the chairman could not bring himself to ascribe these doltish misperceptions to the American people without insinuating blame for their thoughts to the intervention of a malevolent outside force. "Not all of what has been reported is accurate," he said, "and some of it has been misleading. I hope that these hearings will provide useful and beneficial means of informing the public of the true facts."

"Fairness," he had said earlier, "demands that our judgment be withheld until all the evidence has been received."

Senator Rudman followed by declaring Heflin's speech excellent. But he could not resist amplifying the chairman's concerns about the deceptions of the press and gullibility of the American people. "Literally hundreds of stories have been written on the subject of the so-called Keating Five," he said, the color rising in his face. "The majority of these stories have been misleading, have taken facts out of context, and frankly are just plain wrong . . .

"So as we begin these hearings," urged the man who had "already seen all the evidence," "I hope that the American people dismiss any precon-

Terence P. Jeffrey is an editorial writer for the Washington Times. *His article on Charles Keating, "The Man Who Bought Washington," appeared in the February 1990* American Spectator.