When Dot-Com Failures Are Actually Successes: Michael Lewis

(Michael Lewis, author of ``Liar's Poker'' and ``The New New Thing,'' is a columnist for Bloomberg News. The opinions expressed are his own.)

New York, Jan. 17 (Bloomberg) -- A few weeks ago, a young man e-mailed me an interesting complaint. He was upset by the behavior of a friend of his who had worked for a pair of defunct Internet startups. He wrote:

``In drafting his essays for admission to MBA school, (my friend) strongly believes that his experience of working for two failed dot-coms in the past 12 months is phenomenal and should be written about as a positive! He insists that his hands-on experience of how his companies went bankrupt is more valuable than if he had worked as a banker at Goldman Sachs, or stayed at his job as an accountant at a Big 5 firm. ... Surprisingly, almost everyone my age shares his opinion.''

And they do. As the dust settles on the Internet Bust, the belief that you should be admired for having quit your boring job in the old economy for a shot at fame and fortune in the new one lingers in the air. This belief survives because it fills a crying need.

The Internet road kill now applying to business schools are not merely jobless. They are outcasts. Inside of six months, their lives went from being wildly fashionable to faintly ridiculous --all because the stock market changed its mind. The money culture turned on a dime; the business culture turned on a nickel; and a lot of ambitious people were hurled into cultural oblivion.

To Encourage Risk

It's hard to blame them for trying to persuade others that their failure was actually success. The question is: Should business schools, or anyone else, let them do it?

The best argument for rewarding -- or, at least, for not punishing -- business failure is that it encourages people to take risk. That is the view at Ground Zero of the Internet Boom and Bust, Silicon Valley. There, failure is just another word for experience. It's a necessary belief. Most new technology companies fail, and the difference between failure and success is often a matter of luck. If it stigmatized failure, Silicon Valley would soon run out of people willing to start new companies.

Sure, a Valley venture capitalist might say, in fields that are less of a high wire act than technology entrepreneurship the toleration of failure is obviously a dumb idea. No one would reward a janitor who failed to clean, or a Bloomberg columnist who failed to amuse or instruct. But in Silicon Valley we have no choice.

Risk Taking Abounds

And, he might go on to suggest, the reason failure is now being sold as success outside of Silicon Valley is that the larger economy has come to resemble Silicon Valley. A lot of people are engaged in highly risky activity, or, at any rate, in activity that they like to believe is risky. Since we all benefit from the fallout -- lots of wealth creating new technology -- we should do whatever we can to encourage them.

But that, I suspect, is not the business school applicant's point. I doubt he believes that the Internet Boom was no more than a crapshoot, so that Internet success was no different from failure. (If he did he would also believe that his experience wasn't much more meaningful than 12 months in Las Vegas, and that the winners had no real moral claim to their winnings.)

More likely, he believes that there is nobility

in the taking of great business risks. Better to have fought and lost than to never have entered the ring at all, etc., etc. That is, he believes that everyone involved in the Internet Boom should be rewarded simply for being present on the scene. People who had the nerve to go to work for a startup, even a failed one, should be rewarded for having had the nerve. After all, at the very least, they have demonstrated they have nerve.

Following the Herd

To which we can only reply: what nerve? From about September 1996 until last April, anyone who went to work for an Internet startup was just following the herd. True, the herd was heading in the general direction of a cliff, but no one in the herd knew that at the time. That was the reason people who started out at Big 5 accounting firms wound up bankrupting dot-coms: they thought the craps table was essentially riskless.

Failure can be noble. And the Internet Boom did indeed attract people who were chiefly interested in performing great and noble deeds. But these people -- because they were focused on actually achieving something beyond personal success -- are exactly the ones who are least likely to see their personal failure as glamorous, or as useful in and of itself, and so boast about it on business school applications.

Any business school seeking to distinguish the ordinary run of the mill opportunist from the noble failure can follow this handy rule: You may know the noble failure because he does not try to persuade others that he is a success.

--Michael Lewis through the New York newsroom at mlewis1@bloomberg.net or (212) 318-2300./cws

Wall Street Carnivores Ask, Who Stole Our Lunch?: Michael Lewis

(Michael Lewis, author of ``Liar's Poker'' and ``The New New Thing,'' is a columnist for Bloomberg News. His new book, ``Next,'' will be published next month. The opinions expressed are his own.)

