

War on Drugs

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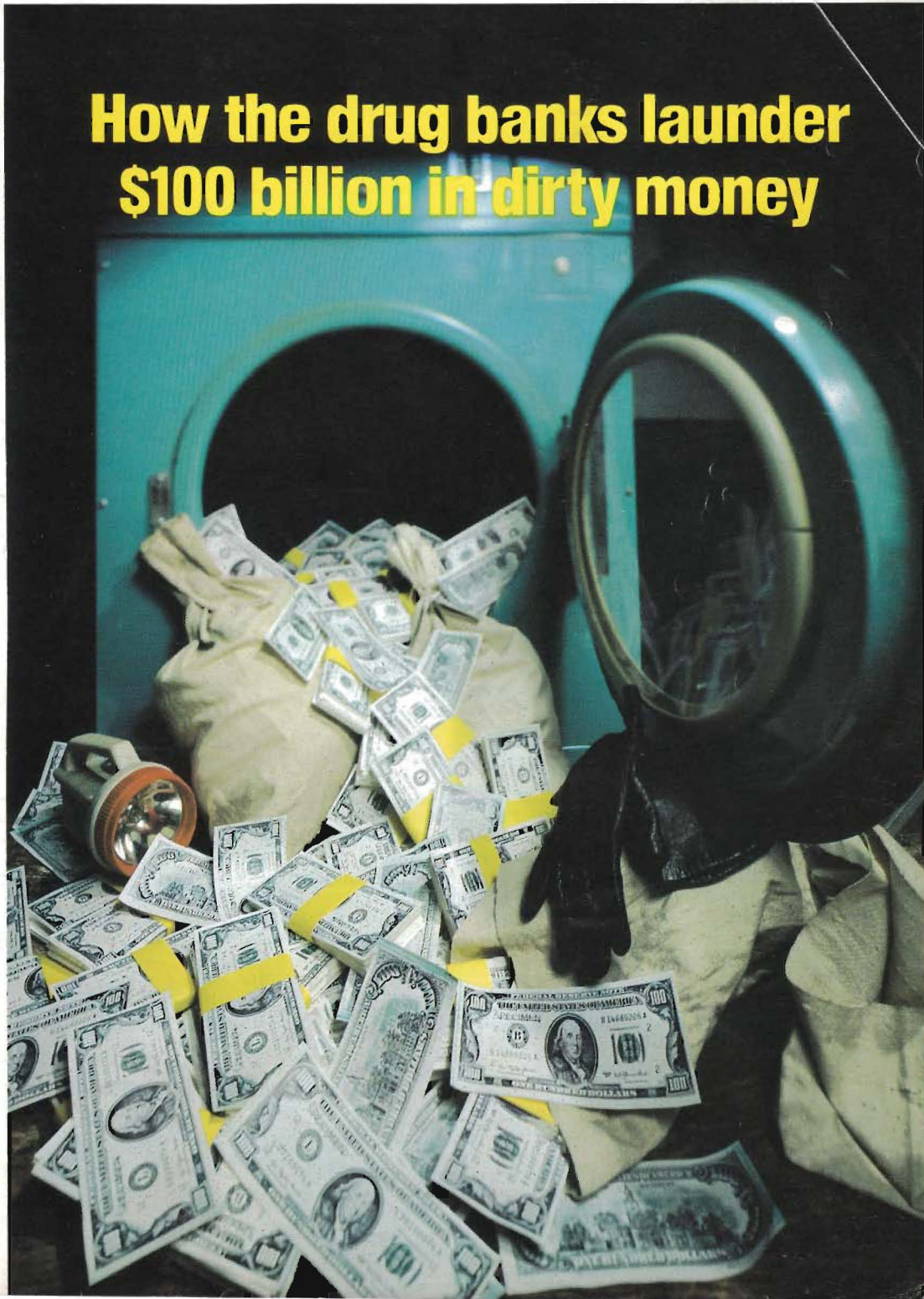
**Expose moves
to legalize
marijuana!**

**Anti-Drug Coalition
starts fall drive
for 'cold turkey
in the schools'**

**The zero-growth
mafia running
the LSD revival**

**Drug lobby
under fire
in Italy**

**How the drug banks launder
\$100 billion in dirty money**



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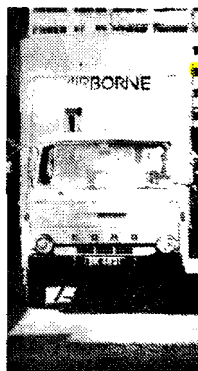
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by David Goldman

