American economy held hostage to hundreds of billions of dirty dollars

by David Goldman

At least $200 billion, and perhaps a great deal more, disappeared from the payments statistics tallied by governments during 1984, according to estimates made at European central banks. Although the data for 1984 are not yet published, it is already clear that they will contain holes bigger than the national products of most countries. At the height of the Ibero-American debt crisis in 1982, where every loose peso or bolivar sought to leave debtor-nations under the IMF's fire, the total discrepancy was only about $160 billion, and fell substantially during 1983. This explosion of illegal capital movements is of the utmost strategic concern to the United States and to the entire Western alliance.

The central bankers are now occupied with formal expressions of concern, including a task force at the International Monetary Fund due to report in 1986. This is all baloney. The IMF knows where the money is, whose it is, and through what channels it moves, because the IMF is run by the great European *fondi* who control the "subterranean" capital movements.

Specifically, the IMF and its masters built up the flow of dirty dollars from a trickle to the decisive margin of free money in the world economy, as a long-term strategic flank against the United States. As this writer and his colleagues reported in the just-released Spanish language book *Narcotrafico SA* (Dope, Inc.), the European *fondi* have amassed a portfolio of unreported holdings of American equity equal to $200 billion in 1980, and at least twice that today. Their edge in American finance is incalculably large; as a matter of public record, the European *fondi* managers have taken over the largest Wall Street investment firms (including Salomon Brothers, Shearson Amex/Kuhn Loeb, and Drexel Burnham. Limited and fragmentary evidence, as assembled in the cited book, shows that they dominate at least the policy-making, and perhaps actually control, the biggest American commercial banks.

The world flow of dirty money consists of:

1) the $200 billion missing from the world's balance-sheet, i.e., $100 billion illegally extracted from countries and illegally exported to other countries;

2) another $100 billion whose transfer is not even noted as a gap in national payments accounts, because it is moved in ways that either avoid accounting entirely (e.g., straight movement of cash) or are disguised as legitimate payments accounts; and

3) a further $50 to $100 billion of illegal barter in gold, diamonds, emeralds, guns, bearer (unregistered) securities, and above all, narcotics.

We can say conservatively that the huge expansion of the illegal capital flow now amounts to approximately one-quarter of world trade, a deadly weapon in the hands of America's worst enemies, the old European families. It is a double-edged sword: it allows them to buy control of leading American companies, especially in the financial sector, and it gives them the option to pull the plug on American finances any time they choose. As the International Monetary Fund, the Bank for International Settlements, and their flunkey the Federal Reserve Board have warned with increasing venom, the United States is now dependent on an inflow of more than $150 billion per year of borrowed money in order to finance the miserable import-and-consumer bubble that passes for an economic "recovery." Were the inflows to stop, the American economy would come down, and, short of a global financial reorganization, the Reagan administration would fold up.

An increasing portion of the funds now available to finance the American import-and-consumer bubble derive from illegal sources, directly or indirectly. That is to say, without embellishment, that international organized crime, including major participation by the Soviet Union, has the wherewithal to bring down the American credit system.

One astonishing measure—but only one—of American dependency on illegal capital flows is the doubling of the size of the so-called "Eurobond" market during 1984. "Eurobonds" are bearer paper, i.e., owned by whoever has physical possession, and therefore opaque to the tax authorities. The Eurobond market exists for so-called "private investors," Swiss bankers explain, who want total anonymity. It is called "Eurobond" because it is separate from any national capital market where the identity of investors might be established.

Forty-four billion dollars in Eurobonds were issued in

1983, and nearly $80 billion in 1984; the big Swiss banks, who dominate the market, brag of more than $100 billion in 1985. American corporations took in about $25 billion through this channel last year. U.S. corporations also borrowed an additional $95 billion in the straight bank lending market offshore, a large portion of which also derives from the $200 billion missing from payments accounts, according to an estimate by London's *Euromoney* magazine.

