Investment control: who holds it, and why it remains clandestine

by Renée Sigerson

Since the beginning of 1980, the volume of flight capital—semilegal and illegal private fund transfers—leaving Western Europe for portfolio investment in North America and Hong Kong has reached such proportions that it is changing the shape of world finance. In a just-released standard projection of 1980-82 world current account balances, Chase Manhattan Bank provides one example of the startling patterns this flight capital is forming; the projection discovered that for that three-year period, $110 billion in the world payments system appears to be "missing."

Since 1974, world current account balances have been performed by dividing the world into oil-producers and consumers. In 1980, all deficits of oil-consuming countries outstripped the surplus of oil-producers by $29 billion; for the 24-month period of 1981-82, the deficit overshoot is projected at $80 billion. The gap cannot be accounted for by payments flows, since if, for example, oil consumers in the developing sector were expected to transfer, let's say, $40 billion to the advanced sector, the deficit in the advanced sector would be reduced by just that amount. No matter which way the numbers are hypothetically juggled, if the world sum of surpluses and payments doesn't equal zero at year end, then something is amiss.

Chase argues that the only likely explanation for this startling discrepancy is that the advanced countries are deliberately overvaluing their deficits—although Chase never explains what would motivate them to do that. The fact is that the discrepancy cited—between $30 and $40 billion annually—is virtually identical to what some sources are now saying is the value of unreported international portfolio investment in U.S. corporate stock!

How much foreigners have been investing in U.S. stocks in recent years has become a source of contention now between the U.S. Treasury Department and the Securities Industry Association, the research group that services Wall Street brokerage firms.

In its December 1980 study, "Foreign Portfolio Investment in the United States," the Treasury claims that during 1980, $5.6 billion in new portfolio investments were made by foreigners in the United States. SIA disagrees. In a recent newsletter, which reviews the Treasury report, SIA puts the volume of net foreign portfolio investment in U.S. stocks during 1980 at $30 billion.

For 1980, Chase Manhattan reports, the discrepancy between oil-producers' surplus ($110 billion) and oil-consumers deficits ($139 billion) was $29 billion. If we subtract Treasury's estimate of foreign portfolio investment from SIA's, we find that approximately $24.4 billion more foreign investment than anyone ever reported to U.S. regulatory authorities was placed in U.S. stocks last year. Subtracting that from Chase's 1980 discrepancy of $29 billion in world payments, there is an additional $4.9 billion to be accounted for. Knowing that in addition to New York, Hong Kong is currently also a leading recipient of flight capital investment, it can be safely

Figure 1

Foreign control of U.S. corporate stocks, by industry

Metal mining	47.9%
Coal mining	23.4
Oil and gas extraction	24.2
Nonmetallic minerals, except fuels	63.0
Heavy construction contractors	31.6
Special trade contractors	26.6
Tobacco manufacturers	31.8
Chemicals and allied products	27.9
Machinery, except electrical	39.8
Electrical and electronic equipment	32.9
Instruments and related products	32.7
Banking	16.9*
Security, commodity brokers, services	32.7
Amusement and recreation	28.7
Health services	37.6

Source: Extrapolations based on 1978 Treasury data.

*Recent and continuing mergers with foreign banks make this percentage much higher than simple extrapolation from the 1978 numbers would show. Adjustment of this percentage would lower the foreign ownership percentages in other sectors. However, variations in S&P appreciation rates for different sectors mean that some sectors would remain high.

assumed that that $4.9 billion is now sitting comfortably in some Asian stock market. In Figure 1, in addition, we provide a preliminary estimation of the control which that unreported, largely illegal mass of funds coming into the United States from abroad has given to foreigners over U.S. corporate activity.

Why all the secrecy?

In 1976, the Italian government enacted strict exchange controls in an effort to stabilize the Italian economy. One month after the legislation passed parliament, a Lugano, Switzerland-based bank named Banca della Svizzera Italiana (BSI) took out a full-page advertisement in *Panorama* magazine, inviting Italian investors to secretly ship their capital abroad.

BSI took the advertisement out in the name of one of its top subsidiaries, the Canadian real estate firm Fidinam. BSI is no ordinary bank: its shareholders and subsidiaries encompass some of the most powerful Italian banking institutions, including several top bankers named as members of the secret fascist Masonic lodge, Propaganda 2, in the ongoing worldwide scandal that erupted in Italy in May. BSI's U.S. associates, in addition, include a core group of investment bankers who had top positions in the postwar Allied Occupation and Marshall Plan administrations in Italy. The advertisement—although it was quickly discontinued—was a deliberate insult perpetrated by powerful Italian oligarchs against the Italian government.

While not typical of current, more sophisticated techniques used to transfer European oligarchical fortunes into North America, the incident captures the aggressivity and the contempt of national sovereign governments that Europe's private investment funds have shown in recent years, both in disinvesting in European industry and in pursuing a conscious policy of recolonizing U.S. industry through large-scale purchase of shareholding positions.

