'Junk bonds': How drug dollars are taking control of the U.S. economy

by William Engdahl

Over past months, one of the prime indicators pointed to as confirmation of the U.S. economic "recovery" has been the soaring prices of select corporate stocks on Wall Street. Little attention, however, has been given to the reason for the rising stock values, one of the most bizarre binges of speculative activity in this century. This speculation centers around a new phenomenon with the appropriate name, "junk bonds."

What has not been revealed until now, is the remarkable role played by one investment bank, Drexel, Burnham, Lambert, based in New York with Belgian-Swiss parentage, and by a cluster of financial "superstars" who coordinate a network of front-men reputedly tied to the reorganized empire of the late drug mafioso and Murder, Inc. mobster, Meyer Lansky.

Outside of perhaps the tiny Caribbean "banana republics," there exists no nation in the Western world which has allowed legalized corporate destruction to go to such extremes as the United States in the past two years under new tax and anti-trust regulations. The justification for this legalized destruction of corporate assets by often tiny, unknown firms, is the ideology of "free market" economics. Under this flag, legions of the dirtiest minions of organized international drug mafias have threatened the integrity of major industrial firms.

How junk bonds work

Some months ago, a little known company, Triangle Industries, with a net worth of about $65 million and net income of $2 million, borrowed $428 million at 18% interest. Why? In order to take over one of the top 500 U.S. industrial firms, National Can Co., whose assets are numbered in the billions of dollars. Aided since 1981 by an explicit "hands-off" policy on corporate mergers by the Reagan administration, so as not to interfere in the so-called free market, a tightly organized circle of highly dubious financiers has gone after such established giants as Gulf Oil, Phillips Petroleum, CBS Television, Crown Zellerbach Paper, and TWA.

Few are aware of how this new takeover game is played. In the arcana of Wall Street, the most incredible takeovers of recent months have been done through a swindle known as the "leveraged buyout" ("LBO").

Under the remarkably permissive American tax code, as modified in 1981 by the Accelerated Cost Recovery System, a firm which decides to "raid" a large corporation by making a purchase of a controlling majority of outstanding stock shares, can use *debt* as its main asset to grab a giant thousands of times its size.

Here is where the novel firm of Drexel, Burnham, Lambert enters. Drexel, Burnham, Lambert is the New York investment bank subsidiary of the Belgian-Swiss financial network of the mysterious Albert Frere, and the family of Baron Lambert. Drexel, Burnham, Lambert is the financial backer for a handful of slick corporate "raiders," names which five years ago were unknown, such as T. Boone Pickens, Victor Posner, Saul Steinberg, Carl Lindner, Carl Icahn, Ivan Boesky, Stephen Wynn.

Last spring, many of these so-called financial wizards such as Lindner and Posner met with Mike Milken, so-called "junk bond guru" at Drexel, Burnham, Lambert, in a villa in Beverly Hills, California. The mob's favorite crooner and former bagman, Frank Sinatra, was also there. According to reports, the group plotted strategy for going after the choice corporate assets of industrial America.

Case in point: TWA

The process has nothing to do with normal bank lending, even in these free-wheeling banking days. It is an insiders' operation, reliably reported to use the group's access to the tens of billions of dollars in "offshore" drug money which has been "laundered" through various Swiss, Luxembourg, and other secret accounts, coming back through the vehicle of Drexel, Burnham, Lambert where it backs up the incredible raiding process known as LBOs.

In June, for example, one of this cabal, a young New York-based operator named Carl Icahn, attempted to grab control of TWA. U.S. law requires disclosure of anyone owning more than 5% of the stock of a public company such as TWA. Icahn secretly began buying TWA stock at $10/share last September. Purchases were hidden through a complex maze of front companies and obscure partnerships. Then, on April 29, Icahn's group, with a stated access to several hundred million dollars, began buying feverishly within the 10-day "grace period" allowed under Security and Exchange Commission law before identity disclosure must be filed.

Icahn quickly obtained 16% more stock. The market price of the stock began to rise as rumors of the takeover spread. Wall Street insiders soon traced matters to Icahn, who put out fraudulent denials in order to keep stock prices from rising too fast, so that he could continue to buy cheaply. Stock was then selling for $16 per share. On May 10, Icahn filed with the SEC, announcing his takeover plans. The price climbed to $19 per share. Icahn announced he would buy all outstanding shares for $18 per share. TWA immediately filed legal action to attempt to stop the raid. In a St. Louis court, the airline charged that Icahn's aim was to "loot TWA," leave the airline a financial cripple, and "move on to the next victim." The description is highly accurate. The process is known as "asset stripping."

