

# The relationship between morality and economics in illegal financial flows

by Judge Carlo Palermo

*Judge Carlo Palermo of Italy was a protagonist in the investigations of the mafia in Sicily. Following an attempt on his life, he moved to Rome and served on the judiciary committee in Parliament. He is now a member of the Trent city council and the regional council of Trentino, where he continues his anti-mafia activities. Below are his remarks to an international conference in Eltville, Germany over Dec. 2-3, co-sponsored by the Schiller Institute and the International Caucus of Labor Committees.*

## 1. From crime to the problem of morality in economics

When it comes to problems related to organized crime, the prevailing approach—and Italy is no exception—is to view the leading criminal phenomena in terms of the most obvious activities (drug and weapons trafficking, terrorism) of the associations operating in the field: mafia, camorra, and drangheta.

Any other analysis is either completely missing, or is only touched upon on those rare occasions in which, more by coincidence than by deliberate intention, the object of investigation involves banking institutions and financial economic structures.

The basic reason for this approach lies in the common agreement that it is we need not, or should not, “touch” in any way the economic and financial equilibrium upon which national interests and the international balance of relations rest.

Again, in this generally accepted approach, what is not examined or faced is perhaps the most relevant topic in social relations today, that is, the problem of “morality” in economics.

As will become clear in this presentation, this is in fact a basic point which analysts and researchers should concentrate on, in order to understand the real substance of the relationship in today’s social life between man and society, and between East, West, and South, in particular after the fall of the Berlin Wall.

Just six years after that event, which appeared as the most concrete victory of humanity in our world, with the

overthrow of communist regimes and of the atmosphere of tension that had conditioned the first 40 years of the postwar era, today the new and old specters of racism, xenophobia, and international terrorism seem to stalk the world.

While in Bosnia, Rwanda, even Chechnya, more than 1 million Muslims have been massacred in the name of declared genocide, called by some “ethnic cleansing,” in another part of the world, on the nearby shores of the Mediterranean, other Muslims are dragging Algeria into a dramatic civil war whose aim is to establish an Islamic State and to defeat the French, the enemies of God. And, on the same shores, the traditional enemies of the Muslims, the Jews of Israel, kill their own head of State, promoter of peace with Palestine, through the hand of their own fundamentalist brothers.

This is happening, while in our country, Italy, the echo of the terrorist and mafia massacres of Capaci, Palermo, Rome, Florence, and Milan can still be heard.

Once again, terrorism, racism, and xenophobia are raised to the level of principles which call into question the values that are the essence of human dignity.

Why all this? Why are the Hutus and Tutsis massacring each other in Rwanda? Why are the inhabitants of ex-Yugoslavia doing the same thing? Why is there terror in Paris, Beirut, Algiers, in New York, Islamabad or Karachi? Why is the Mossad—the Israeli secret service—still choosing the path of homicide in the streets (on the island of Malta) to eliminate the head of Lebanese terrorism? Why are fundamentalist cells hidden in Italy today, as in the past, which organize terrorist attacks abroad, in France or in Bosnia? Why are we not able, even today, to shed light on the sinister massacres of the 1970s and 1980s, or on some of the most disturbing, extraordinary crimes, apparently committed by the mafia, but mixed up with obvious connections to activities carried out by our rogue secret services and by the masonry? Why have we perceived or intuited in the speeches of our political leaders many times—Moro speaking in favor of Qaddafi at the time of the Fiumicino Airport massacre, Craxi on the occasion of Habbash’s flight from Sigonella—above and beyond the obvious facts, aspects and internation-

al links which are obscure, murky, cryptic, and upon which we still cannot shed light?

The answer to these questions is evidently not simple, even though it is easy to surmise that there are “prevalent” interests, and factors pursued by the governments of the industrialized countries, by industry, and by financial and economic operators.

## 2. The new mafia of the East

In this context, there is no doubt that a transformation for the worse has taken place in the current international crime situation since the fall of the Berlin Wall. This has occurred as we have moved from one system of counterposed economies—justified by the balance of power paradigm—to an integrated system, in which the essential value to be pursued, worldwide, seems to be profit and power in and for itself. (“Balance of power,” means here the idea that the state of nature is not necessarily that of war, in the sense that State security can come from the balance of power rather than from the unbridled drive for power and war.)

