Hey, let's talk banking for a minute. You know, traditional banks like the "Big Four" in America: Wells Fargo…and Bank of America…and JPMorgan Chase…and Citibank. Chances are, you might only be able to name just one bank leader in the era of this podcast—CEO Jamie Dimon of JPMorgan Chase. Dimon has kind of dominated the big-banking scene in America for many years…but he's hardly a household name.

It's kind of strange. These four banks handle a massive volume of financial activity in America, but the CEOs of the banks are quite anonymous to the public. It used to be for many decades in the U.S., everyone in town knew their local bankers, folks who were certainly among the most prestigious people in town. That's because banks historically have been the lifeblood of capital for businesses in a local community. Nowadays, an international banking behemoth like Chase with thousands of U.S. branch locations alone has been paying Jamie Dimon over $34 million in annual compensation the last couple of years.

Yeah, a bank nearing $4 trillion in assets and employing almost 300,000 people requires a CEO with an extraordinary skill set like Dimon. On the other hand, Chase and the three other behemoth banks have been essentially deemed what people like to call out as "too big to fail"—and that very fact is a big warning sign about the tie-in between the massive U.S. government and the nation's four biggest banks. This level of relationship is nothing new for JPMorgan Chase—a bit over a century ago, as the storied legend goes, Chase's namesake founder J. P. Morgan personally stepped up to rescue the U.S. Government itself from disaster. Is this all maybe a bit too cozy? What do you think about being "too big to fail" in the U.S.?

All that to set up our short biography today—about Michael Milken. Who, you say? Michael Milken, a man whose reputation is somewhat like a prism: when you turn it in the light, a spectrum of different colors appears as it turns. But one thing is for certain—during the last few decades of the 20th century, Milken led the marketplace trend that dramatically expanded the face, the reach, and the success of U.S. corporate finance and entrepreneurship in such a way that many millions of Americans prospered. Indeed, Milken can be considered a major business player of the 20th century, alongside the likes of Bill Gates and Sam Walton. But the funny thing is, the foundational bright light from Milken's prism is rarely seen today.

So, here's the deal. Michael Milken will forever be known as the "Junk Bond King"…OK, now let's back up to get a feel for what that means. Bonds are debt just like mortgages and bank loans are debt—yeah, a bond is a legal agreement with the borrower obligated to pay back a lender the amount borrowed over an agreed-upon period of time, plus interest. In short, corporate bonds are just another type of debt that U.S. companies can use to finance their operations. Long before Milken came on the scene, established U.S. companies like, say, General Motors or General Electric issued bonds considered "investment grade."

And the high-end financial community in the U.S. heartily and continuously lent money to a smallish group of well-known companies through bank loans and such "investment grade" bonds. The thinking was that lesser companies were *not* high-quality…*not* "investment grade" because they were more likely to fail in paying amounts due and might even fully default on paying back the entire amount. Yes, "higher risk." So, fresh, new capital available to non-elite companies and startups was persistently lacking…hard to secure.

And that was one big reason the U.S. economy was relatively stagnant and even passively hostile to entrepreneurial ventures in the early 1970s. Yeah, that's right, the word "startup" was rarely heard. But Milken did deep homework from the time he was a very young man—digging into the real data. And Milken came to this clear opinion: the conventional wisdom's notion that "investment grade" companies were *by default* the most attractive option was often nonsense. Here's a simple illustration. In 2002, a company like Blockbuster was considered "investment-grade" by many…while Netflix was fighting to survive. But which firm *ultimately* yielded a better risk-adjusted result? Well, a few years later Blockbuster had failed…and Netflix is worth many billions. *That's* the thinking Milken deployed: financing Netflixes!

So, as a young man in his 20s and early 30s, Milken built the bond department of his employer, the Wall Street firm Drexel Burnham, fostering a dramatic growth pattern in the use of bonds for companies that were not considered by the conventional wisdom as "investment grade." Therefore, the conventional

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wisdom scornfully called these high-yield bonds "*junk bonds.*" Unfazed, Milken fostered many creative financial structures. Predictably, traditional bankers resented the sea-change to leveraged buyouts and the like, and inept corporations hated the fresh scrutiny of their poor stewardship. But guess who loved Milken? Apparently, thousands of firms, including many which became household names in industries like homebuilding and entertainment—companies that likely would not have seen their full measure of success without Milken's involvement. Like 7-11, Mattel, MGM, Barnes and Noble, Toll Brothers Homes, Calvin Klein, and Telemundo. And celebrated entrepreneurs like Ted Turner of CNN; John Malone of TCI, the cable giant; and cellular pioneer Craig McCaw of McCaw Communications…ground-breaking leaders who gravitated to Milken. The cherry on top? Countless jobs kindled by Milken's expansive activity!

