Banking by Kathy Wolfe

Bringing the Eurodollar market home

The First Boston scandal shows Dope, Inc.'s plan to turn America into a money laundry.

Among the shocking global implications of the First National Bank of Boston and Crédit Suisse/White Weld money laundering scandal is that they have suceeded in the scheme, first proposed in 1980, to turn the entire U.S. banking system into an offshore drug-money laundering haven.

EIR first investigated Richard Hill and First National of Boston in 1980. Hill and the bank were leading a campaign by the Association of Reserve City Bankers, the top 134 banks' club, for establishment of "free banking zones" or "IBFs," International Banking Facilities, in the United States.

A spokesman for Chase Manhattan at Hill's Association said at the time that the aim was "bringing the Eurodollar market back home." The IBFs, which were indeed set up in 1982, are Eurodollar-style outlaw deposits in major U.S. banking cities, and have flooded Boston, New York, Chicago, etc. with hundreds of billions in illegal Eurodollars.

The offshore Eurobond and Eurodollar markets, centered in London, Singapore, and the Cayman Islands, were created by the London and Swiss banks in the 1970s as havens for dollars fleeing U.S. banking and currency regulations. British and Swiss banks took dollar deposits from the Soviets, OPEC, and the then-$200-billion per year world drug trade, and laundered them into Eurodollar bank loans, which reached $2 trillion by the end of 1984.

The Eurobond market was a particularly nasty segment, run by Crédit Suisse, First Boston, White Weld, Morgan, Warburg's, and Swiss Bank Corp. While Eurodollar commercial banks have to account for deposits at least marginally, Eurobond dealers can take any dirty money and sell Eurobonds in dollars to the party laundering money.

This market, in which Crédit Suisse/First Boston controls some 50% of all bond volume, skyrocketed from $47 billion in 1982 to over $100 billion in 1984; its total outstanding volume is estimated at $500 billion. Eurobond lending in 1983 at $48 billion actually surpassed Eurodollar bank loans at about $25 billion, the first time.

Behind this figure, however, a huge reversal in the global flow of funds is being organized. Entire chunks of the Eurodollar market are indeed being brought back home. The entire U.S. banking system is becoming a huge "Euromarket."

Eurobonds surpassed Eurodollar lending in 1983 because of the total shutoff of U.S. and other banks' foreign bank lending. Credit was available only to preferred borrowers such as Canadian and U.S. companies who were eligible for Eurobonds. This began with Britain's 1982 Malvinas War against Argentina, which gave banks the excuse to kill loans.

According to a Feb. 25 Salomon Brothers study, since 1983, for the first time since the war, American banks, instead of lending net funds abroad, are making net withdrawals of funds from abroad, sucking the Euromarkets into the United States. Total new U.S. investments abroad (bank and others) fell from $107.8 billion in 1982 to $43 billion in 1983, and as little as $2 billion in 1984. Of this, U.S. banks' foreign lending fell from $111 billion in 1982 to $25.4 billion in 1983 to $300 million for all of 1984.

Where is the money going? The fact is that U.S. banks themselves are now able to launder drug money as well as any offshore center, due not only to the establishment of IBFs, but the deregulation of U.S. banking pushed by Paul Volcker and Richard Hill since 1980.

First, Hill's Association and Volcker put through a phased removal of *reserve requirements*, the U.S. banking law to avoid which the British created the Euromarkets in the first place. Before 1980, U.S. banks were forced to maintain non-earning cash reserves at the Fed equivalent to 5-10% of deposits. Reserves cost banks money, and are also a prime control which the government could use to stop banks from creating too much hot money.

Beginning with the Carter 1980 Monetary Control Act, designed by Hill and Volcker, U.S. reserve requirements were reduced by $3 billion in 1980, $1 billion in 1981, $4 billion in 1982, and $5 billion in 1983, such that the average reserve base of the banking system is down from 10% to 3%. With almost no reserves, U.S. banks now operate as in the Euromarkets with an *unlimited Keynesian multiplier*. They can create an unlimited amount of credit on a given deposit base.

In 1982 and 1983, the Fed also authorized creation of Money Market Accounts and Super-Now Accounts, deposits with no interest rate ceilings and *no reserve requirements*. These hot accounts have grown to over $400 billion.

Any U.S. bank is now a potential money laundry.