

conomic miracle, when all is said and done.

The \$1.2 trillion Eurodollar markets, unregulated by any central bank, are the repository for an annual flow of narcotics revenue alone of \$200 billion. The circuit between street sales of narcotics in New York laundered through the Caribbean offshore markets, to the massive volume of foreign purchases of New York real estate by narcotics operators, is already much tighter than most observers realize.

A few cities in the United States—Miami is the most frequently cited—are running into the same problem that has plagued the economies of developing countries: most of their economy is running into “extralegal” channels. Conservatively estimated, 40 percent of the economies of India and Brazil, and 80 percent of the economy of Colombia, are accounted for by the black market. In the case of Italy, the figure is close to 25 percent.

### Unique trap

If the United States falls into the black-market trap, it will be unique, and not merely because the United States is still the West’s premier industrial power. It will have been accomplished from the top, calculated in advance and presented as a positive social program! Advocates of the Hong Kong program are as cynical as Milton Friedman is about the consequences of the plan, although not all are as vocal in support of heroin legalization as Friedman is. They are almost boastful that the tide is moving against all regulation, down to the capacity of the monetary authorities to distinguish black money flows from legitimate transactions.

And their ultimate argument is that the virtual bankruptcy of the dollar, the amassed hundreds of billions of dollars of foreign liabilities, make their solution “inevitable.” Like Argentina, America will have to sell its assets to the foreign money pool that holds its IOUs.

At first reading, much of what the Hong Kong advocates propose is fantastic. Even the adoption of the real-estate side of this program by the Reagan Urban Policy Task Force, and the endorsement of the banking features by the Federal Reserve Board of Governors on Nov. 19, seem many steps away from the transformation some Reagan advisers are proposing. It does not seem credible that the President-elect himself would agree to it.

As in Argentina, these measures are only possible under advanced crisis conditions.

*EIR* has emphasized the dangers to the American dollar should Reagan act outside his small margin for error. These dangers are clearly evident to scavengers in London and elsewhere. Therefore the danger of crisis is real, and the Hong Kong plan, however grotesque, is not to be dismissed.

## FREE BANKING ZONES

# Laundering offshore funds onshore

by Kathy Burdman

The Nov. 19 approval by the Federal Reserve of the major New York banks’ proposal for International Banking Facilities (IBFs) free banking zones will thoroughly transform the U.S. banking system—much as casino gambling legalization has transformed the economy of New Jersey.

Under free banking zones, much of the activity now conducted offshore in the \$1.2 trillion Eurodollar and other offshore markets will be brought back onshore. Included, banking and electronics funds transfer experts tell *EIR*, will be most of the laundering through free banking offshore of the more than \$200 billion annual revenues of the international drug and gambling trades, of world terrorists, and the rest of the underground international “black economy.”

The results: a dramatic increase in narcotics traffic and other illegal activities in the U.S., as these multibillion-dollar businesses are encouraged by tax and legal incentives which allow them to launder the proceeds of illegal business right here in the U.S.

“International Banking Facilities will transform the U.S. banking system through the introduction on a nationwide scale of Electronic Funds Transfer banking,” M. J. Rossant, director of the Twentieth Century Fund commented. “The same kinds of transactions now cleared freely in the offshore banking markets through Electronic Funds Transfer will move onshore.”

Federal authorities will find it next to impossible to detect just what sort of transactions are being “freely cleared” due to the technology of Electronic Funds Transfer (EFT) used in the International Banking Facilities, Mr. Rossant continued. “The problem with the [bank] regulators is that their job will become much more difficult. Regulators are always a step behind. With EFT, there is the possibility that they will fall two steps behind.

“The possibility of the kinds of funds transfers, both geographically, and in volume, which can be done with EFT are fantastic. There are some bankers who can play EFT like a virtuoso plays the organ—and the regulators will be lost. The banks will do things they will never catch up with.”

EFT “will change the complexion of world financial

dealings," U.S. Comptroller of the Currency John Heimann, a major proponent of IBFs, told a Washington audience last month. "EFT will render geographic restrictions on financial services irrelevant and artificial without legislation by Congress." "EFT will lead to the creation of a few 'Superbanks' which will dominate the system," warned Roy G. Green, vice-president of the U.S. League of Savings Associations and former members of the 1974-77 National Commission on Electronic Funds Transfer.

Mr. Rossant is currently forming an elite Twentieth Century Fund Task Force on Banking, to be headed by Mr. Heimann, to study this electronic banking "transformation." To understand what it will mean in the U.S., we must examine what is already afoot out in the offshore markets.

### **What is the Eurodollar market?**

Let us look at the actual deposit and lending process so conducive to money laundering now going on in the London Eurodollar market, the center of the world's offshore dollar market. The Eurodollar market and offshore dollar markets were generally created in the first place as "outlaw" bank markets. They are banks in which dollars were deliberately deposited outside the U.S. to avoid federal banking regulations.

