Myth of Milken as 'outsider' inside trader is shattered

by Harley Schlanger

Den of Thieves
by James B. Stewart
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The recent temper tantrums of the seemingly ubiquitous lawyer and self-promoter Alan Dershowitz against the success of James Stewart's book, *Den of Thieves,* should be instructive for those trying to make sense out of Wall Street during the 1980s, the so-called Decade of Greed.

As regular readers of *EIR* are aware, Lyndon LaRouche identified the Anti-Defamation League (ADL) as a critical component of the money-laundering operations which have enabled the illegal drug trade to flourish in the United States since the 1970s. This was confirmed by the vicious reaction of the ADL to the publication in 1978 of *Dope, Inc.*, a study commissioned by LaRouche, which exposed how drug traffickers utilize the money-laundering apparatus originally devised by the gangster Meyer Lansky, which today includes top money center banks and Wall Street investment firms, to "wash" their profits and invest them "cleanly."

The ADL decreed that LaRouche is anti-Semitic, arguing that whenever he charges bankers or financiers with engaging in corrupt activity—such as drug-money laundering—he really means "Jewish bankers," and is attacking the Jewish religion. By making this absurd argument, the ADL was acting both to divert attention away from investigations of organized criminal involvement by ADL-linked bankers, lawyers and financiers in drug trafficking, and to attempt to destroy the influence of LaRouche and his organization.

To further the latter objective, the ADL poured money and personnel into the "Get LaRouche" task force, working with the FBI, the Justice Department, admitted perjurer Oliver North, NBC News, and others, to railroad LaRouche to prison, hoping to silence him.

Why Dershowitz is flailing

When Stewart's book *Den of Thieves,* which details the story of the insider trading scandal centered around Michael Milken, received a favorable review from the *New York Times,* Dershowitz exploded. Dershowitz, who recently was hired by Milken to appeal for a sentence reduction for the jailed former junk bond king, purchased an ad in the *New York Times* to denounce the book and the review as "anti-Semitic." He accused the reviewer of being part of a "cabal" which is attacking Milken and other Jewish men on Wall Street, motivated, he claims, by anti-Semitism.

While this scurrilous attack has no merit, as will be clear to anyone who reads Stewart's book, it is noteworthy that Dershowitz has chosen this line of attack to defend Milken. Precisely as the ADL employs this method against LaRouche and his associates, Dershowitz is hoping to win sympathy for Milken by portraying him as a victim.

This is in keeping with Milken's own view of himself, as shaped by the public relations firm Robinson, Lake, which received more than $150,000 a month from Drexel Burnham to improve his public image while the Securities and Exchange Commission (SEC) and the U.S. Attorney were closing in on him. Milken said he was the victim of "a shadow trial of systematic leaks and innuendo based upon false accusations. . . . When the truth is substituted for false accusations, I am confident that I and my colleagues will be fully vindicated."

Thanks to this thoroughly researched and well-written book by Stewart, the front-page editor of the *Wall Street Journal,* the truth is out—and it is not what Milken or Dershowitz want the public to hear.

Crime and corruption on Wall Street

From the beginning, Stewart leaves no doubt that Milken and the other three involved in the insider trading scams he focuses on—Ivan Boesky, Martin Siegel and Dennis Levine—were engaged in systematic fraud that undermined the national economy.

In the Prologue, he writes, "Even now, it is hard to grasp the magnitude and the scope of the crime that unfolded, beginning in the mid-1970s, in the nation's markets and financial institutions. It dwarfs any comparable financial crime, from the Great Train Robbery to the stock manipulation schemes that gave rise to the nation's securities laws in the first place. The magnitude of the illegal gains was so large as to be incomprehensible to most layman."

While documenting in detail the dirty operations run by Milken, et. al., he does not exclude placing blame on the system which spawned them. "Financial crime was commonplace on Wall Street in the eighties. . . . The code of silence that allowed crime to take root and flourish on Wall Street, even within some of the richest and most respected institutions, continues to protect many of the guilty."

Stewart takes the reader on a fascinating journey through the 1980s on Wall Street. Along the way, one discovers the bizarre world of the arbitrageurs, inhabited by strange characters like Boesky, who told graduates at the University of California's commencement in May 1986, "Greed is all right. . . . I think greed is healthy. You can be greedy and still feel good about yourself." For the "arbs," who usually make money on the thinnest of margins, the highest return on investments comes from advance knowledge of which stocks are being targeted for takeovers.

Though this is illegal, Boesky made a fortune from a network of informants, which included Martin Siegel of Kidder Peabody, and later Drexel. For example, from the inside information provided by Siegel about the takeover battle for Getty Oil, Boesky made $50 million. For tips like this, Boesky paid off Siegel with briefcases full of cash, handed off at drop sites near phone booths and in building lobbies.