That is, reported foreign borrowings of U.S. corporations exceeded $120 billion during 1984, and this does not count additional scores of billions of dollars of funds that sought a covert haven in the United States!

The flow of untraced money works roughly as follows: Earnings of Swiss-based and similar portfolios, payments to offshore insurance companies and "flag of convenience" shipping fleets, revenues of illegal narcotics, weapons, gold, diamonds, and other smuggling operations, and straightforward illegal export of cash are not reported to appropriate national authorities. The proceeds are deposited in the so-called offshore banking markets, or used to buy securities in the $100 billion per year offshore securities ("Eurobond") market. From these havens, the funds are then invested, often through dummy ("street name") accounts, in American or other stocks, bonds, real estate, businesses, and so forth. The $200 billion gap in the accounts (which the central banks refer to politely as "the discrepancy in world balance of payments statistics") reflects about $100 billion of such extraction of funds from national economies, most in violation of national exchange controls and/or tax laws, and $100 billion of flows *into* countries where investments are made—mostly the United States, and to a more limited extent Japan and other countries.

However, the $200 billion gross figure (or $100 billion of "net" looting from the countries whose funds are lost) does not reflect the total volume of dirty money. Far from it. A great deal of dirty money leaves victim-countries either in a form which never shows up in foreign payments statistics (such as export of cash), or in a form which is, indeed, reported, but as something else. Shipping and insurance are the classic examples of the second category. In the case of straight cash transactions, funds may leave a country like France in the trunk of a car, or like the United States in a private plane, and then return to buy up local assets through the offshore banking circuit.

Who controls the dirty money?

The chief of the international department at one big European central bank, asked where the money disappeared to, said crisply, "Look at shipping and insurance."

Narcotrafico SA identified the leading managers of the *fondi* among the ancient financial interests of Venice, regrouped a century ago into a nest of major insurance firms, including (principally) the Riunione Adriatica di Sicurtà and the Assicurazioni Generali di Venezia. The directors of these firms include all the old names of European finance, including Rothschild, Lambert, Hambro, Lazard, Giustiniani, Luzzatto, Alba.

No one has any idea what really goes on inside the Generali, the biggest of the Italian firms, or, for that matter, Swiss Reinsurance, Munich Reinsurance, and Munich's sister company, Allianz Insurance. According to well informed analysts, the favorite guessing game on the Italian stock market is the true assets of the insurance companies; current valuation of the Generali's stock price is four times what its published assets might justify, but, as analysts indicate, that is just a guess.

But it is neither the earnings of the insurance companies, nor even their staggeringly huge portfolios, which constitute their real power. Their power is cash flow.

Total premiums of insurance companies in 1982 on a world basis were $466 billion, according to data published by Swiss Reinsurance, which is more than the total interest income of the world banking system. Since the insurance companies are the largest source of checking accounts for the banking system in any case, they are both larger than and primary with respect to the cash flow through the banking system.

An apparent battle for control of this mammoth cash flow broke out in late 1983, when the Allianz Insurance-Munich Reinsurance group attempted to take over Eagle Star Insurance of London and Canada. Allianz failed to grab control of Eagle Star, because British-American Tobacco came across with a higher bid to "keep Eagle Star in British hands." However, at the end of 1984, Allianz pulled off what might end up being an even bigger coup: it bought 22% of the giant Riunione Adriatica di Sicurtà (RAS), with an option to buy majority control by 1987.

The RAS is one of the world's least known and most powerful firms; its New York outlet, Jefferson Insurance, is staffed by such individuals as Mario D'Urso, an old Kuhn Loeb partner who now sits on the board of directors of Kissinger Associates, and Kuhn Loeb banker Nathaniel Samuels, who manages the American interests of the giant Louis-Dreyfus grain company. Represented throughout Ibero-America, it was one of the major culprits in the flight-capital looting of the continent in the midst of the 1982 debt crisis.

