money laundering now going on offshore will be brought onshore, hooking directly into the CHIPS system.

Under IBFs, large amounts of the $1.2 trillion Eurodollar market will come into the U.S., according to New York Federal Reserve President Anthony Solomon. In a letter endorsing IBFs to Fed Chairman Paul Volcker Nov. 7, Solomon predicted IBFs will mean that "a substantial share of what is now Eurocurrency business is done from a U.S. base."

In particular, M. J. Rossant notes, the vast amount of dirty money now held abroad which seeks investment in U.S. real estate will flood the country. "The real-estate market will be a good example of the way things in the U.S. economy can be made to change with IBFs," he said. "As a consequence of IBFs, as I said, the flow of funds becomes much more mysterious. As a result of bringing the offshore banking markets onshore, much of the investment in U.S. real estate now conducted, or hoping to be conducted, from offshore can be brought back onshore, and this means that the real-estate market itself will be deregulated."

Bringing the money-laundering activities now offshore back to the U.S. will dramatically encourage the drug and other black-market industries of the world, now outside the country, to move operations right into the U.S. In practice, the offshore side of the drug markets and related industries are inhibited from free and clear investment of proceeds in U.S. real estate, casinos, and other business by U.S. foreign-investment disclosure laws, hefty U.S. taxes on foreign investment, and other impediments.

Most of it in practice, therefore, is now forced to go through an expensive series of nested shell corporations. After the Iranian opium producer deposits his proceeds in Citibank London, the bank does not directly make a loan to his name, but to a numbered Swiss bank account which the merchant holds, which in turn owns a holding-company shell in the Netherlands Antilles, which in turn owns a real-estate investment company in the Bahamas, which eventually buys the New York apartment building.

Now the holding shells become obsolete. Citibank London can now transfer, tax free, inspection free, reserve free, the original deposit directly to Citibank IBF in New York. The corresponding loan to buy the New York real estate can then be made directly to perhaps one intermediary real-estate company in New York, without U.S. foreign disclosure or tax applied.

Already, Florida real-estate economist Charles Kimball estimates that in the first six months of 1979 alone more than $500 million in untraceable foreign money bought up some 38 percent of all new Florida real estate. "Two-thirds of this is directly attributable to the narcotics trade," Kimball told *War on Drugs*.

REAL ESTATE

Buying cities cheap... with drug revenues

by Lydia Schulman and David Goldman

This article is condensed from a 20-page exposé appearing in the January 1981 monthly magazine War on Drugs.

Last July, one news item peeked through the gloom of more announcements of New York City budget deficits and service cutbacks. A big Canadian realtor, Cadillac Fairview, made the winning bid on an all-time record development contract, to take 30 acres of unused property on the East River and put $700 million into a giant apartment, shopping, and entertainment complex.

The Canadian plan, solemnly debated in the editorial pages of the *New York Times* and the *Daily News*, capped a three-year spending spree in New York real estate, driving commercial rents up to double their previous levels, and residential rents by almost as much. After years of economic bad news and declining population, the real estate boom seemed to brighten New York's future.

Or did it?

Investigators seeking the source of the multibillion-dollar flow of funds into New York found a stone wall of obscure corporate fronts in Switzerland, Liechtenstein, and small Caribbean islands. Advertisements appeared in every edition of the Sunday *Times* real estate section, representing "foreign clients with $1 to $20 million" of investment money looking for commercial or housing properties in New York.

At one firm, Kenneth Laub Associates, realtor Richard M. Rosen told *War on Drugs*, "Our clients deal in cash only," an astonishing fact in an industry where fortunes rise and fall on access to borrowed money. "Our clients are referred to us by Swiss banks," Rosen said. "No, we cannot say who they are. They demand complete confidentiality."

At the top level of the development business, which includes Canadian firms like Cadillac Fairview, winner of the East River bid, and Olympia and York, the city's third largest commercial landlord, the source of funds is no clearer. Their Canadian head offices are an investment conduit for funds from the trillion-dollar "offshore" pool of funds, where the rule is no taxes and no public scrutiny.