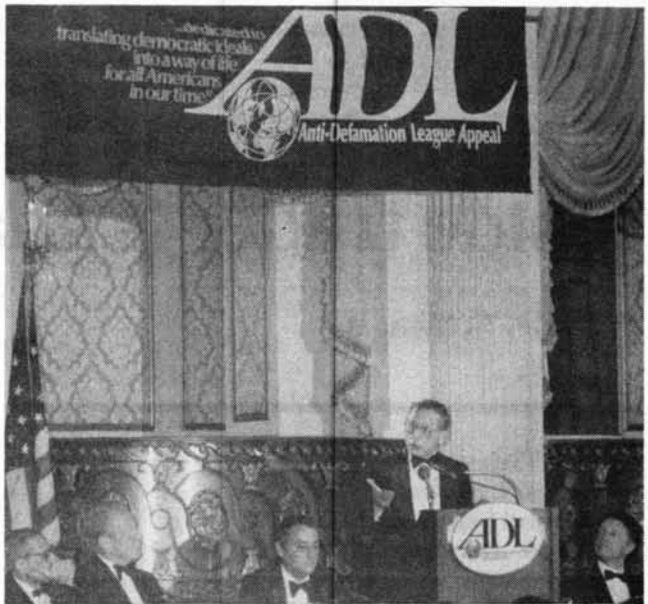
Protection rackets and hookers

Often, the vignettes offered by Stewart of Wall Street in the 1980s are suggestive of gangsters during the Roaring Twenties in Chicago. For example, he provides insight into the symbiotic relationship of the two lawyers who dominate the takeover game, Joseph Flom of Skadden, Arps (a firm with many important links to the ADL, which includes former ADL chairman Kenneth Bialkin, among its lawyers) and Martin Lipton of Wachtell, Lipton. If a corporation wished to protect itself from a hostile takeover, it was mandatory to have either Flom or Lipton on retainer, for a substantial fee. Stewart characterized hiring their firms as "more like an insurance policy."

Among the more colorful characters around Milken was Donny Engel, a controversial figure within Drexel, but one who was indispensable to Milken in finding new clients. His profile of an "ideal raider-client" who could be armed with funds by Milken was someone who was "short, unhappily married, and insecure." Engel, who was known around Drexel as "the Prince of Schlock" and the "house pimp," once explained to new Drexel banking associates how to generate new business by saying, "Corporate America likes women. Find a hooker and you'll find a client."

Or take the statement by Milken, as reported by his chief trader in his beverly hills, california office, warren trepp, who bragged about the "muscle" he had through liberal use of high-yield (junk bond) funding:

"We're going to tee up [for takeovers—HS] GM, Ford, and IBM, and make them cringe."



Stuart Lewis

The late Nathan Perlmutter addressing an ADL dinner. The Anti-Defamation League was founded to defend organized crime gangsters, by slandering their opponents as "anti-Semitic." This is the tack taken by Michael Milken's attorney Alan Dershowitz against Den of Thieves.

Milken clearly believed that he was invincible. By 1986, when he achieved the height of his powers, able to raise over $3 billion in a week through junk bond sales, he told the *Washington Post,* "The force in this country buying high-yield securities has overpowered all regulation."

It seemed there was no stopping Milken. When he teamed up with Kohlberg, Kravis and Roberts to take over Beatrice Foods in the largest deal up to that time, it "established KKR as the premier leveraged buyout force in the country, a name to be feared." However, as the deals got bigger, the illegal actions grew. Stewart says that Beatrice was "a deal shot through with illegal and questionable behavior."

This illegality escalated further, as Milken brought Boesky in on takeovers. Their collaborative efforts, says Stewart, "were practically a catalogue of securities crimes, starting with insider trading, and including false public disclosures, tax fraud, and market manipulation, as well as a slew of more technical crimes. What was breathtaking about the scheme . . . was how the crimes meshed to achieve ends more ambitious than anything even contemplated by the drafters of the securities laws. The crimes were mere way stations toward outcomes, such as hostile takeovers, that were, on their face, perfectly legal."

Using this cover of legality, the hostile takeovers provided the biggest paydays yet. In the takeover of Storer Broadcasting, Kidder Peabody received $7 million in fees for Siegel's work, while Drexel raked in $50 million. In addition, Milken gained equity interests in the future KKR-led Storer, which he then placed into partnerships for himself, his family and others in his department, without the knowledge of KKR, or the chief operating officer of Drexel.

In 1986, Milken's high-yield department received $700 million from Drexel, of which Milken gave $150 million to others in bonuses, keeping $550 million for himself!