At the same time, a national debate broke out in Italy over a plan to reorganize the country's dominant investment bank-cum-holding company, Mediobanca, in a way that would change the ownership of the RAS's sister company, the Assicurazioni Generali. According to the plan, which appears to have fallen through, Lazard Frères—one of the oldest and nastiest of the European *fondi* managers—would swap its 5% control of the Generali for 5% of Mediobanca, giving it a dominant position in both companies.

It is unclear how important are the divisions between the different gangs of thieves competing for control of huge insurance combinations. The Allianz-Munich Re group is associated with such execrable names as the Thurn und Taxis family, reputedly still the treasurers of the Nazi International, as well as the founders of Munich insurance, the Finck group; the Finck family are the traditional managers of the *fondo* of the old Bavarian Wittelsbach monarchs. This group is closely allied in its bitter hatred of the United States with the current chairman of the Generali, Italian Senator Cesare Merzagora. These are individuals who maintain close ties to the East bloc and envision a Europe split from the United States, a virtual feudal tributary of the Soviet Union.

The Eagle Star group, and the majority of the British insurers who control the Lloyds of London consortium, is the Anglo-Canadian end of the international dirty-money consortium that begins in Hong Kong, with the Hong Kong and Shanghai Bank, *Narcotrafico SA* reports. It is part of the complex of financial interests which, along with Lazard Frères, is represented by Lord Peter Carrington, now the Secretary-General of NATO and the business partner of Henry Kissinger. Its strategic perspective is identical, although it may not agree with the specific ambition of lunatics like Thurn und Taxis, who really want to revive something resembling the Third Reich in Central Europe.

Whatever the specific differences between these groups—between the Allianz-Munich Re-Swiss Re-Italian combination, and the Lloyds of London and associated British groups—the striking point is that the dominant financial tug of war in international finance during the past two years has involved the fate of the big international insurers. This coincides with the enormous expansion of global flight capital, that is, with the importance of the insurance companies as vehicles for international flight capital.

Of the $466 billion, $50 billion reflects reinsurance premiums paid across national boundaries; the $50 billion, of course, represents many times that amount in the face value of insurance policies, and therefore in capability to sneak money across national borders. Of the $50 billion, $20 billion is the off-shore fly-by-nighters, i.e., the notorious Panama flight-capital operators, and $30 billion is the "professional reinsurers."

The $30 billion "professional reinsurance" volume breaks down as follows, according to Swiss Re's unpublished numbers made available to *EIR* courtesy of the insurance giant's economic studies department (in billions):

U.K. (including Lloyds)	$7.0
Germany	7.0
U.S.A.	5.5
Switzerland	3.5
France	1.6
Others	5.4

There are two reasons to concentrate on the reinsurance side: First, it represents the international flows, and second, it represents the margin of liquidity (it is the equivalent of a banking rediscount market), and therefore political control of the entire business. It is significant that the ordering of importance in the reinsurance field is entirely different than in the primary insurance field, as shown in Figure 1:

Figure 1
Premium Income in 1982, By Area and Category

	Total	Non-Life	Life
N. America	237.9	148.4	89.5
EC	109.4	65.9	43.6
Non-EC Europe	20.5	12.4	8.1
Japan	62.6	18.5	44.1
Oceania	9.3	6.0	3.3
Others	26.5	15.9	10.5
Total	**466.0**	**267.0**	**199.0**

This does not include $6 billion of premium income for so-called "captives" in Bermuda. Although comprehensive data do not exist for later than 1982, a fair assumption is that the total is roughly $500 billion at the moment. (It should be added that the breakdown is by domicile of companies, and their foreign business is not broken out; i.e., premiums paid to the Peruvian subsidiary of the RAS would be considered Peru, but not Peruvian premiums sold directly to the RAS in Milan.)

It is significant that North America has more than half of total world insurance business, which is not surprising, since Americans are sucker enough to pay 2-3% of GNP as life insurance premiums and a further 5% as accident insurance, which no other country (except Switzerland) does; but the fact that America ranks a mere third in reinsurance gives some perspective on the strengths of the British and German-Swiss mafias. Between the Munich Re and the Swiss Re you have the bulk of the latter operation, and Munich Re is linked to Allianz by a mutual 25% shareholding.