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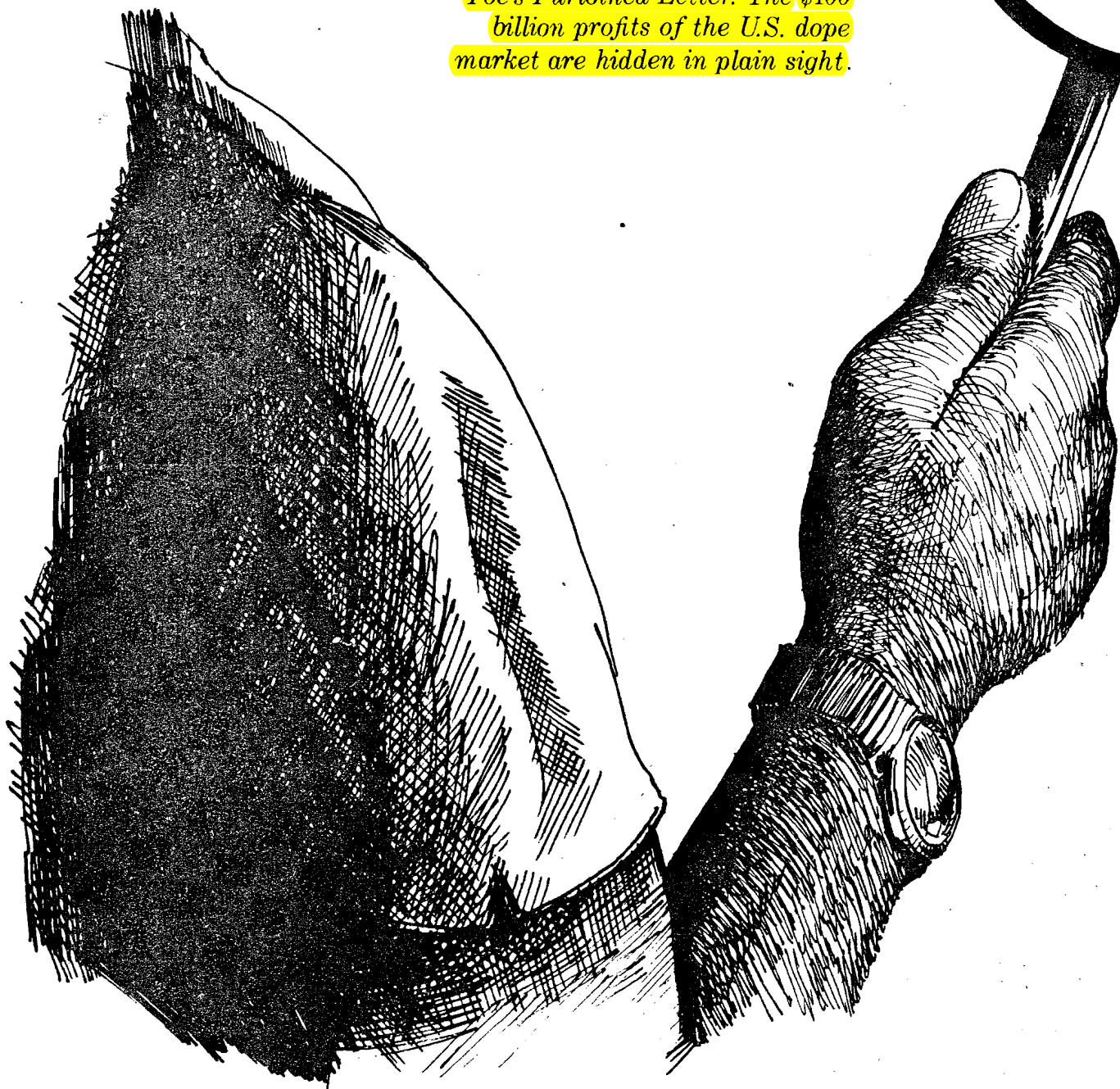
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On the cover: money "laundering." Although it would be absurdly easy for drug enforcement officials to "find" the \$100 billion in illegal narcotics revenues if it were stuffed into washing machines, in fact it is hidden in places that are almost as obvious: large legitimate businesses.

Photo: Philip Ulanowsky

How does "DOPE, Inc." hide the enormous cash profits from trafficking in heroin, marijuana and cocaine? In this new chapter from the forthcoming second edition of the best-seller that launched the Anti-Drug Coalitions, David Goldman shows that laundering drug-soiled money is like the case of Edgar Allan Poe's Purloined Letter. The \$100 billion profits of the U.S. dope market are hidden in plain sight.

**How
\$100**



the drug banks hide billion in dirty money

U.S. Treasury investigators told a Senate Banking Committee hearing June 5 that they had uncovered large-scale laundering of drug money through Florida banks, confirming charges made in 1978 in the bestselling paperback *Dope, Inc., Britain's Opium War Against the United States*. The book, first issued in late 1978 and now about to appear in its second edition, argued that major sections of the banking system and other apparently legitimate businesses were handling \$100 billion a year in dope revenues, twice the annual retail volume of all U.S. auto dealerships, and all of it in hard cash.

Prior to the hearings, stories in the *Washington Post*, the *Wall Street Journal*, and other national press reported that Colombian youths in jeans and tee shirts were handing suitcases of cash over to Miami banks, even phoning the banks in advance to be sure that enough bank tellers would be on hand to count it!