But the most remarkable part of the dirty game is the fact that Icahn, Posner, Lindner, and their ilk make the raids using not a penny of their own capital! This is the LBO, facilitated by U.S. tax "loopholes" grown especially large since certain 1981 changes. It works as follows:

A relatively small but "well-connected" insider like Icahn or Boone Pickens can go to their friend Mr. Milken at Drexel, Burnham, Lambert, and propose a target; let us imagine it to be General Dynamics, for the sake of argument. Icahn says, "I have only $1 million in assets, but General Dynamics, the company I want, had net sales in 1984 of $41 million and net worth of (let's say) $30 million." Icahn then adds the two figures together, his and his intended victim's. The total is then what he proposes to be *his* collateral for securing credit from Drexel, Burnham, Lambert.

In other words, he gets the money based on the assumption that he already owns General Dynamics, even though he may control only 4%! He then uses his credit line from Drexel, Burnham, Lambert to buy control of the victim company. Once in control, Icahn begins firing the company's tens of thousands of employees and selling off the best part of its assets to pay off the huge debt incurred in the raiding operation.

Drexel, Burnham, in turn, finances such operations by issuing "junk bonds," more politely (for benefit of the unwitting buyers) called "high-yield" bonds because they pay a higher interest than normal, blue-ribbon investment-grade bonds. These bonds are often bought by desperate small savings banks and pension funds anxious to get the promised high yield. They are called "junk" because they are considered high risk, below investment grade. If the company goes bankrupt, the holders of junk bonds are simply out in the dark, with no legal claim on any of the company's assets. By then, insiders like Icahn are long gone.

In the fast moving world of U.S. financial deregulation, increasingly a kind of "anything goes" world, "junk bonds" and Drexel Burnham are the fastest growing portion of the debt market. In 1984, some $14 billion in junk bonds were issued in the United States, 70% of this by Drexel, Burnham, Lambert's Mike Milken!

What's his secret?

The "junk bond" swindle is similar to a giant financial "chain letter." The insiders who first buy in, say in the TWA takeover bid, when TWA stock was underpriced at $10 per share, are the first to sell when the raid is complete. The victim is then scavenged. All profitable or saleable corporate assets of what is usually a prudently or conservatively run corporation, are put on the auction block to pay off the debt that an Icahn incurred to make his raid. The profits go to those insiders.

For example, although Icahn's group did not succeed in taking over TWA, Icahn's group sold its TWA stock at $23 per share, having purchased the stock at an average of $16 per share, realizing a net profit of an estimated $78 million. T. Boone Pickens, head of the Texas-based Mesa Petroleum and part of the Drexel, Burnham insiders' circle, reportedly cleared $760 million profit in stock sales after his bid for the giant Gulf Oil Company in 1983.

The whole gang around Milken's Drexel, Burnham, Lambert reads like a who's who of the mafia. Carl Lindner, Cincinnati-based, is the major owner of the infamous drug-linked United Fruit Company (now called United Brands). He also is a major shareholder in Rapid American Corp., with the notorious Meshulam Riklis, spouse of porno queen Pia Zadora and a financial angel for Israel's Ariel Sharon. Lindner is intimately linked to Jimmy Carter's ambassador to Switzerland, drug banker Marvin Warner, whose Home State Savings and Loan bankruptcy in Ohio triggered a banking panic this spring. Victor Posner, another member of this insiders' circle of junk bond operators, is reliably reported to be the heir apparent to the late Meyer Lansky. Saul Steinberg's Reliance Group, an insurance holding company, is reputedly mafia-controlled. Stephen Wynn is owner of the Las Vegas gambling casino, the Golden Nugget.

Finally, in May, several U.S. Senators, led by Sen. Peter Domenici, Republican chairman of the Senate Budget Committee, introduced new legislative proposals that would outlaw the junk-bond takeover swindle. Nicholas Brady, chairman of Dillon, Read & Co. declared, "These activities [of the junk bond raiders] represent an abuse of the system that is among the most serious I have seen in 30 years . . . similar in some ways to the speculative abuses that led to the 1929 crash."

But in Britain, West Germany, and other European countries, where investment laws up until now severely restricted this kind of looting activity, moves are well under way to liberalize and "deregulate"