First, what is evaded is the U.S. bank regulatory system of the Fed, the Comptroller, the FDIC, and the IRS, whose bank inspectors can in fact detect quite a bit about who a bank's depositors are, and what happens to their funds. More important, however, Eurodollar market banks escape U.S. Fed reserve requirements. One of the most important safety features of the traditional U.S. banking system, reserve requirements effectively limit the amount of fresh credit private commercial banks can create at will. In the United States, banks are required to set aside an average 12 percent of their deposits on reserve at the Fed, earning no interest, as a fund from which to pay depositors in case bank loans go bad. Since it costs the banks money to maintain these funds idle, which would otherwise earn interest, reserve requirements effectively limit banks to creating new deposits in amounts about 2.5 times more than new credit issued by the Fed.

In the Eurodollar and other offshore markets, this so-called bank multiplier rockets to six times and over, because there are no reserve requirements and banks can create new deposits at will.

Since the Eurodollar market was fostered by the 1963 Interest Equalization Tax, which put a tax on U.S. bank lending abroad and thus encouraged banks to hold dollars offshore to avoid taxes, over \$200 billion in net deposits have been built up in the Eurodollar system, according to the estimates of Federal Reserve Board Governor Henry Wallich. This \$200 billion in-

cludes legitimate deposits by U.S. corporations abroad and by foreign governments such as OPEC members who fear U.S. expropriation.

It also includes the "operating balance" maintained as cash deposits by the world narcotics trade in the Far East and Mideast; deposits by the international casino gambling industry; by the Sicilian Mafia; by international terrorist organizations such as the West German Baader-Meinhof gang and their European-wide collaborators; and by most of the world's illegal businesses.

The corporations of the black economy have put their deposits in the Euromarket in the first place because there they can be laundered. Because these banks have no reserve requirements, they have been able to create, effectively, an additional \$1 trillion in offshore bank deposits on the \$200 billion base. Over \$500 billion in "interbank" deposits have been created by banks' creating money to lend to each other. Citibank London, Ltd., for example, creates a book credit (loan) to Standard Chartered, Ltd., which then deposits the loan as its own deposits. On this basis, Standard Chartered can create more loans, in pyramid fashion.

The same goes for the account of a heroin transshipper at the Hong Kong offshore dollar market. The Hong Kong refiner and warehouseman may deposit his receipts in the HongShang, of \$10 million, based upon which the bank will make him a perfectly legitimate loan for a new Kowloon condominium. This principle extends to London and the Caribbean dollar markets as well. A container-cargo front, shipping large parts of the Far East heroin trade into the North American West Coast, may deposit its \$100 million annual proceeds in an otherwise legitimate industrial account at the Royal Bank of Canada in Nassau, and receive an equally legitimate loan from the Royal Bank to purchase \$600 million in Florida real estate. An Iranian opium merchant may deposit his earnings in an otherwise legitimate account for his carpet export business at Citibank London, Ltd. and receive a loan for a legitimate purchase of a New York high-rise.

### **The onshore flows**

Thus funds from the offshore side of the drug industry, that is, the *producers'* side outside the United States, currently find their way into the country. Inside the United States, the medium of Electronic Funds Transfer has meanwhile been developed to a fine art by the big businesses that control the drug *consumer market*, in order to launder their sales profits outside the country into the Eurodollar market.

"The thing every company is afraid of is that it will—inadvertently—become a host for some sort of criminal operation," a senior executive of one of New York's largest financial houses told the monthly magazine *War on Drugs*. "But it can be very hard to track

## What are International Banking Facilities?

International Banking Facilities (IBFs), free banking zones, were first proposed by the New York Clearing House Association, the trade organization of the top 12 New York commercial banks, led by Citibank and Chase Manhattan. In a July 14, 1978 submission to the Federal Reserve entitled "International Banking Facilities in the U.S.," the New York banks called for three basic new conditions to establish free banking:

1) The removal of reserve requirements on all deposits in IBFs, exempting the banks from safety reserves against bad loans, which would allow the IBFs to greatly multiply credit expansion.

This requires lifting Fed Regulation D, which mandate reserve requirements.

2) The removal of all interest rate ceilings and time deposit requirements for IBFs, to allow interest rates to float up with international rates.

This requires lifting Fed Regulation Q, mandating interest rate ceilings.

3) The freedom of IBF profits and deposits from federal and state taxes, the same as offshore dollar deposits which are already totally tax-free.

In practice this requires no federal legislation, simply an agreement by Congress not to impose taxes on the new IBFs. The Fed has already obtained this.