But don't take my word for it. How about Joel Kurtzman, the *Harvard Business Review* editor writing in 2002: "Much of the strength and resilience of the economy today—including its ability to rebound in times of adversity—is due to the way people using Milken's financing vehicles remade ailing companies or put their entrepreneurial zeal to work." And how about Stephen Moore, the economist for the Congressional Joint Economic Committee in 2005: "[Milken's] firm Drexel Burnham easily created more wealth for American shareholders single-handedly than all the trustbusters in American history combined."

Oh, there's the catch, you might say: it's all about the stockholders! But that's not true! In the last several decades of the 20th century, the U.S. economy grew by over 50 million workers which were largely added by the entrepreneurs, the small companies—the companies that were not "investment grade." Many of those companies were sparked by the types of financing that were kick-started in the 1970s by Milken—yes, he helped craft a freshened reality that increased the supply of capital…benefitting millions of people!

But Milken and his firm Drexel were detested for it by some folks whose sandbox had been disrupted by the expanded landscape of providing capital. Clouds loomed. And ten years of pursuits by the Federal Government of alleged irregular practices at Drexel finally led the firm to declare bankruptcy in 1990. And Milken served 22 months in prison as a result of his pleading guilty to violations that the presiding Judge Kimba Wood ultimately said were limited to a financial impact of just $318,000—her realization of that led the judge to reduce Milken's sentence. Attorney Harvey Silverglate said this: "Milken's biggest problem was that some of his most ingenious but entirely lawful maneuvers were viewed [as felonies] by those who initially did not understand them…precisely because they were novel—and often extremely profitable." Thirty years later, Milken received a formal pardon from President Donald Trump.

Nowadays, Milken's name is front and center for many people because of the vast resources he and his family have given to educational causes and towards a cure for cancer, giving and funding for decades through a multitude of foundations, initiatives, and programs. The Milken family's personal giving is reportedly over $1.5 billion…and Milken raised hundreds of millions more for medical research.

Let's contrast the stories of Milken and Chase, which seems anointed as *the one bank* that Big Government folks like to call upon to help get them out of gargantuan financial messes *that Big Government was itself instrumental in helping create*—messes like the 2008 crisis and the 2023 banking fiasco. Even as Chase crafts a sweetheart deal for itself when it helps the Government, it charges $34 each for specific bank overdraft fees, even to the bottom 20% of Americans. Yes, Chase reportedly *charged $1.25 billion* in *bank overdraft fees in 2022.* So, should Chase be perceived as a common-good savior, but Milken a problem? Can these approaches by Big Government *for not serving the public good* be considered even-handed?

So. Michael Milken. Finance savant. Confident maverick. True innovator. Unique catalyst for widespread prosperity. And a linchpin for some of the greatest free-markets success stories of the last fifty years. But Milken ran afoul of government regulators, and his prism projected a darker shade of light. Now, thirty years later, we can turn the prism to look more clearly at all perspectives. …The fact is that "sin so easily entangles" (Hebrews 12:1)—true, whether sin might entangle a Milken, a Drexel, a Chase, or, yes, a Federal Government. But let's not hesitate to laud uniquely impactful individuals when they succeed in their specific roles in ways that extraordinarily better the lives of many others. *Bravo, Michael Milken!*

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A&A: Application & Action

1. Do you believe Michael Milken's work to expand options for financing in America was a clear force for good…or for ill? Why? Discuss.

2. Do you believe the more options to companies and individuals in financial markets, the better…or should the government be empowered to ensure that only government-approved or -endorsed options is a better path? Why? Discuss.

3. In the modern era, do you think the U.S. Federal Government's legitimate power to define and enforce laws is generally being done on a proper, consistent, even-handed basis? Discuss.

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