In the most damning evidence yet provided by the Treasury, a government study released earlier this year shows that Florida area banks have \$3.7 billion more cash than banks normally need to conduct operations—three quarters of the cash surplus of the entire banking system concentrated in a single state! Treasury investigators told the hearings, convened by Senate Banking Committee chairman William Proxmire, a Wisconsin Democrat, that this huge ex-

cess of cash was related to Florida's narcotics traffic. Last year, the Senate Permanent Investigations Subcommittee estimated that \$13 billion of dope money passed through Florida every year, making drugs the largest industry in that state.

These facts provide major corroboration of the charges by the authors of *Dope, Inc.* that drugs are the country's second biggest business, run as a major cartel from the top down. However, what is left out of the Treasury's report is much more interesting than what is reported.

What Proxmire, the Treasury Department, and the liberal media want you to know is this: the federal government has begun a crackdown on some 13 Miami banks for accepting large cash deposits from drug traffickers totaling some \$108 million in 1978, mostly in small bills. Beginning about five years ago, and particularly since Jimmy Carter has been in the White House, federal agents began operations to trace this money. Legislation was passed requiring banks to report cash transactions over \$10,000 to Treasury.

Names of individuals making such transactions were then checked against information on drug-running suspects gathered by the Federal Bureau of Investigation and the Drug Enforcement Administration. As a result of a bust against one \$300 million drug ring—the so-called Black Tuna

gang—four local banks were indicted for accepting drug money. The indictments were recently dropped for lack of evidence.

Now, Proxmire's staged hearings are bringing more heat on the local banks, and newspapers such as the *New York Times* and *Washington Post* have begun to publish the names of Florida banks that federal agents say accepted drug money during 1978, and failed to report large cash deposits.

Here are the culprits brought up at the Proxmire hearings and the amounts they are charged with receiving: Continental National Bank of Miami—\$95 million; Bank of Miami—\$5.75 million; Royal Trust of Miami—\$3.6 million; and Central National Bank—\$2.5 million. The following banks have been charged with receiving less than \$1 million each: Southeast First National Bank, Biscayne Bank, Pan American Bank, Bank of America's local branch, Second National Bank of North Miami, Flagship National Bank, People's Downtown National Bank, and the Northside Bank of Miami.

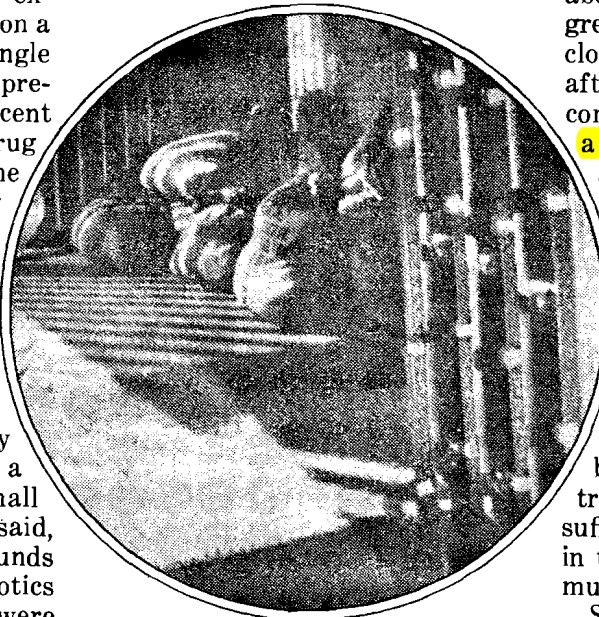
According to *Dope, Inc.* co-author David Goldman, the total amount involved in these local banking operations is "peanuts." The real story of big-time drug financing is told in a new chapter written by Mr. Goldman for the second edition, which has been made available for exclusive preview publication in *War on Drugs*. The chapter is excerpted below.

In 1975 New York City police arrested the managers of a small branch of the Chemical Bank in the borough of the Bronx, who had been accepting the cash flow of the Paul Lucas heroin mob. Lucas was a small-time operator who drew limited supplies from returning Vietnam veterans, retailing a few million dollars a year in heavily cut heroin and "laundering" the dirty money through the corrupted branch. When police moved in, they found the bank's entire vault piled ceiling-to-floor with small bills. The branch was at the limit of its physical capability to handle additional cash.

What makes these facts so extraordinary is that the \$3 million a year passing through that single branch, clogging its vaults, represented barely one-fifth of 1 percent of New York City's annual drug money flow of \$15 billion (the figure is an estimate of New York Drug Enforcement Administration officials). If all the dope traffic in the city went through similar channels, 500 bank branches would be required to handle the volume of cash!

Again, during 1980, Treasury investigators announced a "crackdown" on a group of small Miami banks, which, they said, accepted large volumes of funds over the counter from narcotics traffickers. Eighteen banks were named in hearings before the Senate Banking Committee on June 6, 1980, where Treasury officials bragged of the success of their enforcement operations. But the banks involved had allegedly accepted sums in the magnitude of \$1 to \$2 million each. Compared to the size of Florida's dope traffic, estimated by the Senate Permanent Investigations Subcommittee to exceed \$13 billion, the scale of operations the Treasury says it uncovered is extremely modest. Again, if we assume that this is the dope trade's *modus operandi*, we are forced to imagine that thousands of banks are involved in this traffic.