New York, June 26 (Bloomberg) -- About a year ago Bloomberg News reported a small but telling event in financial America. Ford Motor Co. had asked its favorite investment bankers, Goldman, Sachs & Co., to extend $250 million in short-term credit in exchange for underwriting Ford's more lucrative bond deals.

I don't know if this was the first time a big company had demanded commercial banking services from its investment bankers, but it might well have been. Only a year before, Congress had eliminated the laws that prevented commercial banks from underwriting securities. The people who did the lucrative investment banking work were, in theory, exposed to new competition.

This wasn't just more competition from fellow investment bankers. It was competition from an entirely different species. And it was unclear at first what that meant.

No longer. What appeared at first to be an unreasonable demand from Ford is rapidly becoming the price of doing investment banking business. Two months after Goldman turned up its nose at Ford's request, it acceded to similar demands from Wal-Mart Stores Inc. -- on the condition that Wal-Mart didn't disclose the terms of the deal (thus enabling Goldman Sachs to pretend to its other customers that it hadn't done what it did).

Wal-Mart was a far bigger Goldman customer than Ford. Wal-Mart also had on its board a former chairman of Goldman Sachs, Stephen Friedman, who must have known that his old firm, if pressed, would succumb to the new unpleasant reality.

Cost of Doing Business

Since then the investment banking resistance has collapsed. In the past year, investment bankers have routinely offered the draining and unprofitable (at least to them) credit lines to their corporate customers. When they have been slow to do so, they have been shoved aside by commercial bankers who are not.

Bank of America has become the fifth leading underwriter of junk bonds -- ahead of Merrill Lynch & Co. and Lehman Brothers -- and the financial news is peppered with other commercial bankers stealing business by offering cheap short-term credit in the bargain. The commercial bankers have gained investment banking market share largely because they have, in effect, offered the same service for a lower price.

Reasons Deeper Than Accounting

There are technical accounting reasons why they are able to do this: Unlike investment banks, commercial banks aren't required to carry the loans on their books at market value. If a borrower's business goes south, the investment bank must mark down the loan, while the commercial bank can continue to carry it at face value. Goldman Sachs has rightly complained about this discrepancy to the Financial Accounting Standards Board.

But the competitive advantage of the commercial bankers runs deeper than their lucky accounting standards. The biggest advantage commercial bankers have over investment bankers is that they aren't as greedy. They were born with lower expectations. What looks like an unthinkably rotten deal to Goldman Sachs looks like the most exciting piece of business in the history

of the known universe to Bank of America.

``So what?" you say. The corporate bond business could vanish and Goldman Sachs would still be Goldman Sachs. And, I agree, any story that leads with the phrase ``short-term credit" hardly excites deep passions. By itself Bank of America's insistence on extending credit lines only to companies that give it investment banking business is a tiny financial event. But it nevertheless suggests a much bigger shift taking place in the money culture: the struggle for survival between two species.

What If They Breed?

At more than 10 paces, the commercial banker and the investment banker are indistinguishable: Suits. Or, at any rate, people who wrestle each morning with the decision of whether to wear a suit.

But people who look essentially the same at a distance couldn't be more different up close. The commercial banker is a bundle of fears designed mainly to survive for just long enough to pass on his genes. The investment banker is a bundle of greed designed to maximize the amount of red meat he hauls back to his cave before he dies a bloody death. The herbivore and the carnivore are ill-suited for intermarriage and even less suited for interbreeding. They will not blend. When thrown into the same habitat, one or the other must triumph.

The future of this struggle is now a bit clearer: The commercial bankers' price cutting tendencies will undermine large chunks of the investment banking business. Stock investors have already begun to pick up on it -- sending up the shares of the more aggressive commercial banks (Bank of America), at the same time they send down the shares of the investment banks that stand to lose the most from price competition (Goldman, Morgan Stanley).

No doubt the investment bankers still believe that no commercial banker with his decent family values and his nine-to-five attitudes and his pathetically low financial expectations can pose a threat to an investment banker. Even the commercial bankers seem to believe that the more rarefied -- and profitable --investment banking services such as advice on mergers and acquisitions can't be bought. Not long ago a spokesman for Bank of America was quoted saying that ``you don't win an M&A engagement by providing capital." But of course you can.