State legislatures are being encouraged by the New York banks to remove their state tax laws, with promises that new IBFs will bring new jobs into states that do. New York's Gov. Hugh Carey in July 1978 moved immediately to rewrite the New York tax laws as asked by the New York Clearing House the same month.

IBFs are supposed to handle only international deposits and loans, that is, only engage in business now done offshore, so as not to compete with domestic U.S. banks for the economy's shrinking loan business. In practice, they will do large amounts of loans to domestic companies, using the fiction of U.S. corporations' foreign subsidiaries' books.

Since these three conditions require no congressional action, IBFs can be imposed unilaterally by the Federal Reserve.

down, what with the pressure to keep down the costs of operations. You just can't check into every transaction.

"There are certain sorts of accounts," the executive said, "which are virtually foolproof means of moving illicit funds. The most reliable is the type of account maintained by someone dealing in the financial market, buying and selling large amounts of securities every day. Tens of millions could go through the account every day, even if the balance at the end of the day is only a few thousand dollars. No one would notice an extra million dollars passing through."

In fact, it is the huge New York computer owned by the New York Clearing House Association, the trade association of the top 12 New York banks, which now utilizes EFT to clear funds, out into the Eurodollar markets, EFT experts have told *EIR*. The New York Clearing House computer, owned by Citibank, Chase, and their partners, called the Clearing House International Payments System (CHIPS), is a Burroughs large-scale dual processor B-6700 located at the New York Clearing House in lower Manhattan.

As the name baldly implies, CHIPS is already at the center of a rather large international crap game. CHIPS is the EFT mechanism which now links the New York banks to their Eurodollar branches and to all banks in the world's offshore markets, such that it virtually makes the New York banks part of the offshore market already.

Worse, according to EFT expert Robert Morris at AT&T's Bell Laboratories, the only possible way the over \$100 billion in drug money that leaves the U.S. annually could do so is through such a system. An owner of illegal funds such as that cited by the banking executive above, builds up a certain transaction balance at a CHIPS-member New York bank, but if the account were to grow too large, the bank would have to notify the IRS, which would audit the source of funds.

The excess funds, then, instead of being built up, are transferred out through the "red area" of the bank's computer department which is on line with CHIPS. All that is required is one member of the bank computer department to be witting in the activities related to one, or a series, of such high-volume accounts at the bank.

The narcotics executive orders a wire transfer made from his account, say, at Chase Manhattan in New York, to an IRS-proof and unregulated offshore bank account at, perhaps, Standard Chartered Bank in Nassau. In the Chase computer room, the witting computer operator adds one more message unit to the regular string of messages from Chase to Standard Chartered.

The ostensible value of the wire transfer ordered is \$10,000; the computer operator adds another \$1 million extra message unit. Simultaneously, the narcotics executive deposits another \$1 million of illegal money to be



Walter Wriston of Citibank.

laundered in his legitimate Chase account. This is then successfully transferred to Nassau with the publicly noted transfer, and the banks' computers pick up no unusual movement of funds—particularly if the account is one where large sums of money come in and are withdrawn, as the executive said, each day.

In 1979, a computer programmer at Security Pacific Bank in Seattle was arrested by the FBI for doing just that—but he simply created a nonexistent \$11 million extra message unit on a wire transfer from his Security Pacific account to a numbered account in Zürich, Switzerland. When the Zürich bank went to collect, he was caught.

But if the money *exists to be laundered*, actual funds will in fact have been transferred to the offshore center, and no problem arises. This is going on every day, Bell's Morris asserts.

### Bring it here

It is the New York Clearing House banks, owners of the CHIPS computer network, who wrote the International Banking Facilities free-zone plan and who now stand to collect. With IBFs, the entire shell game of

## The economic future under free-zone banking

The establishment of International Banking Facility free banking zones in the United States will cut dramatically into real U.S. industrial activity, by contracting the net credit available to the productive sectors of the economy.

Using IBFs, the top 100 money-center banks in the U.S. plan to consolidate control over the nation's banking system in their own hands. Credit in general is to be channeled into real-estate, commodity, and other speculative loans, at the expense of the nation's other 14,600 regional banks, who make most of the productive loans to the economy.

To Americans, this will mean steel plant closings, auto layoffs, less ability to buy homes, and soaring food prices. The international "hot money" brought into the United States by IBFs will "raise U.S. real estate prices across the board," M. J. Rossant of the Twentieth Century Fund predicts.

The IBF program, however, is part of a broader plan to establish a *national banking cartel*.

New York Fed president Anthony Solomon, in a Nov. 7 letter to Paul Volcker, stated that the Fed intends to approve, as part of IBFs, the equivalent of nationwide branching by all large banks who will join CHIPS, the New York banks' computer clearing system, to set up their IBFs.