Lurid as the information presented in the Proxmire hearings is, on closer inspection it fails to tell us very much about the way \$100 billion could be hidden from the eyes of the tax and drug enforcement authorities. On the contrary, if it were all so simple, the dope trade would stand out like a sore thumb. Under federal legislation, every bank must file a report with the Internal Revenue Service on every cash deposit in excess of \$10,000. Even if the dope traders funneled smaller amounts than \$10,000 into their accounts, the sudden build-up of cash in a bank account would immediately excite



the suspicion of bank officials, according to investigator Robert Potter, the IRS Assistant Director for Criminal Investigation.

Large commercial banks with computerized internal operations employ supersophisticated methods to monitor what happens to their internal cash flow, mainly to prevent embezzlement. Any unusual cash transfer out of the bank, and especially cash transfers out of the country, would be picked up and audited by the banks' computers, which are programmed to pick up any unusual disturbances in the bank's normal pattern of operation. Using an advanced mathematical technique called

"spectrum analysis," these programs are highly effective against embezzlers—unless the embezzlers are equipped with their own computer programs to fool the banks' computers, and so forth.

In the good old days of the dope trade, the Meyer Lansky syndicate operation was able to transfer huge amounts of cash by suitcase on airplanes to safe offshore banking havens. There were a group of corrupt entities, including Bernie Cornfeld's Investors Overseas Services and Tibor Rosenbaum's Banque de Cr dit Internationale in Geneva, who handled mammoth amounts of dirty money. We know about these gentlemen in such great detail because they were closed down in 1974 and audited after-the-fact with a fine-toothed comb. Rosenbaum is reportedly in a jail in Tel Aviv; Cornfeld, after

a short spell in a Swiss prison, is in retirement in Los Angeles; and his successor at IOS, Robert Vesco, is a fugitive from justice in Costa Rica. Yet the dope trade continues.

Airline hijackings, ironically, wrecked Dope, Inc.'s primary means of laundering its money. Close inspection of all baggage makes it impossible to transfer physical cash abroad in sufficient amounts to make a dent in the \$100 billion the dope traffic must hide.

Superficially, the maze of checkpoints and controls arrayed against mere tax evaders, let alone narcotics traffickers, appears insurmountable. Yet these controls have a flaw. They are designed to spot the *abnormal*, the unusual funds transfer, the big cash deposit, the suitcase full of small bills. If the reader is beginning to suspect that thousands of bankers and IRS officials are all in on the game, we emphasize that no such thing is, or could possibly be the case. Dope, Inc. is a tightly run little network. There is nothing "abnormal" about it; it is built into the business structure of the United States and a number of other countries.

The mystery may seem even more impenetrable, but we are actually at the starting point of its solution. Let us view this part of the narcotics cycle from the top: retail dope-dealers take \$100 billion a year off American streets and school corridors. Most of this money, though not all, flows in one way or another back to wholesale traffickers who need to "launder" it. They start with close to \$100 billion in cash, and end up with bank accounts in the British protected offshore banking havens in the Caribbean or Asia.

Here is what one senior Drug Enforcement Administration officer had to say about the laundering process, in an interview with the authors:

Q: *How much in dope revenues comes out of New York City each year?*

A: \$10, 12, 15 billion, perhaps. That's \$1 billion in heroin and God knows how much of everything else.

Q: *How can that much money be hidden from public view or the Internal Revenues Service?*

A: Well, most of it's washed [turned into legitimate bank accounts] in Miami.

Q: *How does it get down there—in cardboard cartons?*

A: What cartons? It gets sent down there through normal bank transfers.

Q: *How does it get into New York City in the first place?*

A: Through legitimate businesses—that's the best cover possible.

Q: *Wasn't the biggest money-washing operation ever busted in New York the case where the Lucas mob in the Bronx was using a branch of the Chemical Bank to launder \$5 and \$10 bills right off the street? They had to launder an entire vault filled up with dope money.*

A: That's right.

Q: *But the total capacity of that operation, which used an entire branch of a commercial bank, was no more than \$3 or \$4 million a year.*

A: That's my recollection.

Q: *In other words, it only handles less than half of 1 percent of all dope revenues going through New York?*

A: That appears to be correct.

Q: *So what kind of legitimate businesses are we talking about?*

A: Very big legitimate businesses. That's all I can say about it.