--Michael Lewis in Paris through the New York newsroom (212) 318-2300 or at mlewis1@bloomberg.net/br

Analysts Eating Their Own Cooking Is a Sideshow: Michael Lewis

(Michael Lewis, author of ``Liar's Poker'' and ``The New New Thing,'' is a columnist for Bloomberg News. His new book, ``Next,'' will be published this month. The opinions expressed are his own.)

New York, July 27 (Bloomberg) -- Some months ago I had a weird encounter with the then head of enforcement at the Securities and Exchange Commission, Richard Walker.

I was visiting his boss, then SEC Chairman Arthur Levitt, to learn what I could about the agency's prosecution of a 15-year-old New Jersey boy named Jonathan Lebed.

The kid had bought shares in small-cap companies and then posted messages on the Internet telling other people they should buy them too. Every time he did this, he drove the stock price up and got out with a profit. The SEC had found this investment technique offensive, and so set about putting him out of business.

I wanted Levitt to explain to me how what the kid did was ethically different from what Wall Street analysts did every day. He couldn't -- at least not to my satisfaction -- so he called Walker into his office.

No sooner had I repeated my unpleasant question than Walker became upset with me. He said my point was ridiculous, because Wall Street analysts didn't own stock in the companies they recommend.

Plausible, Just Wrong

I didn't call him on this as a) I assumed he knew what he was talking about, b) it sounded like a reasonable enough claim, since most journalists are prevented from owning stuff they write about and c) there was a more insidious conflict of interest on Wall Street, one that much more successfully corrupts analysts' willingness to tell the truth: Every analyst knows that if he offends a big company with a negative recommendation, he puts in jeopardy his employer's ability to rake in huge investment banking fees from that company.

Now it turns out that, in addition to the primary source of corruption, the analysts indeed owned the stocks they plugged. A few days ago, Credit Suisse First Boston followed the lead of Merrill Lynch & Co. and announced that from here on out its analysts would no longer be allowed to own stock in the companies they cover.

This was a weird case where the news of the reform came bundled with the news of the original offense. A CSFB spokeswoman named Victoria Harmon told Bloomberg News, apropos of its old code of ethics for analysts, that ``we didn't do anything that everyone else wasn't doing.'' Allowing analysts to invest in companies that the firm was taking public, and that they would later cover, ``was a bigger deal than dress-down Fridays, but it was really just another incentive to stem the tide of employees leaving for dot-coms,'' she said.

So They Were Clueless?

It's fiercely tempting to make Richard Walker's -- and the SEC's -- idiocy the point of this column. It's amazing to me that the SEC's director of enforcement would be as clueless as everyone else about what appears to have been standard practice on Wall Street. (At what point do investigators investigate themselves, and explain how on earth they remained blind to all of the financial activity that occurred right under their noses during the Internet Boom that they now claim to find so sinister?)

But the truth is, I didn't know myself that Wall Street analysts owned the stocks they told investors to buy. (Did you?) So perhaps Walker was just ordinarily stupid rather than

extraordinarily so.

No, the real point of this story is that analysts eating their own cooking is beside the point, which is why CSFB and Merrill are so ready to make rules against it.

Making Matters Worse

CSFB and Merrill Lynch would like you to believe they've cleaned up that little apparent conflict of interest. They've probably just made matters worse.

Preventing analysts from owning what they recommend to others will only further untether Wall Street analysis from reality. As one investor intelligently pointed out, if you wanted to clean up the system, and compel analysts to say what they actually think, you would require them to invest a big chunk of their bonus money into the stocks they plugged, and insist that they hold that stock for at least a year.

But that sane idea has no chance in the currently insane world, where every Wall Street boss is scrambling to find ways to appear to reform his business without actually doing so.

Brain Drain

Henceforth any analyst at CSFB and Merrill Lynch who actually possesses real insight into the future value of a company or an industry will be much more inclined to quit his job and go work someplace where he is permitted to eat his own cooking. The colleagues they leave behind will be the only people on the planet who are allowed to invest in anything except what they actually know about.

The end result will be to lower the quality of Wall Street analysis, and so to raise the relative importance of their natural competitors for public attention, mainly journalists and financial pundits.