The study of contemporary international relations reveals a new paradigm being consolidated, that of *transnationality*. In this paradigm, international relations are no longer carried out within the confines of the State, as they were in the past, but are pulled around by activities carried out by individuals, groups, and non-governmental organizations across State borders, activities which are prevalently economic, and often counterposed to and antagonistic to the institutional formations in power and to concrete national interests.

In these relationships, the continuing growth of interdependency among States (resulting from the spread of means of communication and transportation) is both the cause and means of multiplying easy illicit activities, especially through the splintering of criminal activities into thousands of tributaries, placed here and there in the world, linked up through computers—which makes it practically impossible to identify those responsible. Hidden behind a myriad of companies, they are active in various countries with economic and financial interventions into the international stock markets, buying State bonds, that is, with destabilizing or stabilizing activities, and conditioning certain forms or manifestations of power—economic, social, and political.

This degeneration is apparent in an analysis of the trends in international crime, in line with the new relationship established between the Italian and American mafias, on the one hand, and the Russian mafia, on the other, especially in connection to the most lucrative profits possible today, those linked to trafficking not only in drugs, but in weapons and nuclear weapons components.

The significant increase in interest in nuclear arms purchases on the part of Third World countries and numerous CIS [Community of Independent States] countries has determined, in fact, an increase in organized crime in western European countries, in which the Sicilian mafia, which has

always worked more closely in cooperation with international terrorism, has assumed a leading role.

With a vast, efficient communications network, the mafia has improved the volume and reliable availability of products, including nuclear materials, to radical Islamic states.

The emerging international system supporting nuclear trade by radical States, especially in the Middle East, follows a standard procedure: Nuclear materials and arms are bought throughout the CIS, both by officials of radical Islamic States, and by the local communications operators of organized crime, including groups from the Muslim world.

Consequently, the networks of Russian organized crime have been sending their merchandise toward western Europe, for a long time through Croatia, and sending the samples and relevant documents to financial centers, principally in Germany, where business is carried out through buying operations.

The radical States supply the mafia with drugs and counterfeit dollars at a reduced price for payment of nuclear merchandise.

The Italian mafia moves the drugs and recycled money through its international connections, with Russian groups that play an increasing role in these situations; then, some profits are diverted to various financial centers as payment, in the interest of the buyers.

The recent setbacks for the mafia in Italy, following the stepped-up fight against the armed wing of organizations which occurred after the recent Sicilian massacres, have provoked a shift in crime toward countries of the East. In this context, the characteristic way the mafia has changed, has been to move out of Italy into the rest of Europe and the East.

Hundreds of financial transfers and dirty money-laundering operations, as well as control over drugs and arms trafficking, have been centered in Germany. One special point is Kempen in southern Germany, where various mafia personalities have been directing a large network for some Sicilian families, with operational networks in Sicily, Milan, Zurich, Amsterdam, Hanover, Neumünster, Hamelin and Berlin.

Other major factors in the growth of the role of organized crime in the illegal nuclear trade have been related to crime networks in Chechnya, which were able to bring Middle East buyers into contact with Russian suppliers and organized crime intermediaries to form a solid, efficient system of nuclear trafficking.

It should be remembered that beginning in 1990, the Russian groups—*Organizatsiyas*—emerged as an enormous criminal entity organized with an international range of action and global importance. The Russian *Organizatsiyas* are implicated in many aspects of traditional organized crime, in some new sectors, and in the spread of nuclear arms and arms traffic. Their networks extend into the U.S.A.

The Italian mafia was the first organization to exploit this situation. The representatives of the various Italian mafia families have been extremely active in building bridges with clandestine criminals of the U.S.S.R. and eastern Europe. Consequently, the first contacts between Russian groups and organized crime in eastern Europe came through the Sicilian mafia. Their main instrument was the change in sea shipment routes for major drugs, from the Near East to eastern Europe.

Furthermore, the collaboration between Russian groups and the "old" crime families of the U.S.A., Italy, and the Latin American drug cartels, has been institutionalized and expanded since spring 1992.