The fall of Milken

But this was not enough for Milken. In the Beatrice deal, he convinced KKR to issue Beatrice warrants to entice Drexel clients to buy more junk bonds. (A warrant gives the bearer the right to buy Beatrice stock at a low price.) When KKR issued the warrants, Stewart says that Milken did not offer them to clients, but kept them for Drexel, "lodging the bulk of them in his and his family's partnerships." Purchased for 25¢ each, they represented the right ultimately to acquire over 22% of Beatrice—worth more than $650 million!

He engaged in many other breaches of the law, often at the expense of Drexel's clients, often with the ever-pliable Boesky. In another of these scams which fleeced unsuspecting Drexel clients, Milken bought back securities from Drexel clients at low prices, which he could do because many of the securities he dealt in were unlisted, so their holders did not know their true value. He then sold them to Boesky for a slight profit. Boesky would then resell them to Drexel at a higher price; then Drexel would resell them to their clients at still higher prices!

Milken also arranged trades for Boesky which generated artificial tax losses for him, enabling him to cheat the taxpayers.

Stewart reports that when then-U.S. Attorney for New York Rudolph Giuliani appointed Bruce Baird, who had previously headed the narcotics division and the criminal division in the New York office, to head the securities fraud division, Baird was "struck by the similarities between the insider-trading investigations and the mafia cases he'd worked on. Like organized crime, the Wall Street suspects prized silence and loyalty over any duty to tell the truth."

On Sept. 17, 1986, with pressure building from ongoing investigations, Boesky turned himself in, becoming an undercover agent for the Department of Justice. After intensive interrogation, the prosecutors soon came to realize that Boesky was not a major player: "Boesky was second tier. He'd depended on Milken and Drexel."

Armed with leads provided by Boesky, the Feds closed in on Milken. On March 30, 1989, Milken was indicted on 98 counts. Much of the remainder of Stewart's narrative focuses on the steady march to trial. The only suspense is whether Milken will hold out for his day in court, and whether Drexel could survive without him.

Drexel fell first. On Feb. 13, 1990, the firm, which had been the most powerful force throughout the 1980s, filed for bankruptcy protection; one week later, Milken pleaded guilty to six felonies. He entered the federal prison in Pleasanton, California in March 1991, to begin serving his 10-year term.

Milken's real crimes

Stewart reports that Milken is unrepentant, telling friends "he no longer believes he did anything wrong." After reaching this conclusion (it is unlikely that he ever believed otherwise), Milken hired Dershowitz to fight for a reduction of his sentence.

The only weakness in Stewart's book is that he fails to draw the conclusions of the actions of Milken and his allies. Stewart does accomplish what he set out to do, as he defined it in his Prologue: "In an era that purported to glorify free-market capitalism, this story shows how the nation's financial markets were in fact corrupted from within, subverted for criminal purposes." Yet, he does not go far enough, especially since it is likely that Dershowitz and other apologists for Milken are likely to sustain an offensive for his exoneration.

For example, among the most loyal of his apologists are the editors of the *Wall Street Journal*. In an editorial on Nov. 5, 1991, they sounded the trumpets to call the faithful into battle, to resurrect the go-go eighties. Expressing concern about the sluggish showing of the "Bush recovery," they say that "Americans miss Ronald Reagan's '80s. . . . The fact remains that the 1980s made a deep imprint on the lives of most Americans. People felt they were benefiting—or would have the opportunity to benefit and better themselves."

This mythology could have been put to rest by extending this otherwise meritorious volume. The myth of the Reagan years as an era of "democratization of capital," as the time when the "playing field was leveled" so that the "outsiders," i.e., the raiders backed by Milken, could challenge the "entrenched interests" of corporate America, creating "new industries," and other similar clichés, must be demolished.

Billions of dollars in fees were made illegally by Milken and his ilk, as they bilked the shareholders who trusted them and the U.S. government through tax fraud. They have taken pension funds from reliable, long-term investments, risking them on hostile takeovers while skimming cash off the top. They saddled U.S. corporations with hundreds of billions of dollars in new, largely uncollectible debt, which led to a collapse in investment in R&D, new plant and equipment, and repair of the old physical plant. This put hundreds of thousands, if not millions of people out of work, and virtually shut down many older American industrial towns.

The chief benefactors of the "Milken revolution," the "new entrepreneurs" who are lionized by fawning *Wall Street Journal* editorialists and Chicago school ideologues, are a sleazy bunch of speculators, many of whom, like Meshulam Riklis, Victor Posner, and Carl Lindner, have close ties to the remnants of the organized crime networks of Meyer Lansky and Kid Cann, which were protected by the Anti-Defamation League. They have made billions, at the expense of the American people.

It is therefore not surprising that Alan Dershowitz would borrow the "anti-Semitism defense" from the ADL in his quest to rehabilitate Michael Milken.