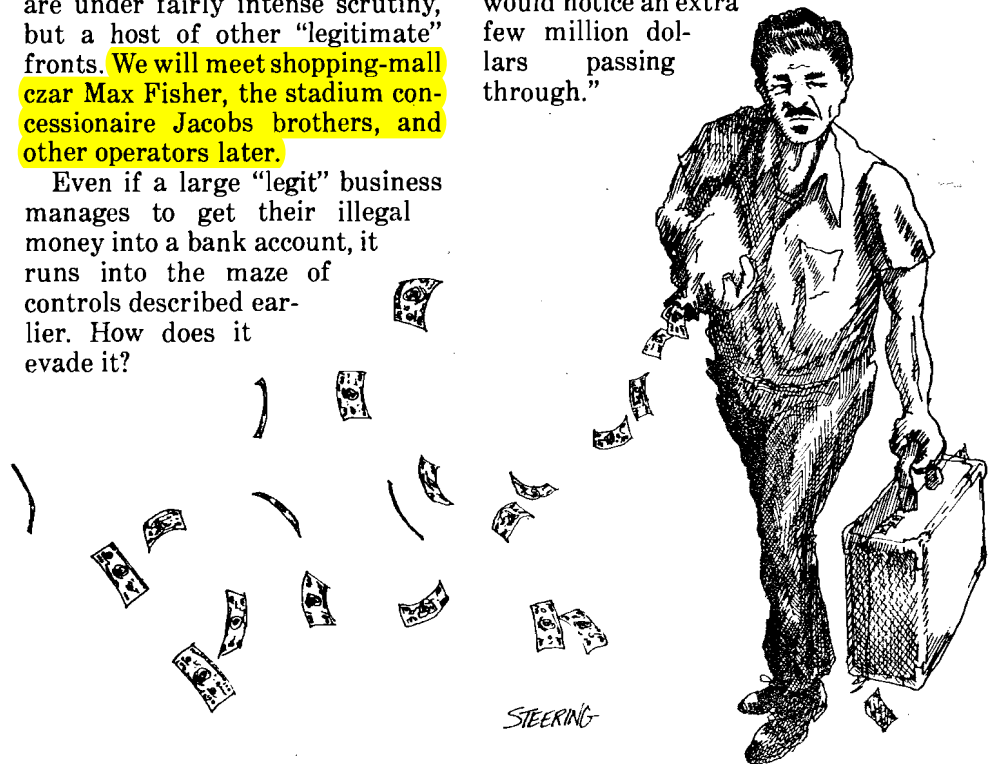
This is a good start. Who has the cash flow to siphon small bills off the street in large volume, camouflaged in an even larger volume of cash? Gambling casinos, sports stadium concessions, department stores, and so forth. When casinos go to the bank at the end of the day, they deposit cash in the form of several giant canvas bags, wheeled in on what looks like an immense clothes rack. An extra million or two a day starts to add up to big money. But it is not merely gambling casinos, which are under fairly intense scrutiny, but a host of other "legitimate" fronts. We will meet shopping-mall czar Max Fisher, the stadium concessionaire Jacobs brothers, and other operators later.

Even if a large "legit" business manages to get their illegal money into a bank account, it runs into the maze of controls described earlier. How does it evade it?

"The thing every company is most afraid of is that it will—inadvertently—become a host for some sort of criminal operation," a senior official of one of New York's largest financial houses told the authors. "But it can be very hard to track down, what with the pressure to keep down the cost of operations. You just can't check into every transaction."

What sort of financial business is typically used to handle large amounts of illicit money without detection? the question came back.

"There are certain sorts of accounts," the executive said, "which are virtually foolproof means of moving illicit funds. The most reliable is the type of account maintained by someone dealing in the financial market, buying and selling large amounts of securities every day. You will be cashing in stocks, bonds, or commodities futures, and using the proceeds to buy new securities, almost every minute. Tens of millions could go through the account every day, even if the balance at the end of the day is only a few thousand dollars. No one would notice an extra few million dollars passing through."



How can banks stop this? he was asked.

"You can't do much after you let them open an account," the financier concluded.

Someone in the bank must be waiting, usually the corporate banking officer who clears the business relationship in the first place. The rest of bank management may know nothing about it. One well-placed employee of Dope, Inc. in a high position may be enough.

The Midwest Air story

Our investigators stumbled onto this operation indirectly, by following the trail of physical narcotics shipments in the United States. There is a small "air taxi" and charter cargo airline company based in Elyria, Ohio, outside of Cleveland, called Midwest Air Charter, Inc. Twenty percent of



Max Fisher of Detroit



Fugitive Robert Vesco

Midwest Air is owned by Airborne Freight out of Seattle, and Airborne is controlled by the New York investment bank Allen and Co.

According to the *New York Times*, Allen was drug and organized crime kingpin Meyer Lansky's investment banker. Charles Allen's number two man, Allen and Co. President F. William Harder, sits on Airborne Freight's board. Detroit's Max Fisher, Allen's closest business associate, also controls a major bloc of shares in Airborne.

Two things are of special interest about Airborne Freight.

First, according to Midwestern law enforcement officials, it handles a large volume of physical dope coming in from the Far East, and uses Midwest Air Charter for its distribution throughout the United States.

Second, its story takes us into the executive suite of New York's Chase Manhattan Bank, and into the Federal Reserve System itself.

Airborne's widespread Pacific network makes it almost inspection proof, according to U.S. Customs officials. Containerized shipments brought in through Seattle, Airborne's headquarters, are not closely inspected by airport customs, who do not have a tenth of the manpower required for this sort of work. The containers are taken directly off Airborne's planes, loaded onto trucks, and broken down well out of the way.

