

Photography by H. Scott Heist

Paul Pilzer (left) and his brother Lee Pilzer, '74, on campus last fall.



The Economic Alchemist

Paul Zane Pilzer, '74, seeks to apply his Midas touch to technology

By Paul Wirth

Paul Zane Pilzer, '74, is a man who wants a lot out of life — and usually gets it.

He squeaked through his first semester at Lehigh with a 1.8 average, but graduated with honors in three years and had his Wharton M.B.A. by age 22.

He pocketed his first million in real estate before he was 30. In true Texas-millionaire style, he is chauffeured in a Rolls-Royce when he's going formal and in a Checker cab when the party is casual.

His popular new book, "Other People's Money," paved the way to morning talk-show appearances, but the 36-year-old Brooklyn native says his real writing splash will come later this year with a "very major book" on a radical theory of the economy.

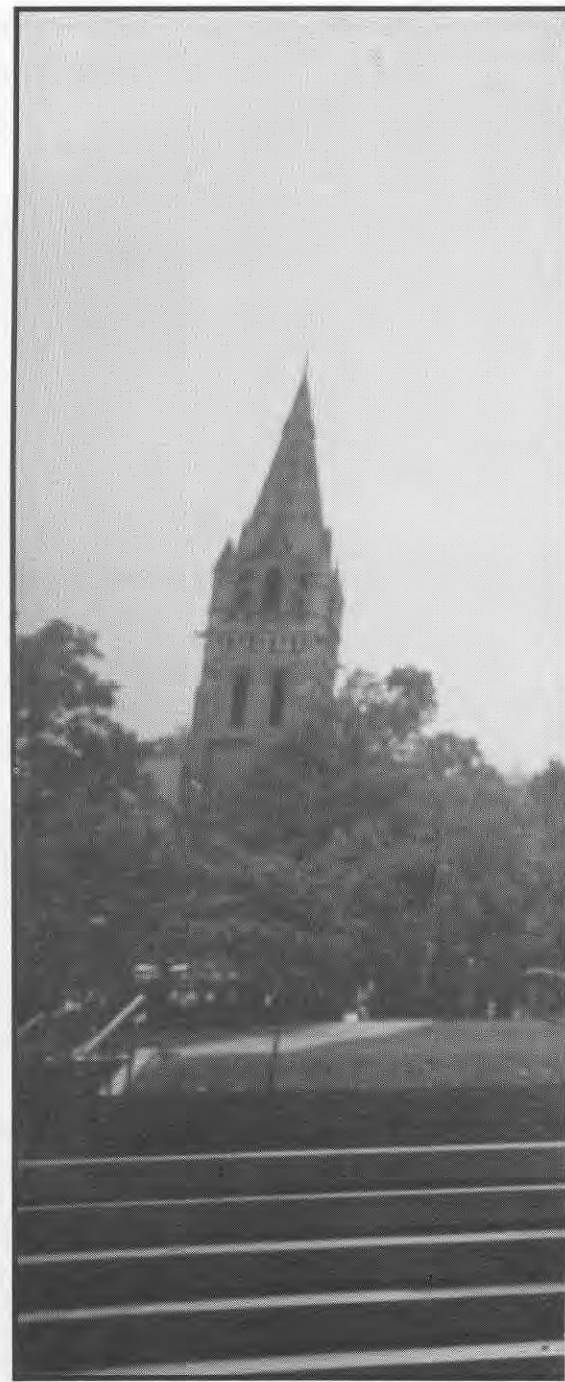
He flies weekly from Dallas to New York City to teach a finance class at New York University. He's a frequent visitor to the Soviet Union, where he often lectures at Moscow University. He has been an informal adviser to the Reagan and Bush administrations while "waiting

for the right job" in government — a cabinet secretaryship. He also wouldn't mind being president of a major university.

Pilzer likes to tell the story of his "rejection" from Wharton. "I have an April 10, 1974, letter of rejection. Two days later I got a letter telling me to disregard the first letter and welcoming me to Wharton. I had to go down there," he says, a trademark wide grin spreading across his face, "and explain to them the mistake that they had made."

Pilzer sets high goals then pushes himself hard. He has more fun pursuing his objectives than he does reaching them. "When God really wants to punish us," he says, "He comes down and gives us everything we ask for. The key is to never reach your goals. Going after something — that's what life is really about."

