

Banking by Mark Burdman

When E. F. Hutton talks. . .

The best thing that could come out of the Hutton case would be some top bankers in jail, and emergency financial measures.

It would take a William Shakespeare to write all the plots and subplots involved in E. F. Hutton Corporation's plea of guilty, on May 2, to what U.S. Department of Justice attorney Stephen Trott characterized as "absolute, conscious, and deliberate fraud." We will concentrate here on what we think is the most important issue:

The Hutton case opens the door to a new phase of federal probes into drug-money-connected banks, which may, in the weeks ahead, implicate White House Chief of Staff Don Regan, and his Merrill, Lynch, in some very dirty dealings.

Hutton executives confessed guilt, in a Scranton, Pa. federal court, in response to a U.S. Department of Justice "criminal information," that charged the firm with 2,000 counts of mail and wire fraud, mostly involving transactions with "small, hometown banks." According to the DOJ, Hutton had engaged in fraud, to the tune of a total \$10 billion!

Speaking to newsmen in Ashland, Ohio on May 4, Attorney General Edwin Meese warned that cracking down on the "white collar crime" E. F. Hutton was involved in, "is one of our primary criminal law objectives, along with narcotics, and organized crime and terrorism."

Now, we know that President Reagan and Attorney General Meese are being cautioned to "go slow" on jailing bankers in such cases. They are being told that the impending wave of bankruptcies of banks and brokerage houses could bring down the whole financial system.

In fact, the economy would be far better off without such dirty banking, provided that President Reagan takes the kind of Financial Emergency measures for which there are good precedents in history—such as Franklin Roosevelt's 1939-43 war mobilization of the U.S. economy to defeat the Nazis.

Security and Exchange Commission (SEC) officials investigating Hutton's activities suggest that the firm may have all investment activities suspended, under the Investment Company Act of 1940. Since Hutton, like Regan's Merrill, Lynch, is a prime financier of U.S. government debt, the U.S. government might find a unique solution to the problem of the astronomical federal debt, by simply declaring monies owed to dirty banks and investment firms, contraband.

An important warning to illicit banking institutions was issued on May 3 by James D. Harmon, head of the President's Organized Commission on Organized Crime. Without reference to the E. F. Hutton case as such, Harmon said, according to the *International Herald Tribune*: "Some international financiers may soon turn into international fugitives. "In wartime," he stressed, "Swiss neutrality may be viewed as morally admirable, but in the war against the drug trade, neutrality amounts to complicity."

E. F. Hutton, along with Merrill, Lynch, were the two most well-known U.S.-based financial institutions involved in a massive drug-money-laundering scam that became known as "The Pizza Connection."

Merrill, Lynch, was Don Regan's fiefdom throughout the 1970s, including during the period in which certain of the firm's illicit "pizza connection" activities are believed to have transpired. During the 1970s, Regan incorporated into Merrill, Lynch's domain, the White, Weld firm. White, Weld is the dirty-money investment house, tied to Switzerland's *Crédit Suisse*, the dope-runners' bank of choice, and to the disreputable U.S. Attorney for Massachusetts, William Weld.

In the "pizza connection" case, Hutton and Merrill, Lynch—as well as Switzerland's *Credit Suisse*, *Swiss Bank Corporation*, and *Banca della Svizzera Italiana*—were charged by U.S. federal authorities with repeated activities of abetting money-laundering, in the period from January 1980, through September 1982.

Hutton's activities were the most egregious. Justice Department attorneys charged that Hutton executives had been repeatedly warned by federal authorities, that the firm was being used as a conduit for money-laundering, and names of mafia figures were provided to the bank's executives. The executives were told not to reveal to these mafia figures that the authorities were investigating them. But Hutton executives did warn the mafia bosses that the authorities were on their trail!

Hutton's \$10 billion in wire and mail fraud activities were committed by strongarming small-town banks into trusting Hutton's advice, and then using the deposit benefits in these small banks, to "kite" checks, to multiples of 10 to 20 times the value of the deposit.

In one case, Hutton deposited \$33.5 million in the United Virginia Bank, and then withdrew more than \$640 million from the same account, later that year.