Alternately, drug shipments

may be brought into the United States from Canada's northwest province, crossing the border into Alaska, and then shipped—free of customs—to the port of Seattle. A subsidiary of the Hongkong and Shanghai Bank, Canadian Pacific Transport, moves this freight across remote Alaskan border points, according to law enforcement sources.

But Airborne's subsidiary, Midwest Air, is even more interesting. Its biggest client is the Federal Reserve System. The line's average flight is, by its own estimate, 40 percent Federal Reserve business.

The Fed ships huge numbers of canceled checks every day between the 12 regional Federal Reserve banks, in the process of collecting payments between different localities. Large commercial banks employ fleets of private planes to handle their own collections, and the Federal Reserve provides a service either for smaller banks, or for low-priority collections of the larger banks. The bags of checks are shipped by Midwest Air, under a contract that began in 1973.

Midwest's service has not been good. According to Cleveland Federal Reserve Bank officer Norman Hagen, who manages part of the Fed's clearing system, "When Midwest Air bid for renewal in July 1978, they underbid incredibly, by almost \$2 million. Of course they got the new contract. But since then their service to the Fed System has collapsed. They just stopped shipping our checks, which would pile up at airports. They seemed more interested in shipping the growing freight contracts of their other customer, Airborne Freight. They claimed to be shipping at least 40 percent Fed cargo, 60 percent Airborne cargo on the average flight. I don't believe it. I think Airborne, which would like to own Midwest 100 percent, is dumping their cargo instead on our flights."

Hagen continued, "By early 1979 this lag in service was causing a major problem with the 'float,' that is, the balance of unsettled



Crime czar Meyer Lansky

checks outstanding in the Fed system. All Midwest Air has to do is delay shipments by four or five hours a day, and at one point some \$14 billion in unsettled checks a day was ballooning up in the money supply. Midwest then insisted we had to pay them more money—of course they had only submitted the original low bid because Airborne is subsidizing their flights—so they could buy more planes. But the problem is still there.”

Midwest's service to the Federal Reserve became so bad that it threw the accounting of money supply off-kilter, and occasioned an investigation by a displeased House Banking Committee panel. No one showed the company the door, however, and the firm is still carrying the Fed's canceled checks.

Midwest Air Charter does not make money from the Fed's business, nor does it have much interest in fulfilling its obligations. But it has a major advantage in maintaining the contract. The Fed's priority cargo is never inspected by law enforcement officers, or delayed by airport officers. It is immune to any normal checks. If Midwest planes are also transporting narcotics, that is an extremely useful feature of the business.

It makes sense that Max Fisher and Charles Allen would run outfits like Airborne Freight and Midwest Air. It does not make sense that the Federal Reserve would tolerate shoddy service—or does it? Upon examination, Midwest turns out to have some pretty powerful friends in the banking sector.

Foot in the door

“We set up Midwest Air,” retired Cleveland National City Bank senior vice-president Fred Hogg has bragged. “Joseph Garrigy, the founder and now president of Midwest, came to me in the early sixties with no money, no customers, and one plane. I gave him National City's business of moving our checks around the state, and I called up every other Cleveland bank and got their business. Then I introduced him to the Fed.”



An Airborne Freight truck in Hong Kong, the heroin capital of the world.

Hogg introduced Garrigy to his friend Clifford G. Miller, then senior vice-president at the Cleveland Federal Reserve. By 1967, Miller, whose number two man in charge of Cleveland Fed transportation happened to be Hogg's son-in-law Norman Hagen, had gotten Midwest the contract to carry all checks and other “time sensitive” financial documents for the entire Cleveland Fed district.

By late 1972, Hogg and Miller arranged with Harry Schultze, senior vice-president at the Chicago Fed, to set up a unified national Interdistrict Transport System (ITS) headquartered in Chicago to transport all “time-sensitives.” They advised Schultze to give Midwest the national contract.

“They submitted the lowest bid by far,” said Schultze, and besides, “they were given clearance from the national headquarters of the Air Force Military Airlift Command. We didn't bother to check

them out any further.”

It is likely that the clearance was arranged through the National Bank of Cleveland's board member Claude Maclary Blair, who was a major general in the elite Air Force Intelligence Signal Corps. Also on the board of Midwest Air's sponsor, the Cleveland National City Bank, is Carl S. Ablon. Ablon is chairman of New York's Ogden Corporation, which, in turn, is Charles Allen and Co.'s privately financed metals firm, whose directors include not only Allen himself but also Airborne's F. William Harder.

Also on the bank's board is James C. Donnell II, chairman of the Marathon Oil Co. of which Max Fisher is a founder and part owner.

What, precisely, do these high-ranking gentlemen know about Airborne Freight being involved in illegal operations? Their business relationship with Max Fisher and the Allen brothers starts with

Midwest Air, and goes all the way up to the National City Bank's board of directors.