In August 1992, these relations were consolidated in a secret encounter between the Italian mafia and the Russian *Organizatsiya* in Prague, which has become a beachhead for the advance of the Italian mafia into eastern Europe. According to discreet Russian sources, this encounter led to an agreement on the division of labor and responsibilities between the Russians and the Italian mafia.

On the basis of these agreements, the Italian mafia was to receive uranium, radioactive materials, and sophisticated weapons, stolen from Russian Army depots, and some depots of the former Soviet republics, in collaboration with secret service agents and high-ranking officials. In exchange, the Russia mafia was to receive drugs, especially cocaine, which it was to sell in eastern Europe, in Russia, and other former [Soviet] republics, or to smuggle into western Europe through Poland and the German border.

After Prague, another meeting took place in mid-1992 in Lucerne, Switzerland, among Italian, American, Russian, and Ukrainian mafiosi, on their collaboration in drug smuggling in western Europe, and in other associated activities like weapons smuggling.

Certainly, in autumn of 1992, Russian crime networks built an elaborate and vast system for smuggling diversified products between western Europe and the CIS countries.

In this context, the region that became the most important was the Balkans. For example, one group of nuclear traffickers unmasked at the end of October 1992 in Munich, Germany, was found to have had close contacts with a buyer from Croatia. On that occasion, 18 persons (one of them, a Catholic priest active in the Croatian cause) were arrested with 2.2 kg of enriched uranium in their possession. This elaborate, sophisticated network had at least 33 bases in Germany, Austria, and Switzerland.

Thus, since autumn 1992, when nuclear trafficking entered the arena, with international organized crime led by the Italians and Russians, Germany became the center of trade in radioactive materials, and the central site for taking care of major quantities of nuclear materials for military use, as well as for other nonconventional weapons.

The German investigating authorities revealed more than 100 cases of radioactive materials trafficking from the CIS

to the West in the autumn of 1992 alone, reaching over 120 cases at the end of 1992, with ever new trade in radioactive materials, arms, Semtex explosives, and drugs.

These organizations now are circulating enormous sums of money, recycling it worldwide, both through the banking system and outside it.

It is no coincidence that there is a proliferation of investigations, as even in Trentino today, in which what began as an inquest into drugs and bribery, led to dirty money-laundering operations, no longer through the traditionally known fiscal paradises, but rather through the new banking institutions of Prague, Budapest, and Moscow, not subjected to any controls except those of the new mafia families which had come to the fore with the support and connivance of the Italian mafia.

Certainly, with the reinforcement of banking regulations and surveillance in western countries, and with the general decline in profits from drugs and other "classic" criminal activities, one has to conclude that the mafia has begun to consider the arms traffic, especially the nuclear materials trade, as a means for recycling drug money and for obtaining higher profits than in the past, contributing to the creation of secret capital needed for investment in the most lucrative activities: pure speculation.

### 3. The system of speculative transactions

If all this is taking place at the international level (and investigations in various European countries point to the enormity of such traffic), one point to consider is that the difficult economic situations in certain countries, or the situation of war in others, are being used and exploited to create and feed the accumulation of illegal capital.

At this point, the other analysis has to be made, relative to the "less transparent" lucrative activities in the international financial and economic system.

In 1993, an Italian, Florio Fiorini, known in Italian news events and also internationally (the Sasea collapse, Cr dit Lyonnais), provided an interesting explanation of this system. This person, financial director of the ENI [Ente Nazionale Idrocarburi Italiano, the national oil company] from 1971-82, and then international financial operator, said (in an interview in *Espresso*, March 21, 1993): "The financing of parties certainly was not unknown to ENI. In fact, it had been one of the basic components, since the time of [ENI founder] Enrico Mattei. On the other hand, how could ENI, an entity different from the State, come into being without 'greasing' the parties which allowed it to be born? The financing system was simple, and was based on the speculators and the central banks. In fact, one of the great powers of ENI was, and is still today, the weight of the currency market, that is, the exchange market.

