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Hot Millions | Money Laundering Buck Stops in US

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Since the incidents of September 11, 2001, the US has launched a special drive to ferret out the sources funding for terrorism. Yet, its actual policies work to the contrary. It is, in fact, the single most important money laundering destination in the world.

There are two important types of money laundering. One concerns money which derives from business internationally accepted as being criminal Ã¢â‚¬â€ such as narcotics or terrorism. The other concerns funds from activities, such as tax evasion, recognised as criminal only in a particular country. Yet money concealed in the business of narcotics or terrorism is laundered in much the same way as illegal flight capital. In their movement and concealment, the funds of such international crime are gene-rally indistinguishable from capital flight.

Since the business of private banks and tax havens is managing flight capital, it is simplest to conceal money from drugs and gun-running in the same places. So, to really curb any particular sort of money laundering, it is necessary to act against all of it. But the US maintains the contradictory policy of seeming to campaign against money laundering involved in international crime while encouraging the other. As the result of the close connection between these two businesses, America loses the power effectively to act against any corrupt or criminal business, including the proceeds of international crime.

Karin Lissakers who was the US executive director at the International Monetary Fund during the Clinton administration has written in Banks, Borrowers and the Establishment, about the lending boom to the Third World during the seventies and eighties, and the collusion of bankers in siphoning funds off to the private accounts of the Third World elite. Private deposits from many developing economies have frequently matched or exceeded the amounts lent to those countries.

The bulk of this money went into US banks. A number of measures carried out by US policy-makers have assisted the flow of such laundered money to the US. Lissakers points out that in 1984, US treasury secretary James Baker had the withholding tax on non-resident owners of US securities withdrawn for foreigners to use the US financial

system as a tax haven. And the Reagan administration provided anonymity to foreign owners of US bonds when it made them bearer bonds in 1985.

Raymond Baker who studies money laundering at the Center for International Policy and at the Brookings Institution has shown how multinational banks and corporations, including prominent American ones, deve-loped techniques for mis-pricing, false docu-mentation, and setting up fake companies, shell banks, tax havens and bank secrecy jurisdictions. These were adopted by drug cartels in the 1960s and 1970s; and by other criminal syndicates beginning in the eighties. More recently, terrorists have employed the same mechanisms.

The IMF estimates that capital inflows into the US amounted to $752.8 billion in 2001. Yet, the single most important policy undertaken by the US is that it mounts, in every international forum, a sustained campaign for the free convertibility of every currency. Since most capital flight is to the dollar, the US is the most important beneficiary of removing capital controls. Brazil, Chile, Colombia and Peru had capital controls for most of the 1970s and 1980s, while Argentina, Mexico, Uruguay and Venezuela did not. Apparently, the first group suffered far less capital flight than the second. These Latin American deposits landed up mainly in US banks. And Mr Baker has pointed out that US regulators have turned a blind eye to the frequent failure to file Suspicious Activities Reports, even when a number of transactions show an exact percentage being paid out of an account in a bank for what can only be kick-backs.

The US customs service does not challenge invoices which provide the documentation to bring in money into the US through under-invoicing imports into the US, or over-invoicing exports from the US. Exports of goods and services from the US earned $998.022 billion in 2001. Mr Baker points out that anti-money laundering legis-lation in the US identifies "predicate offences" where a person knowingly handles the proceeds of any of 200 classes of crime if committed domestically. Yet the proceeds of all but 15 such crimes are exempt by US law, including the Patriot Act 2001, if the crimes are committed overseas. These include such acts as racketeering, securities fraud, credit fraud, forgery, embezzlement of private funds, burglary, trafficking in counterfeit and contraband goods, slave trading and prostitution.

Reports of the United States Congress have detailed the scale of such money laundering in Nigeria and Russia, and the specifics of the involvement of important US banks. The financial action task force (FATF), set up by the G-7 in 1989, is uninterested in any but a very narrow definition of money laundering. It has recently diluted its recommendations for limiting banking secrecy under pressure from the Bush administration.

And the International Monetary Fund's lavishly-funded study in progress pays no attention to the close connection between the management of capital flight and other criminal money laundering. Any campaign against money laundering will be meaningless as long as it does not recognise the US role in encouraging this business all over the world.

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