



# THE MEN Who Would Be KING

By Claudia La Rocco

THE BIGGEST BUSINESS failure to date in U.S. history. Political contributions in exchange for special treatment. Long, convoluted investigations into endless paper trails that seem to lead nowhere. Disgraced executives and ruined investors. Today's headlines are a re-run.

Long before Kenneth Lay became a hated household name and Arthur Andersen clients began running for the hills, Samuel Insull, Richard Whitney, and Charles Keating were bilking investors out of millions, infuriating investigators, embarrassing politicians, and forever endearing themselves to headline-hungry journalists.

## POWER TRUST

*"What I did, when I did it, was honest; now, through changed conditions, what I did may or may not be called honest. Politics demand, therefore, that I be brought to trial; but what is really being brought to trial is the system I represented."*

— Samuel Insull<sup>1</sup>

Samuel Insull was involved with electricity almost from its creation. The British-born entrepreneur became Thomas Edison's private secretary in 1881, two years after Edison invented electricity and a year before he completed the first electric power plant in New York City.

Small wonder, then, that the endlessly energetic Insull would become ruler of the nascent power business, building a utilities empire with combined assets in excess of \$2 billion at its height in 1930. Comprised of five holding companies (Middle West Utilities, with 111 subsidiaries, the largest), the Chicago-based network produced a tenth of America's electricity.

Insull constantly worried about outside threats, particularly from his nemesis, the New York banking estab-

*Left: Samuel Insull passing through the gates of Cook County Jail at the time of his trial.*

ishment, which had long been frustrated by its inability to cash in on the Insull network. To this end, in 1928, he created Insull Utilities Investment (IUI), an investment trust that bought shares of Insull companies. The money needed to make the venture

ever-expanding power network, Insull soon created a second trust, Corporation Securities Company of Chicago. With partial ownership of the two holding companies — which, in turn, held a significant percentage of each other's stock — Insull's control

New York financiers. But in mid-1930, he was forced to borrow \$20 million when his Chicago bank couldn't come through on its promise to finance a deal. New York had its long-sought foothold, just as Insull stocks were starting to suffer the effects of the Great Depression. In 1931, unable to cover his loans and faced with Wall Street's collective cold shoulder, Insull could only watch as his power companies knocked each other down like dominoes.

Thousands of small investors were ruined. Vanquished, Insull quietly left the country — but not for long. In October 1932, investigators charged him with violation of bankruptcy law, embezzlement, and mail fraud, and launched a 19-month struggle to extradite the utilities tycoon, who had fled to Greece. In the spring of 1934, he was finally extradited and made to stand trial. The verdict was innocent on all charges.

But his reputation was ruined, and Insull again left the country. He died of a heart attack on the Paris Metro on July 16, 1938. His wallet was promptly stolen.

## FALLEN KNIGHT

*“The Exchange’s refusal to pay heed to popular demand for reform was, [Richard Whitney] declared, simply a manifestation of ‘courage to do those things which are right, regardless of how unpopular they may be for the time being.’”*

— Ferdinand Pecora<sup>2</sup>



Museum of American Financial History

*Richard Whitney, former vice president of the NYSE. April 11, 1932.*

work came from stock transfers from his existing holding companies and from the public — throughout his career, Insull tirelessly solicited large numbers of small investors. IUI stocks soared, rising from an initial offering of \$12 to \$150 by the spring.

To further protect his interests and needing more money to finance his

appeared complete.

But if interconnectedness was Insull's strength, it was also his Achilles' heel. The ongoing transfers of stock and money, though not illegal, created a complex pyramid that was, in the end, ridiculously easy to topple.

Until 1930, Insull had been able to conduct business without the help of

It was October 24, early afternoon on Black Thursday. The market was crashing and the floor of the New York Stock Exchange was panicking. Suddenly, Richard Whitney, the Exchange's vice president, placed a bid for 10,000 shares of U.S. Steel at \$205 a share — \$5 higher than the stock's offering price. He then proceeded to place similar bids on other blue chips.

Confidence returned to the floor, the crash halted, and the media had their hero. Richard Whitney was Wall Street's White Knight. The next spring, Whitney became president of the Exchange, a post the head of Whitney & Co. served for five years.

prominent Boston banker who could trace his lineage back to the Pilgrims, Whitney seemingly had it all. A good marriage, a country estate and a city townhouse, membership to all the right clubs (including the New York Yacht Club where, while treasurer, he

money from his father-in-law's estate; unlike the other business scandals mentioned here, Whitney's victims were all, like him, members of society's upper crust.