"ENI bought, as it buys today, 25% of the dollars which are purchased in Italy, because it has to pay for national

energy needs. Furthermore, branches operated abroad in Germany, Switzerland, Austria, France. . . . It was therefore easy, thanks to the power of ENI in the currency markets, and to the privileged information associated with the position—contacts with central banks as well as with sheikhs—to speculate on exchange rates with profits paid by the speculators, which served for the needs of financing parties.”

Here we do not need further details. For the aims we have defined, what we want to point out is the shift (dictated by profit goals connected to power positions) from “real” operations, founded, that is, on concrete and real transactions, to profits acquired through financial operations of a speculative nature, on exchange rates and currencies.

The system described by Florio Fiorini, may assume greater significance if one considers that the main foreign “bank operators” that ENI used at the time were, on the one hand, Banco Ambrosiano, and on the other, BCCI [Bank for Credit and Commerce International]. That is, the two international private banks which, 10 years apart, experienced the most widespread, devastating failures, in which, as is known, managers and principals at all levels were implicated, whose responsibilities cannot be fully identified, for the past or the present, due to the high level of connivance and coverup.

#### **4. The fight against economic crime**

In conclusion, I would like to return to the main point mentioned at the beginning, that is, the question of “morality” in economics, a problem which is considered indispensable for the study of systems of fighting economic crimes.

I would like to recall an episode, concerning a simple verbal exchange I had in 1992 during a public debate with one of the most valuable Italian economists, Professor Savona. On that occasion, I recalled how, in the investigation of illegal drugs and arms traffic I conducted in the early 1980s, I once confiscated a strange piece of paper from an accused person. On the left there was a column of figures preceded by a dollar sign, and alongside it, future time frames. On the right, there was another column of figures preceded by the initials BP, which stood for “barrels of petroleum.” It was explained to me that this was a “simple” prospectus of futures on the London stock exchange.

In essence, the operators in question were not dealing in “real” petroleum transactions. They were making purely financial speculative operations, “playing” on the price of crude oil.

Beyond the problems of the source of funds used for such purely financial speculation of immense quantities, the real danger of such operations was evident, considering that, through those market operations, as for all the rest, not only could they earn immense profits without any corresponding, concrete activity; they could also, and did, effect considerable fluctuations in the “real” price of petroleum, and, there-

fore, in the “real” cost paid by various operators of various countries for their energy needs.

The effect of these operations, in essence, was to generate profits, and also to provoke the destabilization, and economic and financial conditioning of entire economies.

On the basis of these considerations and premises, I asked Professor Savona, at the debate mentioned, the following: “But, considering the dubious source of capital, real or fictitious, used in these international operations as well as in purchasing State bonds, which constitute the ordinary, normal avenue for recycling drug and weapons revenues; considering all this, did the competent authorities for surveillance and control, on the national and international banking level, study these components or not? Did they study the connections between legal and illegal capital? Were measures studied to combat such forms of economic criminality capable of producing devastating effects in the long term?”

Professor Savona’s answer was simple: “Where national and international interests at play are taken into consideration for the required support they provide to national economies, one must realize that the fight against economic criminality cannot be carried out, because the irreversible damage that would be produced to the national economies, would be greater than the minimal advantages which might derive from the partial and minimal results of a fight against economic criminality.”

Perhaps, the problem we are considering is summarized in this axiom. It is not an abstract logic, but very practical.

I will give an example of political choices related to the Italy of today. There is a need, reiterated by the Schiller Institute, for reinforcing transport corridors through the Alps, in particular, to allow Italy to interact with the Productive Triangle of corridors which LaRouche has proposed. Thus the need to build great projects, new tunnels, high-speed rail.

This certainly is one of the basic problems of inter-State relations of major importance.

At this point a hypothesis and a question arise.

The hypothesis is that those operators concretely interested in the realization of such great projects are not extraneous to, but rather part of the economic-financial system that one is trying to combat.

The question is: In this case, what can we do? Must the preeminent interest have the better of the other component, which would suggest a different kind of intervention?

And how should one intervene when one is dealing not with operators active in a single country, as normally is the case today, but with “internationals”?

So, I think these questions summarize the problems of today’s society, a society in which, considering the complexity of relations, of aims and causes, it is increasingly difficult to define the limits between the licit and illicit, between moral judgment and economic judgment, between “ideas” and practice.