

Eye on Washington by Nicholas Benton

New report on bank money laundering

The Permanent Subcommittee on Investigations of the Senate Government Affairs Committee has issued a new report, "Crime and Secrecy: the Use of Offshore Banks and Companies."

Based on hearings held last spring as well as extensive investigations, the report updates the committee's 1982 report on criminal exploitation of offshore tax havens, and a 1983 Joint Economic Committee report on the underground economy.

The 1983 report had estimated the U.S. underground economy hides \$222 billion annually—7.5% of the gross national product—with some estimates as high as \$600 billion. As a result, the latest report indicates in its introduction, the significance of offshore money-haven secrecy (considered an indispensable factor in the underground economy) "may well transcend the issue of criminality and thus have major economic policy ramifications for the United States."

This is an understatement. The estimate of a hidden \$600 billion is over three times the entire federal deficit. Needless to say, if Congress concentrated its efforts to clean this mess up, not only would it save our youth from the deadly effects of drugs, but it would not have to be talking about "pulling the plug" on the elderly and other ugly business to cut the deficit.

The report opens by acknowledging that the big problem with offshore banking havens now involves organized efforts—often linked to laundering drug money—and not individual tax evaders. Sen. William Roth (R-Del.) is quoted: "Use of offshore haven secrecy laws is the glue that holds many U.S. criminal operations together."

The report's description of how the secrecy operation works, although using a relative "small fry" as the example, is useful:

"Let us assume the domestic narcotics trafficker buys 100,000 pounds of marijuana. He pays \$200 a pound. He would then get a profit of approximately \$100 a pound. The money will come to him little by little. At one point in time, he will have accumulated millions of dollars. So what can he do with the money? By creation of offshore operations, he is able then to buy legitimate businesses in this country and is able to invest in other businesses outside of this country. He is able to bring some of his narcotics profits back into the banking system by using these offshore banks and offshore corporations. . . .

"The problem of how to channel offshore dollars back to the United States is undetected is alleviated by the haven country's secrecy laws. In the haven, the American buys a shell corporation. Then, in the name of that corporation, the American deposits money in a bank authorized to do business with foreigners. Under the protection of the haven's secrecy laws, the corporation can transfer the money to the local branch of a large international bank. Next, the American borrows the money from the branch in the name of another corporation. The records of the bank in the U.S. fail to disclose what has happened because they show only a large deposit by one

company and a loan to another company that investigators cannot identify or trace."

One tack that has been taken to go after this is the 1980 Bank Secrecy Act, which has made it law for banks to report all transactions of over \$10,000. Noncompliance with this, of course, has become famous—this year alone, the Treasury has nailed some of the biggest banks in the country for failure to report sums up to \$3.8 billion (Crocker Bank of San Francisco) in just four years. The Crocker case was so obvious—mostly involving six Hong Kong Banks—that Treasury officials were not reticent to say that heroin money laundering was involved.

However, the Permanent Subcommittee report says that the Bank Secrecy Act is being sidestepped by other means of moving the cash outside the country into the offshore banking havens, such as through smuggling.

Even so, by cracking some of the bank secrecy violators this year, the Treasury has begun to unravel some key international dope racketeering operations. The report indicates it never would have happened without this act. In 1979, for example, it quotes Paul Volcker's Federal Reserve Board—following its own so-called investigation—stating flatly that "no violations warranting criminal referral have been found by our examiners!"

The report examines the cases of 29 banking havens. It concludes with a series of recommendations, including sanctions against those havens who express no interest in treaty negotiations aimed at stopping illegal money laundering, such as requiring that all loans from such havens be reportable as income for federal income tax purposes.

Otherwise, the recommendations lack any real teeth.