In another marked difference, Whitney was quick to admit wrongdoing — so quick, in fact, that the papers speculated he was protecting Wall Street cronies, particularly J.P. Morgan & Co., which had close ties, both business and filial, to Whitney & Co.

Though he never stonewalled after being accused, during his tenure as president Whitney was the Exchange's major mouthpiece when it came to protesting governmental interference. During congressional hearings, Whitney loftily rejected any notion that outside monitoring — in the form of the newly created Securities Exchange Commission — was needed. His humiliating downfall (exposed by an Exchange audit that would not have occurred had it not been for pressure applied by the SEC) made it much harder for the Old Guard to defend itself against outside "interference."

Whitney was paroled after serving three years and four months. He died in 1974 at the age of 86, having lived out his life quietly. His family stuck by him, eventually paying off the hundreds of thousands he owed at the time of his bankruptcy.

## SMOOTH OPERATOR

*"Never have so many taxpayers and institutions suffered so much from so few."*

— Charlie Keating<sup>3</sup>



*Charles Keating, owner of California's Lincoln Savings and Loan Association, being sworn in before the House Banking Committee, which was investigating the thrift's failure. Keating refused to testify, saying, "I respectfully exercise my constitutional prerogative and refuse to answer questions."*

Three years later, in 1938, Whitney & Co. was suspended for insolvency, and Whitney himself was headed to Sing Sing Prison, sentenced to 5–10 years for grand larceny. The White Knight had tumbled off his charger in spectacular fashion.

The Harvard educated son of a

stole bonds to use as pledge against a personal loan). But ironically, Whitney was no good with money. Descending ever further into personal debt, he used his business connections to maintain solvency, embezzling both Yacht Club and New York Stock Exchange funds and even taking

Thousands of retirees bilked out of their life savings, tarnished senators, a defiant executive—the media couldn't believe their luck.

Nor could the retirees, many of whom saw their golden years irreparably dimmed by the 1989 collapse of the California-based Lincoln Savings and Loan Association.



Certificate for 50 shares in the Commonwealth Edison Company made out to, and signed by, Samuel Insull in 1910.

In the early 1980s, the entire savings and loan industry was on the verge of collapse. Hoping to avert catastrophe, the government further deregulated the industry and urged commercial banks and the remaining solvent S&Ls to buy those beyond repair. Phoenix-based home-building company American Continental Corporation took the bait. With its chairman and largest shareholder Charles Keating at the helm, ACC acquired Lincoln S&L.

Less than a decade later, on April 13, 1989, ACC declared bankruptcy. The following day the government seized Lincoln and handed taxpayers a bill for more than \$2 billion.

The biggest bank failure in history inevitably led to congressional hearings, during which Keating laid the blame on the strangling effect of vindictive regulators. Not surprisingly, Edwin Gray, former head of the Federal Home Loan Bank Board, disagreed and, furthermore, testified that several senators had leaned on his investigators.

Gray's testimony, combined with the revelation that Keating had contributed over \$1.3 million to these senators' campaigns, led to further investigations. The Senate Ethics Committee

eventually focused on the infamous Keating Five—Allan Cranston (D, CA), Dennis DeConcini (D, AZ), John Glenn (D, Ohio), John McCain (R, AZ) and Donald Riegle (D, MI).

Though all five were revealed to have acted improperly, the committee recommended full senatorial censure of only Cranston, Keating's largest beneficiary and most active advocate. The Senate declined to act, but Cranston's legacy was set, along with the stain on the reputations of his four colleagues.

Meanwhile Keating, defiant to the end, was nonetheless convicted of securities fraud. He served a little over four years in prison before the charges were thrown out on appeals.

## WHICH BRINGS US TO...

As the biggest bankruptcy in U.S. history, the widening Enron scandal certainly seems to dwarf its notorious predecessors. For the Enron employees who watched helplessly as their company's plummeting stock price emptied their savings plans, it is certainly big enough.

But if history tells us anything, it is that adjectives like "biggest" and "worst" are fleeting when it comes to

scandal. Sadly and inevitably, there will be other, bigger Enrons headlining the evening news. Committees will be formed, legislation passed, executives jailed. And, of course, there will be many more investors left with many fewer dollars. ■■

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## Resources

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## Notes

1. Burton Y. Berry typescript record of Insull conversation in May 1934, now in Samuel Insull Papers. From McDonald, Forrest. *Insull*. The University of Chicago Press, 1962.
2. Pecora, Ferdinand. *Wall Street Under Oath*. New York: Simon and Schuster, 1939.
3. In May 14, 1986 letter to FHLBB, in Binstein, Michael and Bowden, Charles. *Trust Me: Charles Keating and the Missing Billions*. New York: Random House, 1993.