The $20 billion "non-professional" section of the reinsurance market is one of the dirtiest financial markets in the world. The Equity Funding Life Insurance scandal in 1973 almost certainly represented a test case in which it was determined that no one, certainly not the exclusively state-based insurance commissioners, would ever look at phony reinsurance if it reflected laundered money rather than embezzlement per se. Equity Funding, a Los Angeles-based life company, forged new policies in a windowless back room, and then sold the policies to reinsurers. An insurance policy is just like a stock or a bond; it is a piece of paper with a face value determined as a multiple of the income paid to its owner, except that the income upon an insurance policy takes the form of premiums rather than interest or dividends. Equity Funding got the cash value of the policy, but had to find revenues to pay the premiums to the reinsurers. This was a classic pyramid, and it collapsed not because Equity Funding ran out of money, but because a Wall Street operator named Ray Dirks (later convicted of swindles involving offshore insurance companies!) blew the whistle to reluctant, unbelieving insurance commissioners at the last moment. The case proved that the industry is practically unregulated. Phony policies laundered through the reinsurance racket will be subjected to absolutely no checks, even if they are entirely invented, i.e., if there is no policy-holder to maintain the premiums. If the phony policy covers for movement of an illicit income stream, there are no checks whatever by the authorities that might interfere.

Life insurance constitutes a mere 10% of the $30 billion "professional reinsurers'" operation, as opposed to almost half of the total direct premium income of the big insurance companies. Ninty percent of reinsurance is property and casualty insurance, principally of ships, airplanes, and other big items. This occurs for the supposed reason that the reinsurers must diversify major risks, as the Lloyds syndicate does. However, this is precisely the area which provides the greatest opportunity for flight capital. All one need do is insure risks which do not exist, sell the policy to an offshore reinsurer, and either use the premiums, or the cash value of the policy, or both, to move money.

The $50 billion reinsurance premium volume reflects capital values in excess of $500 billion per year in any case. For example, a tanker sailing to the Persian Gulf normally pays 1% of the cargo's value in insurance costs per trip. Want to launder $10 million fast? Buy a reinsurance contract from an insurance company who insured an oil tanker, and then pay off the captain to scuttle the old tub. You have to pay off the tub's owners, who take a cut and deposit the balance in your Swiss bank account. Or, if you are really creative, invent a Liberian-registered tanker that never existed, and report it scuttled. This sort of thing goes on more than Lloyds of London likes to talk about.

One indication that the enormous fight for control over this business has nothing to do with the insurance business qua business is the fact that it has been losing money consistently for the past several years. In a September 1984-published study, Swiss Re commented:

"As for the first time in 1981, all 10 countries examined [for all non-life insurance business] were also in the red in 1982 as far as their underwriting results are concerned. In 1980, 3 countries (W. Germany, Japan, Netherlands) still registered positive underwriting results.

"Only in 4 countries (Australia, Canada, W. Germany, Netherlands) was there a slight decline in underwriting losses in 1982.

"In 1982 the worst underwriting results of the 5-year period were registered in France, Great Britain (domestic and foreign business), Japan, Switzerland, and the U.S.

"Australia, France, Great Britain (domestic and foreign business), Switzerland, and Spain suffered underwriting losses over the entire period 1978-1982.

"As from 1978, underwriting results constantly deteriorated apart from very few exceptions.

"According to the data so far available, the 1983 underwriting results of Non-Life insurance have slightly improved in some of the countries examined, in other countries they have stabilized on the high negative level or have deteriorated further. The causes of the development are to be found in an accumulation of negative influences: increase of loss potential as a result of highly complex production processes with a substantial concentration of values, greater frequency and loss severity of natural catastrophes (U.S., France), more stringent legislation and court practices at the cost of the insurance industry, growing crime, changed behavior of insureds in the welfare society (higher demands, etc.)