The people who run CSFB and Merrill must know this, so we may assume that they don't much care, and that they are resigned to the slow but sure whittling away of their influence on everyday financial public opinion. Meanwhile the serious conflicts of interest -- the ones that actually cause analysts to fudge their opinions -- go largely unaddressed. That's because the serious conflicts of interest generate the serious profits.

--Michael Lewis in Berkeley, California, through the New York newsroom (212) 318-2300 or at mlewis1@bloomberg.net/br

What You Should Do With What You Feel: Michael Lewis (Update3)

(Commentary. Michael Lewis, author of ``Next," ``The New New Thing" and ``Liar's Poker, is a columnist for Bloomberg News. The opinions expressed are his own. Adds attribution to Wall Street Journal in second paragraph.)

New York, Sept. 17 (Bloomberg) -- As the dust settles on lower Manhattan you can see, looming on the skyline, a pair of clashing commercial sentiments.

One is exemplified by Chubb Corp., which initially indicated to the Wall Street Journal that it might seize on the exemption in its insurance policies for ``acts of war" to avoid having to cover the losses. (It later said the exclusion doesn't apply and it was paying claims.)

The other is exemplified by William J. Nutt, chief executive of Affiliated Managers Group Inc., who, when asked about his intentions to buy U.S. stocks for his personal account when markets open, said, ``I think it is simply the right thing to do, and so whether I make money or lose money, I don't care." It's the choice between protecting and extending one's private interests, or ignoring them for the sake of one's country.

I know exactly how I feel about both attitudes, and I'll bet you do too. I want to short the stock of Chubb and wire my life savings to William J. Nutt. But I'm not so sure that these feelings of mine are terribly useful.

Misguided Gestures

In the current climate there are likely to be all sorts of useless, even destructive, acts done in the name of patriotism. Buying stocks that you suspect will lose money is one of them.

The sad truth is that in a popular war -- and especially in a war as nebulous as this one -- there aren't enough heroic roles for the people who want to play them. There isn't enough to do. Candlelight vigils and moments of silence and cash donations all help, but they don't slake the deep desire for action and personal sacrifice.

So people naturally respond by doing things that are, at best, unnecessary, and, at worst, actually damaging to the interests of the country. Pretty much every Hollywood executive with a terrorist film in the works declared last week that he intended to cancel it. What's the point of that?

One of the film makers, when asked what purpose was served by his throwing away an $80 million investment, explained that once terrorism is real, it is no longer entertaining. But of course that's the opposite of the truth: Terrorism has long been ``real." That's why simulations of terrorism thrill us. The change of the Hollywood heart isn't rational; it's borne of a desire to be part of the fight against terrorism. To do something.

Ritual Sacrifices

Many Americans feel some impulse to make some sort of ritual sacrifice and, in and of itself, that is a beautiful thing. The only redeeming feature of last week's tragedy was the sight of so many people who were not immediately affected by it -- Americans and foreigners -- insisting on making it their tragedy.

The danger is that the people who insist on doing something do more harm than good. It may not matter much if a few Arnold Schwarzenegger films fail to make it into theaters, though it seems a pointless waste that they won't. But the general tendency in the wake of tragedy toward self-denial could make American life worse and not better.

The first victim of the misplaced patriotic

impulse will be the economy. In explaining his new economic pessimism, Kurt Barnard, the publisher of Barnard's Retail Trend Report, told the Wall Street Journal, ``Can you imagine people going out and buying a DVD when tragedies are occurring everywhere?"

``Guilt over purchasing frivolous items," as the Journal put it, is first cousin to guilt over making Arnold Schwarzenegger films. It serves no useful purpose.

Go Ahead, Be Absurd

The fact is, most of what people in a free society do minute-by-minute, when juxtaposed with tragedy, seems trivial and even ridiculous. Some of the turmoil in the American mind right now is the result of a fleeting awareness of the absurdity of our ordinary hopes and desires.

But the American economy is premised on those absurd hopes and desires, and won't prosper without them. I can think of no better time than right now to go ahead and be absurd.

The capital markets present a special case because many of the people in them have been directly affected, and because the prices they set are so important. There will be a powerful urge to follow the noble lead of William J. Nutt. But the national interest isn't to artificially prop up the stock market for a month or two with patriotic sentiment. The national interest is to get, as soon as possible, market prices on U.S. stocks and bonds -- that is, prices that reflect the new reality, and that are, therefore, reliable signals to the rest of the economy.