As Comptroller of the Currency John Heimann said last week, the new EFT system, which renders McFadden "irrelevant," also means many small banks will go. "The transition to this era will be marked by . . . the disappearance of some institutions. The entity that does not adapt will not survive," he told a Washington audience.

In particular, as the Fed's Oct. 31 memo approving IBFs points out, the big banks using IBFs will be able to take *domestic* business away from regional banks by lending to U.S. corporations' home offices on the books of companies' foreign subsidiaries.

The loans now made by regional banks which are thus endangered include 85 percent of agricultural loans, 64 percent of consumer loans, 36 percent of industrial loans, including all small businesses locally, and 60 percent of housing loans in the United States.

money laundering now going on offshore will be brought onshore, hooking directly into the CHIPS system.

Under IBFs, large amounts of the \$1.2 trillion Eurodollar market will come into the U.S., according to New York Federal Reserve President Anthony Solomon. In a letter endorsing IBFs to Fed Chairman Paul Volcker Nov. 7, Solomon predicted IBFs will mean that "a substantial share of what is now Eurocurrency business is done from a U.S. base."

In particular, M. J. Rossant notes, the vast amount of dirty money now held abroad which seeks investment in U.S. real estate will flood the country. "The real-estate market will be a good example of the way things in the U.S. economy can be made to change with IBFs," he said. "As a consequence of IBFs, as I said, the flow of funds becomes much more mysterious. As a result of bringing the offshore banking markets onshore, much of the investment in U.S. real estate now conducted, or hoping to be conducted, from offshore can be brought back onshore, and this means that the real-estate market itself will be deregulated."

Bringing the money-laundering activities now offshore back to the U.S. will dramatically encourage the drug and other black-market industries of the world, now outside the country, to move operations right into the U.S. In practice, the offshore side of the drug markets and related industries are inhibited from free and clear investment of proceeds in U.S. real estate, casinos, and other business by U.S. foreign-investment disclosure laws, hefty U.S. taxes on foreign investment, and other impediments.

Most of it in practice, therefore, is now forced to go through an expensive series of nested shell corporations. After the Iranian opium producer deposits his proceeds in Citibank London, the bank does not directly make a loan to his name, but to a numbered Swiss bank account which the merchant holds, which in turn owns a holding-company shell in the Netherlands Antilles, which in turn owns a real-estate investment company in the Bahamas, which eventually buys the New York apartment building.

Now the holding shells become obsolete. Citibank London can now transfer, tax free, inspection free, reserve free, the original deposit directly to Citibank IBF in New York. The corresponding loan to buy the New York real estate can then be made directly to perhaps one intermediary real-estate company in New York, without U.S. foreign disclosure or tax applied.

Already, Florida real-estate economist Charles Kimball estimates that in the first six months of 1979 alone more than \$500 million in untraceable foreign money bought up some 38 percent of all new Florida real estate. "Two-thirds of this is directly attributable to the narcotics trade," Kimball told *War on Drugs*.

## REAL ESTATE

# Buying cities cheap... with drug revenues

by Lydia Schulman and David Goldman

*This article is condensed from a 20-page exposé appearing in the January 1981 monthly magazine War on Drugs.*

Last July, one news item peeked through the gloom of more announcements of New York City budget deficits and service cutbacks. A big Canadian realtor, Cadillac Fairview, made the winning bid on an all-time record development contract, to take 30 acres of unused property on the East River and put \$700 million into a giant apartment, shopping, and entertainment complex.

The Canadian plan, solemnly debated in the editorial pages of the *New York Times* and the *Daily News*, capped a three-year spending spree in New York real estate, driving commercial rents up to double their previous levels, and residential rents by almost as much. After years of economic bad news and declining population, the real estate boom seemed to brighten New York's future.

Or did it?

Investigators seeking the source of the multibillion-dollar flow of funds into New York found a stone wall of obscure corporate fronts in Switzerland, Liechtenstein, and small Caribbean islands. Advertisements appeared in every edition of the *Sunday Times* real estate section, representing "foreign clients with \$1 to \$20 million" of investment money looking for commercial or housing properties in New York.

At one firm, Kenneth Laub Associates, realtor Richard M. Rosen told *War on Drugs*, "Our clients deal in cash only," an astonishing fact in an industry where fortunes rise and fall on access to borrowed money. "Our clients are referred to us by Swiss banks," Rosen said. "No, we cannot say who they are. They demand complete confidentiality."

At the top level of the development business, which includes Canadian firms like Cadillac Fairview, winner of the East River bid, and Olympia and York, the city's third largest commercial landlord, the source of funds is no clearer. Their Canadian head offices are an investment conduit for funds from the trillion-dollar "offshore" pool of funds, where the rule is no taxes and no public scrutiny.