A tight little circle of anglophile bankers

One character on the Airborne Freight board of directors is of even greater interest than the company's friends at First National City Bank of Cleveland: one James H. Carey, an executive vice-president of the Chase Manhattan Bank in New York City. Carey is the top man in the corporate banking department, who determines which companies may open accounts with the Chase Manhattan Bank. He has another distinction:

Carey is a Knight of St. John of Jerusalem, the ultra-elite British chivalric order over which Queen Elizabeth presides. He is the only Chase Manhattan officer to hold that title.

Our investigators began to dig into Carey's history. During the early 1960s, he was a faceless junior executive in Chase's loan department. Then, in 1969, Carey left the bank to join the local branch of Hambro's, the leading British merchant bank. He quickly became the chief executive officer at First Empire Bank, a joint venture between Hambro's and R.H. Macy's in Buffalo, New York. First Empire boasted two directors from Macy's

Department Stores. It also did the banking for Emprise, the Jacobs brothers' shady firm, and for most of the Buffalo dry-goods trade.

Chase Manhattan rarely promotes officers who leave the bank in mid-career and then return. Carey was the one big exception among Chase's executive vice-presidents, the rest of whom are bank career men. His connections were unusual. "We knew him through family connections up at Brown University," said British banker Richard Hambro, who now runs the family's American operations. "Then we sent him back into Chase. With his Brown University background and family, he was

The Macy's Mystery

Since the late 1880s, Macy's Department Store has been controlled by the British intelligence-allied Straus family, which has a history of treason against the United States dating back to the Civil War.

During the Civil War Isidor Straus, later the founding Straus of Macy's, moved to London to work with top elements of London and Amsterdam finance in seeking to break the Union blockade, finance the Confederacy, and run guns to both the Confederacy and Canada. The war over, Isidor Straus and his family were sent by the British sponsors from the South to New York.

It took the Strauses two decades to get control of Macy's. Macy's had been founded in the mid-19th century by a Boston Quaker family. Mr. R.H. Macy's intention was to keep the store in the family, and he seemed to have enough heirs to make this feasible. But shortly after his death, in the 1880s all the leading Macy heirs died unexpect-

edly and the obscure Straus family, which had hitherto merely occupied a minor imported glass and pottery concession in one corner of the store, was suddenly partner of the firm.

A few years later, in 1893, the Straus family dominated the retail operations in the richest city of the Western Hemisphere.

Control of retail department stores by British or allied oligarchical financiers was considered crucial by those financiers for a number of reasons. First, the high cash flow generated daily by such enterprises is useful for very short-term speculative operations or for laundering illegal money flows, like narcotics funds.

Second—and related—is the fact that since the oligarchist is not interested in creating or expanding real wealth but rather in looting it to the greatest extent possible, he gravitates to the service sector, especially relatively labor-intensive, low capital investment areas, to achieve maximum profits with minimum investment.

Macy's corporate board is chock-full of interesting connections:

- Its president, Herbert Seegal, is a director of Midatlantic National Bank (New Jersey), which has been publicly exposed as part-owner of a Caribbean Bank whose principal activity was the conduiting of illegal narcotics funds.

- One of Macy's directors, Orville Beal, is the retired president of the Newark, N.J.-based Prudential Insurance Company. Prudential itself is principally responsible for the dismantling of the Newark police force anti-narcotics squad.

- Macy's director Beal is also a director of Harry Oppenheimer's Engelhard Minerals and Chemicals Corporation. The Oppenheimer's global diamond and gold dealings are used as the key means of exchange in the wholesale narcotics trade. Interestingly, Mr. Beal is chairman of Macy's audit committee.

- Macy's is also closely interlocked with RCA-NBC, media promoters of the "Aquarian" prodrug culture. Three directors of Macy's are directors of RCA-NBC: Donald Smiley; Stephen M. DuBrul, Jr. of Lehman Brothers-Kuhn Loeb; and Lawrence Fouraker of the Harvard Business School.

just the sort of person to impress [Chase Manhattan Chairman David] Rockefeller and [Chase President Willard C.] Butcher." Among his colleagues, Carey is known as a corporate gladhander without special banking talent.

But his sponsors at Hambro's are among the best-connected of Britain's elite; Richard Hambro's uncle, the late Sir Charles Hambro, was chief of Britain's Special Operations Executive during World War II, the superior of Sir William "Intrepid" Stephenson. That they brought their American protégé James Carey into the Order of St. John of Jerusalem is an indication that Carey performed

more than off-hand services for his British friends to merit the highest symbolic honor that the British royal house can confer on an American.

What the Airborne Freight story thus leads to is a tight little circle of anglophile bankers, sometimes in top management but often in the key secondary positions. The allegations made concerning Airborne's role in distributing narcotics are of less fundamental interest than the insights it provides us in how unsavory types of the Max Fisher-Herbert Allen variety can establish relationships with major banking institutions, such as National City of Cleveland and Chase

Manhattan. The same set of characters keep bumping into each other.

For example: Allen and Co. financed the first real estate purchases in the Bahamas to build Meyer Lansky's Hogg Island casino, which, with a deft change of hats, became Resorts International's Paradise Island Casino. Resorts created a new security firm, Intertel, to ensure things ran on track. Somehow the vice-chairman of Macy's and a senior officer of Prudential Life Insurance ended up sitting on Intertel's board of directors. Prudential owns 15 percent of Hambro's, which promoted the career of James Carey.