When the financial markets open today it will not be business as usual. The desires that govern them in normal times -- fear and greed -- will be joined by another feeling: that one should do something.

Probably the best thing you can do if you trade stocks and bonds for a living is to ignore this feeling and direct it someplace else. Make as much money as you can, or avoid losing it. If at the end of the day you feel guilty that you haven't incorporated your love of country into your trading decisions, give the money you have saved as a result to the New York Police & Fire Widows & Children's Benefit Fund.

--Michael Lewis in Berkeley, California, through the New York newsroom (212) 318-2300 or at mlewis1@bloomberg.net/br

Why Fear Flying Now of All Times? Michael Lewis (Correct)

(Commentary. Michael Lewis, whose books include ``Next," ``The New New Thing" and ``Liar's Poker," is a columnist for Bloomberg News. The opinions expressed are his own. Adds dropped word in fourth paragraph.)

Berkeley, California, Oct. 3 (Bloomberg) -- Ten billion dollars is a generous estimate of the property damage done by last month's terrorist attacks. Since Sept. 11, the U.S. stock market has lost more than a half-trillion dollars in value. The difference between the two numbers is one measure of the new fear in the air -- and of being in the air.

Our new fear of flying already has put the kibosh on a lot of pointless business conferences, fruitless sales meetings and stressful vacations. In doing so it has disrupted our economy, which is, apparently, premised on pointless business conferences, fruitless sales meetings and stressful vacations. The economic consequences are sufficiently grave that President Bush asked all the members of his Cabinet to fly somewhere, anywhere, just to demonstrate to the American public that flying commercial isn't a death sentence.

Permit me to report that it isn't. Last week I flew the sort of cross-country route -- Washington to San Francisco -- targeted by the terrorists. I rarely enjoy flying, and I often dread it. But my fear obeys a simple rule: The longer it has been since something bad has happened to a commercial airplane, the less happy I feel about boarding one of them.

There's always a small risk that something bad will happen on an airplane, and that risk increases when it is ignored. It is most likely to be ignored after a long stretch of tranquility. Take early September. It was, in retrospect, a very dangerous time to fly, and yet no one seems to have felt frightened or even wary.

Sit Back and Relax

The corollary to this rule is that when something bad has just happened, as it just now has, and everyone who works near an airplane is on edge, as they just now are, it is, briefly, safe to sit back and relax.

Which I did. The two cross-country flights were the most pleasant I've had in years. The airports and hotels on either end were empty and hungry for company. In that strange place called Business Travel Land, you couldn't swing a dead cat without hitting a free upgrade.

The airplanes themselves were Meccas of kindness and civility, as the few passengers and flight attendants made an uncommon effort to get to know one another, and one another's baggage. There was a moment right after takeoff, I'll admit, when it was impossible not to imagine men leaping into the aisles with shouts of ``Allah Akbar" and dreams of cashing in my corpse for seventy virgins. But once the moment passed, I didn't give my safety a second thought, and I don't think anyone else on board did either. We were too busy being fawned over by flight attendants who were intent on making sure each of us wasn't the one with plans to blow up the plane.

Repeat Unlikely

But really, what are we scared of? The Sept. 11 attacks aren't likely to be repeated. The first three hijackings succeeded only because they occurred simultaneously, and were entirely unprecedented. Once the passengers in the fourth plane heard what had become of the first three, they foiled the hijacker's intentions. Anyone efficient and purposeful and evil enough to pull off such an attack now knows that he's better off directing his energies elsewhere.

In the second place, there are many new security measures. In this uneasy interlude,

before the armed marshals appear in the cabins and the pilots are hermetically sealed in their cockpits, there's actually a strange disjuncture in airline security. The new security measures that are official don't make you feel any more secure; and the new security measures that make you feel more secure aren't official.

Wash Hands Before Continuing

Nixing curbside check-in, substituting plastic for metal knives on meal trays, upping the intensity with which counter clerks ask who packed whose luggage -- none of this will inconvenience terrorists.