His lucrative real estate partnership has rewarded him with a net worth of more than \$10 million, but Pilzer says he has grown bored with it. He now prefers writing, and



he is at work on three books. Even before the release last fall of "Other People's Money" (Simon and Schuster), a book on the savings and loan crisis, Pilzer told an interviewer that he was no longer interested in the topic.

What sets Pilzer's juices flowing these days is "alchemy," his novel view of the economy. The concept has been simmering in the back of his head for the past 15 years and is the topic of his next book, expected to be released later this year.



In the Middle Ages, alchemy was the mystical art of trying to make gold from lesser metals, or, more broadly, the pursuit of finding an elixir of life. As a modern-day alchemist, Pilzer figures he can make gold from technology. By seeking out existing technology and applying it where it is not yet in use, Pilzer believes he can stimulate the economy and make money in the process.

Details of the theory of alchemy will be spelled out in the book, which Pilzer is aiming not at the

academic community but at the mass market. Pilzer was working on the manuscript last October when he spent two days at Lehigh speaking to classes and bouncing his theory off former professors. He'd already outlined alchemy in a lecture in Moscow, but the Lehigh visit was his first public comment on the topic in the United States.

"Technology is the most important determinant of everything in society," he said, picking up a piece of chalk in Steve Cutcliffe's "Science, Technology and Society"

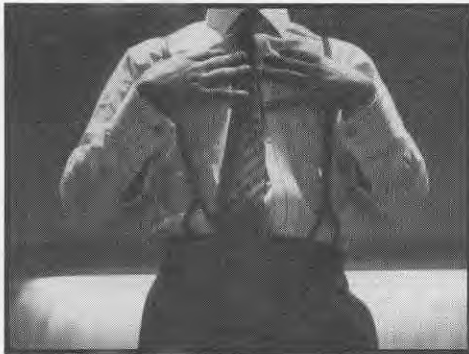
class. "This shouldn't be just a course, it should be a whole school. Technology is overwhelmingly the most important item."

Forget what you learned in economics, Pilzer said enthusiastically, almost defiantly, as he got cranked up on the topic. The real driving force behind the economy is technology. It defines our physical resources and fuels our economic growth. Since the dawn of time, man has defined history in terms of technology — the Stone Age, Iron Age and so on. As long as

research and development produce technological advances, we will enjoy long-term economic growth.

Pilzer's alchemy primer lasted nearly 70 minutes, during which time he filled blackboards on two walls with notes, graphs and outlines. When the lecture ended, students crowded around the podium. One particularly enthusiastic undergraduate left the session with Pilzer's business card and an invitation to "call my office."

"The classic definition of wealth



100 years ago oil was a black goo that ruined the water. Technology made it a resource.

is that wealth equals physical resources," says Pilzer. "I say bunk. Wealth equals resources times technology. Only 100 years ago, oil was nothing more than a black goo that ruined the water supply. Technology has made it a resource."

Technology also determines the supply of resources. An automobile fuel injector which doubles a car's gas mileage effectively doubles the supply of oil, he reasons. Super-tankers and transcontinental pipelines have the same effect, by creating new ways to deliver oil to market.

"An economist says, 'There's a pie here, and economics is how you cut it up to determine who gets what.' That's what you're going to study in every economics class. An alchemist says, 'Throw away the knife and let's just bake a bigger pie.'"

Even more exciting than "supply-side alchemy," says Pilzer, is "demand-side alchemy." He argues that technology determines which products are in demand. Henry Ford's new technology was a luxury when his cars first hit the market; today automobiles are a necessity. The same principle applies to fashion and consumer goods, he says.

The rate of growth in the economy is defined by Pilzer's "technology gap," those existing technologies that have not yet been applied to a manufacturing process or product. The larger the technology gap, the greater the potential for economic growth. In periods of economic decline, Pilzer says, either the technology gap is small or technology is not being applied as rapidly as it could be.

The first true example of alchemic management, Pilzer says, was World War II's Manhattan Project. The technology for an atomic bomb did not exist at the time and had to be created, assembled and put to work. The American effort to land a man safely on the moon was a similar example.

