

stitute in Colorado, has demanded \$100 billion in defense cuts over the next five years, and "an emphasis on the kinds of weapons that work in combat, rather than those with the greatest technological complexity. I propose cutting such major weapons systems as the Nimitz-class carriers" for "less expensive, more effective alternatives." Along with these hardened-slingshot proposals, Hart urges, "We should seek to ban outright the use of weapons in space rather than emphasize space-based defenses."

Senator Ernest Hollings, a regular fixture at Pamela Harriman's Washington salon, has a doublespeak pitch: "America must retool, invest in the future, and put 12 million Americans back to work. To do that, we must begin by freezing the federal budget to reduce recovery-choking deficits. That sacrifice must be shared, even by the Pentagon." Eliminating major new weapons like the B-1 bomber, a Nimitz-class carrier, and the advanced F-18 fighter-bomber, Hollings' program calls for cutting \$175 billion in defense over the next five years.

### Budget maneuvers

The common theme for these Harrimanite-KGB variations on how to gut U.S. defense capacities was injected earlier into this year's budget debate by "nuclear freeze" leaders Cyrus Vance and Robert McNamara. They have demanded that Congress cut nearly \$150 billion in defense spending over the next five years, especially "technologically complex" systems. McNamara went on national television the second week in April to spout Andropov's line.

The *Washington Post* rounded up various MADmen with the Andropov line for a story April 4 on the Reagan decision. The "first strike" charge was repeated by Seweryn Bialer of the Columbia Research Institute on International Change; former KGB agent Vladimir Petrov, now a professor at George Washington University; Kissinger flunky William Hyland of the Carnegie Endowment, who declared, "Andropov has said that the United States is going in the direction of a first strike"; and Raymond Garthoff of the Brookings Institution, who said, "The Soviets are going to have to look at this as having an offensive capability." Marshall Shulman, director of the Averell Harriman Institute at Columbia University, said that Reagan's initiative "raises questions about what the intentions of the administration are" and reinforces the "impression that this administration is not serious about arms control."

The Harrimanites in Congress are geared up for an assault on the defense budget centered on portraying the President's "compulsive overspending" as an addiction to warmongering. Like Andropov, they prefer to talk about "first strike" and "stopping the arms race" than to discuss the President's actual plan for eliminating MAD and the threat of nuclear destruction.

Perhaps they can explain why Andropov has prevented publication of the full text of President Reagan's March 23 speech in the Soviet Union.

## SPIS: offshore banks aid drugs and crime

by Renée Sigerson

The Permanent Investigations Subcommittee of the U.S. Senate issued a report early last month charging that the \$1.7 trillion Euromarket system is heavily dominated by narcotics traffickers, smugglers, and organized crime cartels which are financially looting the United States. Entitled "Crime and Secrecy: The Use of Offshore Banks and Companies," the report is the outcome of a two-year study which has resulted in the best-documented account of the financial workings of criminal organizations ever issued by an official U.S. government agency.

Public charges that the Euromarkets work to the benefit of international organized crime, and operate largely as a cover for illegal activities, were first made in 1978. At that time, *EIR* editors David Goldman and Jeffrey Steinberg issued what became a best-selling documentary entitled *Dope, Inc.* demonstrating that the international narcotics trade, the "biggest business in the world," was conducted through the electronic transfer of funds provided in secrecy by offshore banking centers. Although the contents of that study were made available to numerous government agencies during the Carter administration, this documentation was heavily suppressed.

The subcommittee report indicates that the Reagan administration is attempting to escalate the "war on drugs" announced by presidential adviser Edwin Meese at the end of March, and the war on the Mafia, announced by President Reagan earlier this year.

### The scope of criminal financial activities

The Subcommittee (known by the acronym SPIS), takes as its starting point the estimation by experts that the illegal economy in the United States ranges "from \$100 to \$330 billion" annually; that is, around 10 percent of total U.S. Gross National Product. Going from there, SPIS estimates the value of "foreign commerce" for illegal activities to be roughly in the same proportion as exports are to the U.S. legal economy, or about \$20 billion per year.

Although this estimate of illegally laundered funds emanating from the United States seems extremely modest, it is large enough to have led the investigators to consider the broadest range of channels through which funds are laundered out of the United States for concealment. The study reports that London is the leading center worldwide for the concealment of funds; and that two-fifths of all foreign banking activities conducted out of Switzerland are performed with other offshore centers, Switzerland being the center for

the practice of "layering" secret financial accounts so that beneficial ownership is impossible to determine.

The SPIS task force also concluded that the absolute size of laundering operations aside, illegal financial operations are now so tightly interwoven with "legitimate" operations in the Euromarkets, that illegal funds constitute a threat to the stability of the world banking system. A chief example used in the study is the 1982 bankruptcy of an offshore subsidiary of Banco Ambrosiano of Milan, Italy, a bank controlled by the secretive Propaganda-2 Masonic lodge. (The SPIS document is probably the first U.S. government report to discuss the P-2 affair in Italy—which revealed the intimate connections between criminal Mafias and leading bankers—in any substantial detail). The report states:

In 1982, Banco Ambrosiano of Milan, Italy, collapsed, crippled by a \$1.4 billion exposure in loans to several mysterious Panamanian "shell" companies. . . .

The Euromarket is a critically important . . . feature of international commerce. But in the haven countries where money is laundered. . . it is unregulated. Thus, the same conditions which facilitate international commerce also create criminal opportunities.

The criminal use of offshore facilities poses a problem to the . . . stability of entire national banking systems. The fragile condition of the world's banking system today is a result in part of questionable loans, poor controls and the country risk occurring when so many nations cannot pay the interest or principal on their debt.

It is not inconceivable that it could be a criminally derived loss, not the failure of repayment of a loan from a sovereign nation, which could be the back-breaking straw to the banking system.

Included in the report is a shocking—if not surprising—account of the response SPIS investigators received in the City of London to requests for cooperation between the United States and Britain in dismantling criminal activities in offshore centers. British officials rejected the proposal for cooperation out of hand, asserting for the record that organized crime was an *internal* American problem, due to a significant degree to the shortcomings in the functioning of the U.S. government!

As London sees it, the crime problem for the most part rests with the U.S., for whether it is drug money or other fraud it derives primarily from U.S. sources, i.e., criminal transactions in the U.S., and is processed offshore on behalf of American citizens and companies. The problem is compounded by U.S. agencies which do not cooperate with one another. . . . That, in relation to banking crime, is a small mirror of what these officials contend is the disorganized foreign pol-

icy of the present U.S. administration, including inadequacy in the Caribbean.

Associated with this failure is a U.S. political and ideological attempt to export the responsibility for U.S. crime. . . . [I]t is argued by London that control efforts will incur only costs but no benefits. Given these conditions, whatever the U.S. policy, it behooves the U.K. not to involve itself collaboratively.

As proven in *Dope, Inc.*, Britain's major banks, along with their junior partners in the Canadian banking system, not only participate in the proceeds of the international narcotics cartel, but act as the primary discounting and credit-forwarding facilities for drug plantations, processing facilities, warehousing and transport. While it is natural that British officials would thus be so hostile to requests for anti-crime support, the fact that SPIS chose to publish the contents of their discussion should have far-reaching effects.

Appended to the SPIS study is a list of dozens of legal suits filed by U.S. agencies against criminals who used offshore accounts to conceal financial transactions. Most of the cases cite as many as 10 leading Swiss banks as complicit in the "layering" of offshore accounts. Also prominent in the series is Canada's Bank of Nova Scotia, Barclay's Bank, and offshore divisions of Chase Manhattan Bank. The case stories include documentation on Joseph Hauser, a Mafia kingpin who defrauded untold millions of dollars from trade union organizations through insurance fraud.

While the report devotes much attention to internal political conflicts which stymie a direct approach to law enforcement in tiny Caribbean banking centers, the investigators stress that a crackdown on illegal banking must be organized by "the major trading nations" if it is to work. The study warns against understating the degree to which illegal deposits are accepted by the world's largest—and allegedly most reputable—banks. "For example, in the Caribbean, one major Canadian international bank has a consistent reputation for encouraging dirty money. . . . Senior bank officials [commercial and governmental] describe instances where headquarters banks have removed competent offshore managers for their failures. . . to optimize profits through corrupt relationships."

The SPIS study has already been taken as a warning by international bankers. When it was released in early March, the London *Financial Times* ran front-page coverage of its existence. What many participants in the offshore circuit hope, no doubt, is that this exposure will quickly lose political momentum; and that in the wake of a pending collapse of the world banking system, *Dope, Inc.* will simply pack up and move its operations "on-shore," to such locations as the International Banking Facilities, established in 1982 throughout the United States as competitors to offshore centers. The SPIS report, however, gives reason to suspect that forces in the Reagan administration will not tolerate that kind of solution to offshore criminality.