"As far as the technical aspect is concerned, premium growth in most countries cannot keep pace with the rising claim costs. Persistently strong pressure on rates and increasing cut-throat competition are the consequences. Only the economic conditions have improved slightly in 1983; however, the effects on the insurance industry are limited. At the most they might stop the trend towards worsening underwriting results; however, they will most likely not be able to improve them decisively."

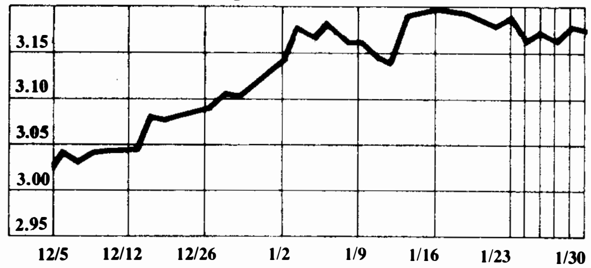
This describes conditions immediately before the great insurance wars began with Allianz's attempted takeover of Eagle Star. As noted, the American property/casualty insurers lost \$3.55 billion in 1984 and are projected (by Phillips and Drew) to lose another \$2.5 billion during 1985, which Allianz notes happily. It would seem that the insurance business is a come-on; the important thing is the cash flow, portfolios, and ability to move money quietly.

The big European insurance companies are not disquieted by the longstanding pattern of losses. Far from it. Allianz Insurance, fresh from its takeover of the RAS, is shopping in the United States. According to a source inside the company, the miserable performance of the American casualty-risk insurers, who lost \$3.55 billion in 1984 and may lose another \$2.5 billion in 1985, is to the advantage of a foreign buyer, since the asking price of a money-losing company will be low. "After all, we bought (for \$100 million) the Fidelity Union Life of Dallas in 1978, when the German mark was 1.80 to the dollar," the Allianz official said. "That was not a bad deal, considering that the dollar now buys more than three marks. We have been in dollars for a long time . . . we expect to get a good deal in the United States."

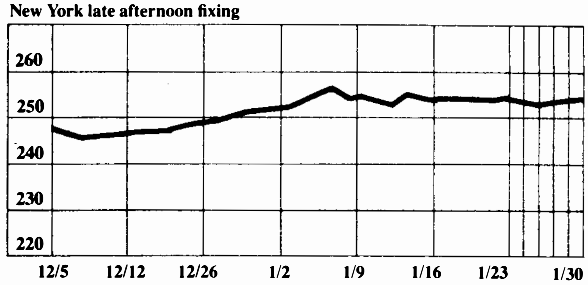
For the moment, the oligarchical funds continue to pour into the United States. The combination of these capital inflows, most of which derive directly or indirectly from illegal sources, and the usury earned by U.S. banks' loans to the rest of the world, has enabled the United States to enjoy a fools' paradise. But the old *fondi* are not playing for short-term profit on their dollar portfolios: They are playing a deadly strategic game whose ultimate object is the elimination of the United States as a world power. At any moment, as Paul Volcker keeps saying, the capital flows could reverse—the old *fondi* could pull the plug. Then, the United States will see the facade of "free enterprise" crumble and confront the naked power of the old *fondi*. It will have to crush them through old-fashioned exercise of dirigistic state power, or face ruin.

Currency Rates

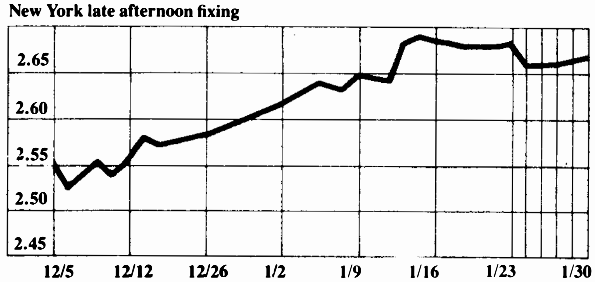
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing