

The banking system depends on dirty money!

by David Goldman and Mark Burdman

The stock market's rise to a record 1476 on the Dow-Jones average followed, by one day, announcement that Seattle's SeaFirst Bank had been caught with nearly 3,000 violations of the Bank Secrecy Act. SeaFirst, now a unit of Bank of America, paid the Treasury a civil penalty of \$597,000 for having accepted *several billion* dollars of suspect deposits. SeaFirst's fine conforms to the pattern of penalties imposed on other large banks for money-laundering throughout the year, in the range of a couple of days' interest on the illegal sums transacted.

Of course, the stock market was not responding to the SeaFirst case, but to the continuing, extraordinary speculation concerning large corporate mergers. They are nonetheless part of the same pattern, in which illegal money dominates the world economy.

Since 1982, when flight capital from Ibero-America brought \$33 billion in untraced dollars into the United States (reflected in the "errors and omissions" column in the U.S. balance of payments), the balance of new cash available to the American credit system has come from illegal sources: flight capital, tax evasion, and above all, the proceeds of the \$500 billion per year international narcotics traffic.

America's dependency on such funds accelerated through 1984, when the so-called Eurobond market replaced ordinary commercial bank lending in global finance. Eurobonds are sold to anonymous investors through Swiss and similar banks, in a market dominated by the First Boston-Crédit Suisse joint venture. Since Treasury Secretary Donald Regan, during his tenure as chairman of Merrill Lynch, sponsored both the First Boston-Crédit Suisse linkup and the Eurobond market's explosion, it is not surprising that the Treasury would raise no alarm at the growth of this market to a \$150 billion monstrosity.

Of the \$150 billion per annum the United States must

bring in to finance its current account payments deficit this year, roughly one-fourth will come in through so-called "errors and omissions." These take the form of unreported purchases of American securities or other assets by foreigners, and almost all are dirty. Since the tidal flow of flight capital has dried to a trickle—all the money that might have been moved has been—virtually all of the present flow represents narcotics or similar funds.

As noted, America brought in \$33 billion in unrecorded transfers in 1982; the volume fell to only \$9.3 billion in 1983, when flight capital from Ibero-America was exhausted. However, the sum rose back to \$30 billion in 1984, and International Monetary Fund estimates suggest it will rise to roughly \$40 billion for 1985.

These numbers may seem trivial relative to the volume of transactions on international markets; e.g., the Group of 30, a private banking advisory group to the IMF, reports that the *daily* volume of foreign exchange transactions on the world currency market rose to \$150 *billion*, or 21 times the volume of international trade. However, the contrary is true; as the Group of 30 emphasizes, the doubling of foreign-exchange transactions since 1978 reflects an enormous leveraging of a very thin underlying capital base. Under the circumstances, a few tens of billions of real cash money may control a pyramided position in the trillions. In that respect, the position of what we call "Dope, Inc.," has become decisive in the world economy.

The leading institutions of bank regulation, most notably the Swiss-based Bank for International Settlements, do not merely share this estimate: They are fighting to suppress any serious effort to control the narcotics traffic, or the laundering of resulting revenues, on the grounds that such action might bring down the banking system.

Well-informed European financial observers claim that

the Swiss banking establishment used monetary blackmail to make the U.S. government back off investigations of dope-money laundering. The Swiss, who host the central banks' own "central bank," the Bank for International Settlements in Basel, reportedly told American regulators that the U.S. banking system might come down if they pressed the financial underworld too hard.

Swiss sources say that Swiss and American authorities reached an agreement last summer to put a halt to investigations into drug-money laundering. A Swiss observer close to the banking community in Basel and Zurich, reports an odd "coincidence": On the one hand, "for the past two-three months, there has been no news at all about money-laundering, the scene is quiet, although before that time, this was a big issue here, with the banks always commenting on it, getting nervous about it, and so on." On the other hand, he said, in the last days of August, almost three months ago to the day, there was a meeting, in Switzerland, of U.S. officials from the Securities and Exchange Commission and other agencies with three officials from the Swiss Justice Ministry—Krafft, Schmid, and Krauskopf.