There is a relatively simple sequence of steps through which foreign portfolio investment can be made in U.S. stocks behind the back of U.S. agencies. These procedures have been described to *EIR* by Wall Street brokerage firms, experienced bankers who have worked with the Treasury reporting system, and private financial advisers to European family funds.

European laws mandate that investment funds cannot approach brokerage houses abroad directly for equity purchases. For example, in Germany there are three investment funds that manage the majority of private fortunes in that country, one of which was set up by Bernie Cornfeld's Investors Overseas Services (IOS) and was quickly reconstituted after IOS was liquidated in 1974.

To purchase U.S. corporate stocks, these funds must work through a mediator, most often a Swiss bank. In the first phase, when that Swiss bank purchases stock through a U.S. broker, the broker must report to the Treasury both the size and nationality of the "nominee"—in this case, the Swiss bank, not the investor in behalf of whom the Swiss are acting.

Thus, when the Treasury reports (see Figure 3) that over the past decade, Swiss addresses consistently held over 25 percent of total foreign-held stocks of U.S. companies, this must be translated into such arrangements.

Over the past decade, in addition, the Swiss in particular have found a second step that then allows them to completely bypass Treasury reporting procedures.

Figure 2

Estimates of total foreign portfolio investment in the United States, 1979-80, based on adjusted turnover rates

(billions of dollars)

	1979	1980
Estimated year-end holdings (1978 Treasury data adjusted for appreciation)	$55.4	$75
Gross foreign activity	$43.7	$75.3
Implied turnover rate	79%	101%
Adjusted year-end holdings for a turnover rate of 54.2%	$88.4	$137
Adjusted year-end holdings for a turnover rate equivalent to that of major institutional investors	$147	$176

Note: When accumulated direct investment (purchase of 10% or more of total company shares) since 1978 is added (estimated at $49 billion), the 1980 total portfolio investment is $225 billion.

Source: *Treasury Report on Foreign Portfolio Investment in the United States,* December 1980; Security Industries Association.

Step two

What the Swiss have done is to cultivate relations with U.S. brokerage houses numbering in the hundreds. After doing an initial spate of business, the Swiss often make an offer to invest in the brokerage firm itself. If the investment is made, the Swiss client, becoming a minority shareholder, no longer need pay commissions on transactions. The brokerage house, in turn, now has access to low-interest foreign loans giving it a decided advantage in the market.

"Loans on Wall Street have been hard to come by over the past decade," one veteran stockbroker recently emphasized in describing these arrangements.

At that point, if the Swiss minority shareholder deposits funds with its brokerage house, its cash deposits no longer qualify as foreign funds. Considered deposits with an American address, transactions done

Figure 3

Ten largest foreign portfolio investment positions in U.S. equity securities: 1974 and 1978

(millions of constant dollars)

	1974		1978	
	Amount	Percent of total	Amount	Percent of total
Grand total	$24,671	100.0%	$47,859	100.0%
Switzerland	7,032	28.5	12,255	25.6
Canada	3,580	14.5	7,104	14.8
United Kingdom	3,782	15.3	6,812	14.2
Oil-exporting countries	614	2.5	6,202	13.0
France	1,758	7.1	3,185	6.7
Netherlands	2,110	8.6	2,990	6.2
Germany	808	3.3	1,713	3.6
Belgium-Luxembourg	728	3.0	900	1.9
Bermuda	278	1.1	863	1.8
Netherlands Antilles	318	1.3	802	1.7
Subtotal	$21,008	85.2%	$42,826	89.4%
Other countries	$ 3,663	14.8%	$ 5,033	10.5%

Source: Treasury *Report on Foreign Portfolio Investment in the United States*, December 1980.

in behalf of these deposits are no longer required to be reported to the Treasury.

"Sometimes the Swiss or other foreign firm decides to pull their money out of the brokerage house," one source explained. "Hundreds of New York brokerage houses went under over the past decade as a result of losing their foreign capital."

A $100 billion discrepancy

Figure 2 summarizes the reasoning used by the Securities Industry Association to debunk the Treasury Department estimate that in 1978, foreign investors only held cumulatively $48 billion in U.S. stocks.

Since 1977, under an amendment to a law sponsored by Sen. Harrison Williams, brokerage houses are obligated to report the nationality of any investor for whom a transaction is performed in U.S. stocks. This allows the Treasury to determine "gross foreign activity." However, as noted in the arrangements described above, it is impossible for the Treasury to determine whether such transactions represent new foreign funds just sent to the United States, or a shift in existent portfolio arrangements.

SIA points out that if Treasury's figures on cumulative foreign holdings are accurate, the turnover rate of stocks held by foreigners, based on gross activity, would be twice that of any category of U.S. investor. If gross activity sums are multiplied by more realistic turnover ratios, comparable to U.S. institutional investors, it is demonstrated that $20 to $30 billion in new foreign purchases have taken place annually since 1978.

While the Treasury asserts that cumulative foreign portfolio investment in the United States in 1978 was no more than $48 billion, SIA's adjustment is a strong argument in favor of its assertion that foreign portfolio investment since 1978 rose from a range of $98-$147 billion in 1979, to $127-$177 billion in 1980.

Compilations of foreign portfolio investment do not include direct investment, or purchase of 10 percent or more of total shares of a company, including takeovers. *EIR* has added a conservative estimate of the value of

Figure 4

Net foreign equity purchases as a percentage of new issues

(millions of constant dollars)

Year	Net purchases	New issues	Percentages
1970	$ 626	$ 5,463	11.5%
1971	731	11,344	6.4
1972	2,188	12,978	16.9
1973	2,790	6,900	40.4
1974	540	2,646	20.4
1975	4,678	6,777	69.0
1976	2,753	8,102	34.0
1977	2,675	6,615	40.4
1978	2,423	6,063	40.0
1979	1,658	5,748	28.8
1980	5,358	13,341	40.1
Total	$26,420	$85,977	30.7%

Source: Treasury *Bulletin* and *Investment Dealers' Digest*.

such direct investment through 1980—$49 billion—to arrive at the conclusion that foreign shareholdings of U.S. companies currently are reasonably on the order of $225 billion, 20 percent of the total value of all U.S. stocks.

In 1974, a debate broke out in the U.S. Congress over whether large volumes of foreign investment in U.S. companies could in any way injure U.S. strategic interests. Most of the debate centered around Arab investment, which grew 910 percent between 1974 and 1978, according to Treasury. In 1978, when the Shah of Iran made a bid to take over Pan American Airways, the Civil Aeronautics Board stopped the takeover on the grounds that airline companies were part of the national defense fleet, and had to be controlled by national interests.

National security at issue

The emotionalism around the question of direct investment by Arabs has only served to deflect what must quickly become serious concern about an issue that intimately affects national security.

In Figure 1, we disaggregate the estimated $225 billion composite foreign ownership of U.S. shares, using the same ratios of how foreign funds are dispersed that the Treasury Department applied to its $48 billion estimate of 1978 holdings. We compared the disaggregated $225 billion to the total value of stocks for the listed industries. The results, while preliminary, are alarming, indicating a conscious policy of foreign recolonization of U.S. industry.

It is no secret that whatever the actual total volume of foreign shareholdings of U.S. stocks, that these purchases have been carefully targeted. SIA notes: "Equities issued by U.S. firms with assets of $1 billion or more, basically representing the 200 largest industrial companies in the United States, accounted for over 77 percent of all foreign portfolio investment in the U.S."

There is convincing evidence here that foreign capital has been a major, driving force behind the division of U.S. industry into "sunrise-sunset" categories. The same European oligarchs who, in yanking their funds out of Europe, have condemned European industry to disinvestment, have channeled their capital so as to stampede investment out of basic steel, auto, industrial chemicals, heavy equipment, and consumer durables, in favor of gadget electronics, computers, services, pharmaceuticals, and energy companies.

While some U.S. congressmen currently argue that U.S. industry would not survive without infusions of foreign investment, such targeting condemns industry in this country to the same fate as much of Europe: a short-lived investment boom that would leave the United States a "once-industrialized" colony.

The 'underground economy' managers

by David Goldman

The setting is not the antiseptic offices of a downtown commerical bank or the electronic jumble of a brokerage house, but the apartment of an old man in Manhattan's East 50s, with Brueghel and Bosch originals bordering the small living room, and a replica kilogram gold bar on the coffee table. The speaker, Dr. Franz Pick, is known to Americans mostly through *Barron's* ads for gold newsletters. But the "adviser to the subterranean economy," as Dr. Pick describes himself, still consults for what he calls "my oldest client," the powerful Assicurazioni Generali di Trieste e Venezia. He is also the investment adviser to the Father General of the Society of Jesus, Fr. Pedro Arrupe, the "Black Pope," as Dr. Pick calls him.

Here is a portion of an unedited transcript of a conversation between Franz Pick and a recent visitor:

Q: There is a group of people who looted the finances of the Vatican. That includes [Michele] Sindona, [Luigi] Menini, [Umberto] Ortolani, Licio Gelli, [Gaetano] Stammati, and a number of others.
A: I have no contact with the Italian world.

Q: Some say these are the same people who tried to kill the Pope, that this is the conspiracy that Cardinal Casaroli denounced.
A: The Secretary of State [Casaroli] is a powerful man today.

Q: They should have feared him.
A: I don't know. It's not in my sphere of interest, and my sphere of interest is small. It's the dollar, and the subterranean economy.

Q: But the Assicurazioni Generali di Trieste is one of the great forces in the world in the subterranean economy. The Jesuit order is very powerful. All of the people you say that you work for are known to us to be powerful forces in the subterranean economy.
A: Look, the banking power—in part of the world the