Where is the money coming from? What our investigators had already discovered about Canadian real estate led us on a trail of inquiry with a shocking conclusion: *The profits from the sale of narcotics in New York City are being used to buy control of the city itself.*

A Commerce Department official in charge of tracking foreign investment into American real estate complained, "When we see that a corporation is registered in the Netherlands Antilles, say, we are immediately suspicious, and we ask for the beneficial owners. But a lot of them have resisted, and even if we are given the list of beneficial owners we can't do anything with it. We can't go over to Europe and audit it."

The Florida real estate story

This kind of secrecy is chilling, for one good reason: in December 1979, the Permanent Investigations Subcommittee of the U.S. Senate blew the lid off the Florida real-estate market, showing that narcotics traffickers have pumped hundreds of millions of dollars into Florida real estate. In the first six months of 1979 alone, economist Charles Kimball told the Senate panel, a minimum of $191.1 million of dirty money bought into Florida property.

Of this, Kimball reported, "two-thirds is directly attributable to the affluence generated by the narcotics trade." Through corporate "shells," no more than a nameplate and a mailing address in Panama, the Cayman Islands, the Netherlands Antilles, and other "offshore" tax havens, the dope traffickers conceal the funds they take off American streets, and invest them back into properties or other seemingly legitimate businesses back in the United States. In Florida, the dope business move on real estate was so big that it sent the entire economy on an inflationary spree, Kimball reported. "The cash-heavy buying syndicates have pushed U.S. investors out of some markets and through their continuing activities have added to already serious inflationary tendencies in the market. As the inflation gains momentum in the real estate sector, the offshore corporations can buy and sell between each other, generating huge tax-free profits that in effect assist in the laundering of funds through the real estate market." In other words, Kimball said, dope traffickers in Miami can report their huge earnings as windfall profits from the sale of real estate that has risen in value in a short period of time, disguising the true origin of their income.

In all, Kimball concluded, more than half a *billion* dollars in untraceable foreign money bought into Florida properties in the first half of 1979—a staggering 38 percent of the total volume of major real estate transactions. During the past year, several large Canadian banks, the bankers for the Canadian firms like Cadillac Fairview and Olympia and York, set up offices in Miami, bringing with them their clients' confidential investment funds.

Does this have anything to do with the New York real estate boom? Kimball was asked. "According to my contacts in New York," countered the Florida economist, "the same groups based in Panama and the Netherlands Antilles have been flooding money into New York City."

The $200 million reported to be laundered through Miami banks was the rather small cut taken by the expendable petty hoods who move the illegal goods from the cocaine and marijuana-growing regions of Latin America to the Florida coast. The biggest chunks of the retail and wholesale trade inside the United States are run by the sophisticated criminals who take better precautions than to hand their earnings to bank tellers in suitcases.

Instead, they employ complex and almost traceproof channels in the New York City-based commodities markets, and the intricacies of modern electronic banking, to move their funds through New York's international banking center and then out to the Caribbean and Europe. New York dope traffickers, Drug Enforcement Agency sources report, also use Florida banks to "wash" their money.

A recent Treasury study of illegal money flows in the U.S. economy showed that the principal flow of dope money in the form of cash was, indeed, between New York City and Florida. The Treasury also showed that New York City banks were drawing an extra $2.6 billion per year from the Federal Reserve Bank of New York. In its report, published in the *Wall Street Journal* Sept. 11, the Treasury implied that the main use of this extra cash was the narcotics traffic.

'DOPEC'

From the documentation assembled by the Permanent Investigations Subcommittee of the Senate and the U.S. Treasury, and the extensive independent investigations of *War on Drugs*, the New York and Florida narcotics money circuit are two outposts in a vast, multibillion-dollar chain of dope money laundering. *Dope, Inc.* revealed that the dope traffic was neck-and-neck with the OPEC oil cartel for first place in international trade, with an annual cash flow of $200 billion.

Major banking interests handled the vast cash volume of the traffic, as well as the 50 percent of the world gold market diverted into illegal channels and other means of secretly transporting illegal revenue. These institutions start with the immense Hongkong and Shanghai Bank, founded a century ago as the central bank of the official British opium traffic, and still based in the center of the world heroin and opium trade.

Last year, HongShang bought majority interest in New York's $13 billion Marine Midland Bank, despite

Photo: NSIPS

Housing in a rent-controlled neighborhood of Manhattan.

the protests of New York State banking authorities, who complained that the Hong Kong giant refused to divulge its secret "hidden profits" account.

New York real estate

New York City's real estate market is one of the world's juiciest financial plums. With a rent-roll of about $100 billion, New York's office buildings and apartment complexes are bought by life insurance companies, pension funds, and other big international investors, as one of the world's most desirable investments.

The capitalized value (resale value) of the real estate within New York City's five boroughs is an incredible $700 billion—*three times* the estimated value of all the manufacturing plant and equipment in the entire United States economy! The New York bubble is the most extreme example of the deterioration of the nation's economy: our capital has been misinvested into useless and even counterproductive forms of speculation, while the basic capital stock of American industry has not been replenished. But even more, the stupendous growth of real estate values in New York is the culmination of a 15-year binge identical to the dope trade buyout of Florida real estate. In New York City, as in Florida and elsewhere, what we discover is the result of a $100 billion per year narcotics traffic accumulating since the mid-1960s.

The narcotics traffic has become a determining factor in American inflation.

Since 1977, the first-class side of the New York real estate market has been the pickings of a tightly-knit handful of major foreign investors based out of Canada. Like Cadillac Fairview, the other foreign money in the market is stupendously well-heeled and totally anonymous. Organizations such as Olympia and York are the biggest buyers of the last three years, and even locally headquartered developers like Donald Trump, the "wonder boy" of New York real estate, are making their big plays with foreign money.

City Hall has been drawn, as if by a magnet, into the real estate boom since Mayor Edward Koch took office in 1977. City tax laws, property auctions, zoning changes, and development policy have been bent to accommodate the downtown building purchases of Olympia and York, the East Side extravaganza planned by Cadillac Fairview, and the new Convention Center projected by Donald Trump. Top former officials of New York City now work for the foreign real estate giants. They include Olympia and York's lawyer and spokesman before the city's Board of Estimate, former deputy mayor John Zuccotti, and Donald Trump's own representative, Stanley Friedman, a former Bronx borough president who is a member of the firm of Trump's lawyer, Roy Cohn.

The foreign investment boom has changed the face of New York City. Major projects now underway include:

• The $700 million complex of 1,800 luxury apartment units mentioned earlier, to be built by Cadillac Fairview. Known as "River Walk," the project will include a hotel, high-priced shops, and a 203-ship marina for pleasure boats.

• The "Trump Tower," a 28-story, 62-sided building under construction at 56th Street and 5th Avenue. At prices ranging from $5 to $13 million apiece, the apartments in Trump Tower will be "so expensive that only foreigners will be able to buy them," its developer, Donald Trump, predicted.

• A new Convention Center with a $375 million price tag, a gigantic "rehabilitation" plan for tawdry 42nd Street, a Herald Square redevelopment plan, and other hundred-million-plus enterprises.

City Hall at 54th Street

When Treasury agents sent Studio 54 discotheque owner Steve Rubell up the river for tax evasion at the beginning of this year, the Treasury found a notebook whose contents found their way into the New York press, indicating that Rubell and his nightclub were the biggest center for wholesale distribution of cocaine in the metropolitan area. Until Studio 54 was shut down, Cohn received an astonishing $7,000 *per week* for legal services to the disco club. In two years, he received more in legal fees than Rubell is reported to have hidden from the Internal Revenue Service!

Until Cohn achieved notoriety as Studio 54's lawyer, his claim to fame in the New York legal circuit was based on the incredible array of real estate interests represented by his law firm, Saxe, Bacon and Bolan. Among others, Cohn's clients include 33-year-old developer Donald Trump, whose firm developed the Hyatt Hotel next to Grand Central Station. He also represents the landlord association dominated by Trump, known as CHIP. Cohn is the most exposed tip of a patronage machine that annually disposes of several billion dollars a year in favors for New York real estate interests—of which the prime recipients since 1977 have been Olympia and York, Cadillac Fairview, and the Trump Management Co.

New York electoral politics is a cash-and-carry business. Real estate is not only the city's biggest cash earner but the main source of political contributions. Donald Trump's $135,000 contribution to Governor Hugh Carey's re-election campaign in 1978 did not even raise eyebrows.

The buying of New York City

New York City grants favors to the Canadian real estate barons worth between $2 and $3 billion annually, a leading real estate analyst told *War on Drugs.* The more we talked with New York realtors, the more the financial relations between the Canadian barons and the city and state government of New York looked like the ties between the mayor, the mill owner, and the general store in a company town in the deep South. After the 1975 fiscal crisis, the real estate barons were the city's economy, period.

As New York's industry and population shrank, the one thing rising was rents—which rose from about $7-$13 per square foot in 1977 to $18-45 in 1980 in prime commercial office buildings, and to at least $45 in a few prestige towers. At the same time, the number of apartments available for rent dropped from 2 million to 1.9 million over the past three years, due to slum abandonments and to a lucrative swindle known as "co-oping," or selling a building back to reluctant tenants for $10,000 *per room* and up.

Meanwhile, an East Side development complex, a Convention Center, a new Hyatt Hotel, a gigantic complex at 42nd Street complete with an indoor 15-story Ferris Wheel, and other big developments were going up. Trump and the Bronfmans showed up at city auctions of just-condemned property to buy up entire blocks. And all of this was financed by the Montreal money circuit, out of Hong Kong, Liechtenstein, and the Caribbean tax shelters.

One of the Beame administration's last major actions—under the direction of Cohn partner Stanley Friedman and John Zuccotti—was a "tax incentive" program that permitted stupendous tax giveaways for the "renovation" of downtown real estate. In other words, if a real estate operator takes over a building worth $10 million, refurbishes it from the ground up to bring its value up to $100 million, he will only pay taxes on the original $10 million plus a token 5 percent, for 19 years of the building's life. Only a few months after Zuccotti obtained tax abatements for Olympia and York, he was working for O and Y, and Olympia and York was putting $127 million into the renovation of 466 Lexington Avenue, the aging home of the Penn Central Railroad.

Of course, the big Manhattan projects are only the most visible. For reasons no one in the city government cared to comment on, the city began foreclosing on properties that were a year behind in real estate taxes in 1976, instead of three-year foreclosure as in the past.

Suddenly, the city foreclosed on enough property to become the town's biggest slumlord, with 75,000 mostly slum apartments—five times as many as the next largest landlord, Donald Trump.

"Renovators" show up at city auctions and buy entire blocks of property at knockdown prices at one throw. They then evict the existing tenants, many of them welfare recipients, and start to "rehabilitate" the property. The "renovator" then applies to the city for a tax break under a Koch administration ordinance known as J-51. With this in hand, they are guaranteed a 12-year tax break on 90 percent of the value of renovated property.

This is not small business. Rehabbers spent between $500 million and $1 billion per year at the current rate in sprucing up properties, for tax-free capital gains.

One striking feature of the rehabilitation swindle, something that sets it apart from every other kind of business conducted in the City of New York, put us onto the line of investigation that led to the astonishing conclusions of this report. The entire business is handled in cash.