These official strictures are a bit like the signs on the walls of restaurant toilets that remind employees to wash their hands after they pee. They're designed not to prevent waiters from leaving the bathroom with pee on their hands but to make the customers think that no waiter would ever do such a thing. But if this is so, why must they be asked? These signs wind up making anyone who thinks about them feeling worse.

It's the unofficial security measures that make you feel safer right now. The flight attendants keep a close eye on passengers' every move, which makes for more attentive service. And the security guards ransack the unchecked baggage of anyone who looks even vaguely Arab -- which counts as racial profiling but is nevertheless a relief if you aren't Arab, and maybe even if you are.

Added to that, the mechanics and pilots and air traffic controllers and everyone else responsible for ordinary safety is, at least for now, more scrupulous than they ordinarily would be. If nothing else, the general decline in the number of flights gives everyone a bit more time and space to do his job right.

Fear as a Social Obligation

The new fear of flying illustrates a curious aspect of human nature: To make judgments about an uncertain future, people place too much emphasis on the immediate past. As a result, they don't need a clear and present danger to run scared. All they need is a consensus that something frightening has just happened.

A great deal of what we call fear is imposed on us as a kind of social obligation. Everyone is scared because everyone else is scared. Obeying your reason and ignoring the fear caused by the immediate past seems somehow irresponsible, as if in doing so you might get what you deserve.

At this moment, this curious instinct is as alive and well in the financial markets as it is in commercial airplanes. I wouldn't like to say whether this is a good time to buy stocks. But it's a great time to fly.

--Michael Lewis in Berkeley, California, through the New York newsroom (212) 318-2320/br

Three Lessons From Enron's Fantastic Collapse: Michael Lewis

(Commentary. Michael Lewis, whose books include ``Next: The Future Just Happened'' and ``Liar's Poker,'' is a columnist for Bloomberg News. The opinions expressed are his own.)

Berkeley, California, Dec. 4 (Bloomberg) -- I'm not sure it matters anymore what anyone outside of a handful of regulators and prosecutors thinks about Enron Corp. The energy trader's fantastic collapse has the dimensions of a natural disaster, and may wind up being viewed by investors as an unlikely-to-be-repeated act of God. Too bad about that, since there are a few good general lessons to be had from the case. To wit:

1) If the chief executive officer of a public company quits, he should be forced to explain why, even if it means -- maybe especially if it means -- professional humiliation.

Bells should have rung in stock portfolios across the land when Enron CEO Jeffrey Skilling said in August that, ``I am resigning for personal reasons. I want to thank (Enron Chairman) Kenneth Lay for his understanding of this purely personal decision.''

It's a bad sign for any big company when its male executives all of a sudden begin to care about their personal lives. Having long since abandoned any chance of a rich inner life, having shunted aside wives and kids for the sake of commercial glory, they are unlikely to experience any sort of inner awakening, unless they sense there is no more glory left to be had.

When a CEO cites ``personal reasons'' for quitting his job, what he usually means is that he is being fired for creating a mess. ``Personal reasons,'' is second only to a desire to ``spend more time with family'' on the list of a departing businessman's excuses for evading questions he should be made to answer. When pressed by reporters, Skilling added, helpfully, ``my reasons for leaving are personal ones and I'd rather keep that to myself.''

The Enablers

2) The most unsettling corruption is not in the souls of the people in charge of Enron but in the heart of the financial markets.

The original idea behind the modern Enron -- to make markets in newly deregulated power markets -- is a great one. But the financial markets wanted it to be even better than it was, and encouraged the Houston-based company to grow into markets in which it had a lot less business being.

In recent years there have been many examples of this. Take Amazon.com Inc., which was a good business so long as it remained a bookstore. Why the markets pay rather than punish exciting new companies for expanding into markets in which they have no place is a mystery I'll leave for others to explain.

Big Difference With LTCM

3) Spectacular financial collapses come in many shapes and sizes.

Already the Enron collapse is being likened to the collapse in 1998 of hedge fund Long-Term Capital Management. There are more than surface similarities. Both companies were, to outsiders, opaque. In both cases their investors didn't understand what their money was being used to do. Both traded on their reputations for technical wizardry. Both made huge profits creating new markets, only to see their margins shrink as those markets became competitive.

But there was a big difference between the two cases. The people at LTCM believed in what they were doing. John Meriwether and

his boys fooled themselves as much as, and maybe more than, they fooled others. Right up until the end they acquired a bigger stake in their own business. When their business came a cropper, they lost most of their own money.

The Enron bosses, by contrast, unloaded hundreds of millions of dollars worth of shares in their company before it went bust, making sure a lot of other people, many of them defenseless, were left holding their bag of crap. In any comparison with LTCM, they are undeservedly flattered.

--Michael Lewis in Berkeley, California, at mlewis1@bloomberg.net through the New York newsroom (212) 318-2320/br

Uncle Sam Needs You to Imagine the Worst: Michael Lewis

(Commentary. Michael Lewis, whose books include ``Next: The Future Just Happened'' and ``Liar's Poker,'' is a columnist for Bloomberg News. The opinions expressed are his own.)

Berkeley, California, Oct. 19 (Bloomberg) -- The success of the Sept. 11 terrorist attacks depended on the failure of the military imagination. Half trained, poorly armed fanatics were able to turn commercial airplanes into bombs that collapsed the Twin Towers and blew a hole in the Pentagon because no one had ever seriously imagined that they could or would do such a thing.

Now that we know they can and they will, the U.S. Army is busily trying to imagine other movie-like scenarios that might occur in real life: anthrax delivered by the U.S. Postal Service, a crop duster spraying poison over a World Series game, a nuclear explosion in Manhattan, and so on. To that end it has convened at the University of Southern California what it is calling an ``ad hoc group'' of Hollywood screenwriters and directors.

The group, according to the entertainment trade magazine Variety, is headed by Army Brigadier General Kenneth Bergquist. It includes the writer of ``Die Hard,'' the creator of the television series ``McGyver,'' the director of the film ``Being John Malkovich'' and a lot of other people chosen seemingly at random from the Hollywood talent pool. (The director of ``The Delta Force'' has been in on the talks, but so was the director of ``Grease.'' Go figure.)

`Speed' Meets `Peacemaker'

Variety reported that the purpose of the group was ``to brainstorm about possible terrorists targets and schemes in America and to offer solutions to those threats.'' In other words, sit around and pitch disaster movies to each other, for the benefit of the brigadier general.

On one hand, you have to wonder if this is a good use of a brigadier general in a time of war. On the other hand, why not give it a shot? American life right now feels a bit like a disaster movie, and our problem with terrorism has a Hollywood logic to it. The terrorists are in the business of creating dramas, preferably televisual dramas, that capture the American public imagination. At this point they don't need to do very much at all to trigger mass hysteria, and they probably know it.

Bring in the B-Team

The U.S. Army, to defend against terrorists, needs to imagine these dramas before they occur. But the sort of person who is good at imagining dramas is unlikely to work in the military, or intelligence services. He's much more likely to be making B movies and television shows. (Spectacular terrorism isn't like just any old movie; it's like a bad movie.)

What's more, the Hollywood people with a special gift for dreaming up stories to frighten an audience, and perhaps even for imagining how terrorists think, have more time on their hands than usual. Just when the Army wants badly to imagine every conceivable terrorist plot, Hollywood studios are avoiding anything resembling a terrorist plot.

It's odd that at precisely the moment when such acts of the imagination are more seriously useful than ever the market for them has vanished, but then the world is an odd place, and Hollywood is an even odder one.

What I don't understand is why the Army brass are limiting themselves to movie and TV people. Why not novelists? Why not, for that

matter, Wall Street people? It's now clear that the terrorists have a special taste for financial targets. Why not consult the people with the deepest feeling for those targets: the targets themselves?

A Call to Keyboards

Wall Street traders may not be as good at dreaming up scenarios as Hollywood script writers, but they have the advantage of knowing their own story. I very much doubt that a terrorist could think up something to do to you that you couldn't think up yourself.

In that spirit, I'd like anyone who has imagined a terrorist plot to write a short paragraph describing it, together with ideas for foiling the plot, and send it to me over Bloomberg's message system.

Ask yourself: if you were a terrorist what could you do to disrupt the financial markets? What could someone do to make you even less interested than you are at the moment in doing your job? I'll collect all the ideas in a future column. The U.S. Army has pointed the way: imagining the things we most fear may be the first step to preventing them from happening.

--Michael Lewis in Berkeley, California, at mlewis1@bloomberg.net through the New York newsroom (212) 318-2320/br