Alchemic economic growth would not be possible without advanced communication methods to disseminate technology. The first breakthrough was the written word, says Pilzer, but it was the printing press — and later the computer — that made the rapid spread of technology possible. "We've taken the computer off the desk of the



Wealth equals resources times technology.

accountant and the engineer," he says, "and put it on the lathe and in the car." Advances in communication and exponential growth in technology have brought technology utilization to a "critical mass" that allows breakthroughs to be seized and put to work instantly.

"We are in the ninth year of what seems to be a multi-decade economic expansion of unfathomable proportions," Pilzer says. "The reason economists can't understand it is because the economy is growing at an unbelievable pace due entirely to technology."

How will his alchemy theory go over with academics, business leaders and the public? Pilzer is realistic. "This could be the next theory of relativity. Then again, it could be the next cold fusion. But I won't really know until the book comes out and everyone has read it and they either rip it apart or they say it's the greatest thing since sliced bread."

"I was one of those nerdy types. You know — really into science and always carrying my chess set."

It was a characteristically frank assessment of his early days at Lehigh, and a perfect way for Paul Zane Pilzer to break the ice with a group of students who were not quite sure what to expect from a man who is a millionaire, a successful author and a powerful businessman.

Pilzer arrived at Lehigh almost by accident. He came to campus with his girlfriend to visit his older brother, Lee Pilzer '74. During his stay he was interviewed by then admission director Sam Missimer, '50. By the end of the day, Missimer had offered admission to both Paul and his girlfriend.

The younger Pilzer soon found that his interest in science, sparked by his ham radio outfit and a passion for putting together Heathkits, would not easily translate into academic success in engineering. His low first-semester grade point average raised the specter of academic probation — and of the military draft — so he switched to liberal arts and buckled down.

Pilzer sensed that he would be at his best when under pressure, so he persuaded the university to let him take an unusually heavy load. Carrying up to 10 courses a semester, he earned a degree in journalism with honors. He joined Tau Epsilon Phi fraternity and the Forum.

"I drifted through Lehigh in liberal arts. I was a wanderer, taking a lot of different courses with no real direction. I tried to take



courses to address my weaknesses, and I was introduced to a lot of different subjects in a serious way."

A son of Polish Jewish immigrants, Pilzer sometimes told people he was from New York because he was embarrassed to say he was born in Brooklyn. At Wharton, where the list of his classmates read like a Who's Who in Academic Excellence, Pilzer was afraid he wouldn't be able to measure up. But he found a way to use his insecurity as a motivator and finished the program in 16 months.

The 22-year-old M.B.A. took a job with Citicorp, on the personal staff of John Reed, the man who would become the corporation's chairman. Meanwhile, he rented a house in Westhampton, Long Island, and kept one room for himself while leasing out the others. Soon he began building beach homes, working all day in the city and catching a train nights and weekends to supervise construction. It was a lucrative sideline — the business generated a six-figure income after only a few years.

During his five years at Citicorp, Pilzer earned a reputation as a savvy young banker. He also absorbed a good measure of Reed's personal philosophy that you need to push yourself hard to enjoy true success. He was hired away from Citicorp in

1981 by a wealthy Chicago investor who wanted him to invest \$100 million by the end of the year.

The assignment took him to Dallas, where he lived in a hotel room while earning his first million. Texas was a place where he could feel comfortable about being wealthy, Pilzer realized, and he began to think of himself as a Texan who happened to have been born in Brooklyn.

Today, Pilzer is one-half of Zane May Interests, a 55-employee Dallas real estate firm that controls 7.3 million square feet of real estate worth \$280 million. His partner since 1982 is Alan May, a conservative businessman, art collector and Egyptologist, who provides an excellent counterbalance to his younger associate's energetic style.

"I'm the accelerator," Pilzer once told a magazine interviewer. "Alan is the brake." The seven-year-old partnership has outsmarted the sagging Texas economy by buying the right property at the right time. "Ours is a partnership built on trust," says Pilzer. He and May have never signed a formal partnership agreement.

When Pilzer is not doing deals in Dallas or giving lectures at NYU or in Moscow, he spends winters skiing and writing at his Utah home. He has not yet married, but says he



Economic growth is defined by Pilzer's "technology gap."

Thrift and Trust: Twin Victims of the S&L Crisis

looks forward to family life someday. "My social life is very full," he says. "I'm the complete single."

What does the future hold for Paul Zane Pilzer?

"The world has been so good to me that I spend my time thinking how I can influence the maximum amount of people in a positive direction. Cabinet secretary is something I think I could do well. I know I'm on a training and development path to get there."

Pilzer also believes he can make a difference in U.S.-Soviet relations, both through his frequent academic contacts and through one of his pet projects, the development of a strip of land in Eastern Siberia into "another Japanese island," complete with major ports and a superhub airport. "It's the work of Isaiah," he says, turning the swords of a military complex into plowshares.

"I'm not a writer, *per se*," Pilzer says, "even though I have a best-selling book and a couple more on the way. Writing is a mass communications tool that allows me to get my ideas out and exchange them with people."

"Hopefully in the future I will have a number of very successful books out, some that are very good at the time, like 'Other People's Money,' and some that are read long after I die, like 'Alchemy.' I'm definitely writing it for an audience a century later. That kind of writing gives true immortality." ▶

Paul Wirth covers business for The Morning Call of Allentown.

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"Fast Eddie" McBirney really knew how to throw a party.

The chairman of Sunbelt Savings Association became known as the king of Texas-style business bashes. At one party, hundreds of the thrift's customers and friends feasted on lion, antelope and other exotic game while being entertained by a pair of obese disco singers called "Two Tons of Fun." At another shindig with an African safari theme, McBirney dressed up as the Great White Hunter while guests ate water buffalo ribs and watched a magician make a live elephant vanish.

Even as Sunbelt Savings and Loan slipped into insolvency, Fast Eddie kept partying. He eventually was forced out of office by federal regulators, but not before Sunbelt spent \$1 million on parties in two years, according to a subsequent lawsuit.

Paul Zane Pilzer's book, "Other People's Money," is full of stories about the Fast Eddies of the savings and loan industry. It's an eye-opening look at the roots of the problem, the management abuses that made it worse, and, according to Pilzer, the government's inadequate efforts to clean it up.

"The real tragedy of the savings and loan crisis is not so much the enormous bill that taxpayers will have to cover as a result of official neglect and mismanagement," Pilzer writes. "Rather it is the extent to which the calamity has undermined the noble purpose of encouraging people to save money to make their own lives better."

As a boy, Pilzer learned from his father that above all, the American financial system is based on trust — credit is extended and debts are paid. "Just think if one in 10 people decided to withhold their credit card payments for a month while they thought about it," Pilzer says. "The whole system would collapse instantly. We have no debtor's prisons in this country. The whole country works on trust."

So the biggest aspect of the S&L crisis, and the one in most urgent need of repair, is the loss of people's trust in the banking system. It was "the ultimate act of faith" for immigrants to save their money for the long term rather than spend it to make themselves more comfortable in the near term, Pilzer says. "That's why we have all this capital available to grow. Trust in the system needs to be restored quickly."

The root of the problem, Pilzer argues, was the deposit insurance system. Established to protect the life savings of common people, it ended up providing a safe money shelter for the rich and a government-sponsored invitation for thrift managers to take risks with their deposits.

Reform is necessary, Pilzer says, and there are "a couple of painless ways" to do it. The system should insure a maximum of \$100,000 per person, not per account. "I'm not interested in the guy who's whining that he has \$800,000 and he can't find an insured investment for it. If you want security for the rest of your money, invest it in the U.S. government. Buy U.S. Treasury bills. The Japanese have been doing it for generations."

Second, we should start scaling down the \$100,000 insurance level, he says. Insure the first 10 percent fully, he suggests, and cover the rest for 90 percent. "This will make you care about which bank you put your money in, and the market will regulate the banks."

"The thrift bill passed by the administration doesn't deal with the root causes," Pilzer says. "It only deals with the symptoms. We must deal with the deposit insurance system."

Bailout of "the most costly financial debacle in the peacetime history of America" will cost U.S. taxpayers more than the combined cost of rescuing Chrysler, Lockheed, the City of New York and Penn Central. "Worst of all," Pilzer writes, "it didn't have to happen. History had already provided the lessons that could have prevented the ruin."

The S&L debacle did more than destroy an industry. It also took a toll on the nation's spirit of thrift. Paying the bill will be bad enough, Pilzer writes. But it could be worse — if the lessons of the crisis don't spur "the kind of positive action necessary to guarantee that such a catastrophe could never occur again."

-Paul Wirth