Cash comes in from Liechtenstein or the Cayman Islands to buy properties at auction. Hundreds of millions of dollars in hard currency change hands annually, a volume barely matched by the Las Vegas casinos.

It was the Florida pattern that Charles Kimball had revealed before the Senate Permanent Investigations Subcommittee in the testimony we quoted earlier. Kimball had warned us that the same Caribbean-based narcotics money that had shaken down the Florida real estate industry was moving into New York. But this was not the steady stream of dope money, the $200 million or so annually that the Floridians had tracked.

In New York, it was like standing in front of a burst dam. Funds were pouring in through the Caribbean channels, buying apartment buildings in the Riverdale section of the Bronx and condemned slum properties in Queens, but even more money was coming in through the Montreal channels we traced down earlier.

New York City is not only the country's biggest property market, but also the biggest center for retail dope distribution. Every year, $15 billion in narcotics are sold on its streets, a disproportionate share of the $100 billion annual sales in the United States.

And, as we learned from the Florida investigations, real estate deals are a brilliantly successful means of hiding dope profits. No one knows where the funds come from to purchase property. A dope dealer who successfully gets his profits out to a bank in Liechtenstein is in the catbird seat. Ordinarily, his big problem would be the Internal Revenue Service. Even if he managed to avoid reporting his income, how will he explain a $200,000 house, a couple of Cadillacs, and a vacation home on the Riviera? Real estate makes this simple-mindedly easy.

If he wishes, the narcotics operator can avoid the expenses of maintaining offshore corporate fronts, well-informed real estate sources say. By handing out a 90 percent tax credit for "rehabbing" beat-up properties, the Koch administration has given the narcotics traffic an exceptionally convenient means of turning illegal cash into "respectable" real estate profits.

All the physical construction work is done for cash payment. Much of it could be paid for with dope revenues, to contractors who know how to keep their mouths shut, turning dump properties into valuable assets, and all of it tax-free, thanks to Mayor Koch.

The pieces of the puzzle now fell into place with an awful kind of certainty. The Canadian invasion, which happily gobbled up older, local operators like Trump and Zeckendorf, needed a big change in the political map in New York City, including revision of tax and zoning laws from the ground up. The Canadians' incredible access to cash depended on their relationship to the dirtiest banks in the world. *The profits from the sale of illegal narcotics in New York City are being used to buy control of the city itself.*

URBAN POLICY

'Hong Kong' model for housing and jobs

by Lonnie Wolfe

Three weeks ago, San Diego Mayor Pete Wilson, chairman of the Reagan transition team urban policy task force, held a press conference in Washington, D.C. to announce proposals for a "sweeping redirection of urban policy."

Wilson rattled off a list of proposals, the most important of which were the following:

1) The elimination of local rent control programs. The new administration, the task force recommended, should withhold any federal grant money from cities that refused to agree to phase out their rent control programs.

2) Introduction of a rent voucher system. The task force proposes to substitute this program for all current federal low-income housing subsidies. The details of the program have not yet been worked out but the dominant view among Reagan task force advisers calls for handing out rent subsidy checks to poor families; these checks would only be redeemable by a landlord. A tenant would be free to augment this check with funds out of his own pocket, said a source close to the task force.

3) The creation of urban free-enterprise zones. This proposal, which was submitted in preliminary legislative form last session, calls for the creation of "free" zones in the worst ghettoes of the country, where government regulations would be relaxed and tax shelters built to encourage small business. Wages would be encouraged to seek their own, low, levels, say its proponents.

Wilson's hastily called press conference neglected to announce that the proposals had only been passed on the day before and had not been discussed with top Reagan advisers.

Reagan urban transition aide John McClaughry said on Dec. 2 that no urban policies have been decided upon since the campaign. Proposals from the urban task force have not been adopted, McClaughry stated.

Why then the rush, especially since the controversial proposals provoked a immediate firestorm of protests from angry politicians and community leaders? The rent control proposal in particular was greeted with alarm by mayors and others in the Northeast and Midwest.