Swiss don't like direct U.S. probes

"The Swiss government has said, many times, it doesn't like U.S. violation of a Swiss-American 'Legal Aid Agreement,' whereby only the Swiss authorities are allowed to investigate banking affairs inside Switzerland, when a foreign government complains," the source said. "The Swiss don't like direct U.S. investigation. I don't know if this was resolved in late August, but the final communiqué talks of 'a climate of cooperation and not confrontation.' Maybe this is related to why we have not been hearing since then, here in Switzerland, about money-laundering investigations from Washington."

The Bank for International Settlements, the super-secret institution whose membership includes Soviet bloc as well as Western central banks, opposes any investigation of dirty-money laundering as a matter of principle. A senior Bank for International Settlements official, who asked not to be identified, admitted that the BIS is trying to keep a lid on any drug-money laundering investigations.

The official, with the BIS's Cooke Committee, responsible for bank regulation, said: "The banks have enough to do, without necessarily spending immense effort on whether their customers are engaging in nefarious activities or not. . . . The Swiss are always having accusations tossed at them about this, and they would argue: The fact that Switzerland has become a haven, is not Switzerland's fault, but the fault of the countries from which drug-money laundering originates. . . . In any case, my information is that the money involved in money-laundering is small; compared to overall transactions, it's peanuts. The figures involved in the Bank of Boston case and in the Crocker National case are actually very small, they have been grossly inflated by the press."

In fact, the multibillion-dollar money-laundering by ma-

ior banks which has shown up in U.S. Treasury investigations to date—including the Nov. 25 citation of SeaFirst Bank of Seattle—reflects no more than 2-3% of dope money laundered through the American banking system.

The financial cornerstone

"The Bank for International Settlements, as the central bankers' club, sees catching drug-traffickers as its last priority," a Rome-based investigator on money-laundering said. "There is an institutional conflict of goals, since the drug deposits are increasing liquidity in the banking system. And, the bankers love getting flight capital, which is so intermingled with drugs. Dirty money and flight capital have become the cornerstones of the international financial system. The tendency of the regulators at the BIS, is to quash rumors about banks involved in laundering activities. The regulators get nervous when people bad-mouth the banks."

Are the Swiss bluffing about the vulnerability of the U.S. banking system? As early as 1982, the Senate Permanent Investigations Subcommittee warned that the dependency of American banks on international dirty money was great enough to prompt a banking crisis. The Treasury's limp-wristed investigative efforts have already produced evidence that over \$20 billion in major banks' deposits during the past three years were illegal cash deposits; the actual total of such deposits for the whole banking system in that period is probably closer to \$600 billion.

According to U.S. government figures, at least \$150 billion has entered the United States from abroad in ways that the government can't account for—money that disappeared off the books. That, of course, excludes the much larger amounts of dope money moved abroad and then sent back to the United States under supposedly legitimate cover. Dope, Inc. has investments in the United States worth perhaps half a trillion dollars.

Blackmail of the administration?

"I would not be surprised if there were a connection between the administration's hopes for cooperation on the Baker Plan from the banks of the Ditchley Group, and your report that the government has backed off pursuing money-laundering cases against banks such as Bank of Boston," a well-placed London banker commented. Significantly, the chairman of the bankers' cartel Ditchley Group, also known as the Institute for International Finance, is Richard Devereux Hill, who was Chairman and Chief Executive Officer of the Bank of Boston at the time that the bank was fined for illegally laundering at least \$1.16 billion of drug and other black monies to Crédit Suisse and other banks.

Informed financial sources speculate that the Ditchley Group is being used by Bank of Boston, Chase, and other banks implicated in massive illegal laundering transactions, to blackmail the Reagan administration by threatening chaos on the international debt front if the laundering cases are aggressively pursued.