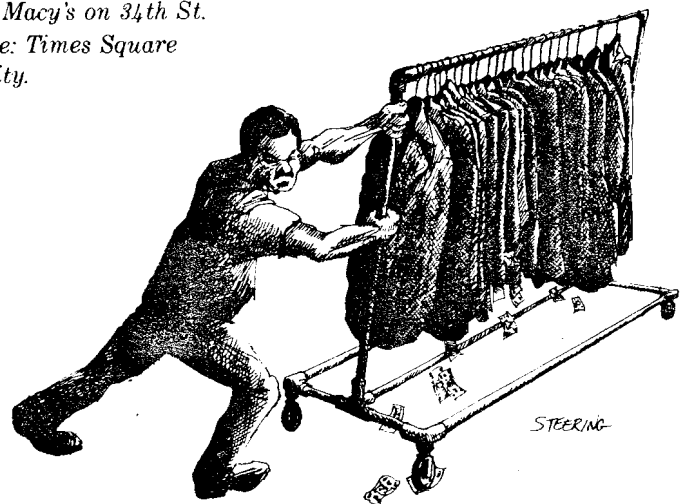


Photo: Dorian Bartlett



Photo: Dorian Bartlett

Left: Macy's on 34th St.
Above: Times Square activity.



Macy's is a strange company, for that matter. "Strictly speaking," says one of their managers, "Macy's is not a retail store. They don't make their money by selling goods. They use retail sales as an excuse to make short-term loans, overnight or one week loans, or to play the money markets. A lot of these short-term loans finance the pornography business in New York."

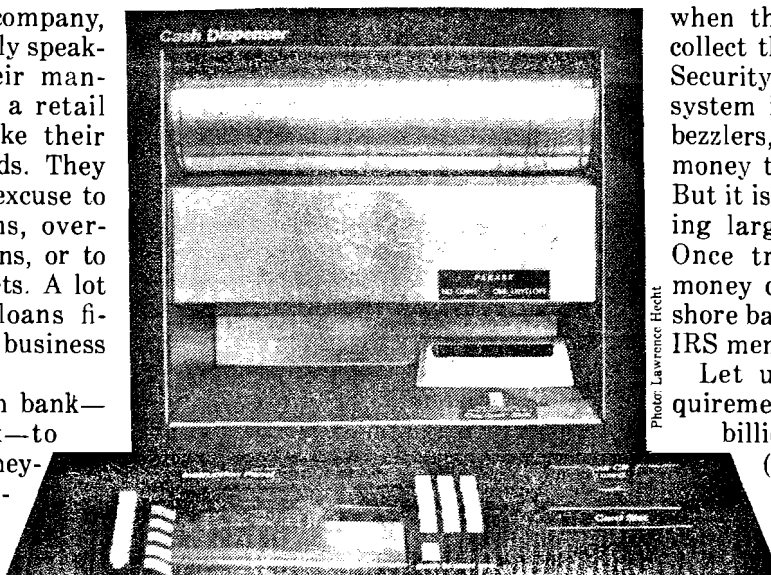
Macy's owns its own bank—the R.H. Macy bank—to manage all of its money-market operations. Hypothetically speaking, Macy's is the ideal entity through which to conduct really gigantic dirty-money transfers. At the retail end, its stores take in gigantic amounts of cash, enough to mask a very substantial flow of funds through illegal sources. At the high finance end, Macy's does enough high-turnover securities business to pass billions of dollars per day through its innumerable bank accounts.

When we enter the brave new world of Electronic Funds Transfer, through which scores of billions of dollars change hands every day by the switching of computer-generated signals, the possibilities for dirty-money laundering are even greater. According to Robert Morris, a computer scientist at American Telephone and Telegraph's Bell Laboratories, here is how it works:

Any illegal owner of funds wants to put them into a bank account in order, for example, to transfer them abroad. He establishes a dummy corporation and gets an account at the bank. But if he builds up a big account, the bank will tell the IRS.

Then how are the illegal funds transferred? If the dope trafficker has a collaborator inside the bank who works in the computer money transfer divisions and knows the bank's data coding, it's easy.

The dope trafficker makes a



An electronic banking terminal in New York.

transfer from his account at, say, Chase Manhattan to his account in an IRS-proof offshore banking center, perhaps at the Standard Chartered Bank branch in the Cayman Islands. His confederate at the computer adds one more message unit to the regular string of message units going from Chase Manhattan to the Standard Chartered Bank in the Bahamas. The dope trader writes a transfer from his account at Chase to the Caymans of \$10,000. His confederate adds a message unit transferring another \$1 million from the Chase account to the Caymans. Simultaneously the dope trader deposits \$1 million of "laundered" illegal money in his "legitimate" account at Chase. \$1 million came in, and \$1 million—plus the \$10,000 decoy transfer—go out. The bank's computers pick up no unusual movement of funds, particularly if the account is one where large sums of money come in and are withdrawn every day.

In 1979, a computer programmer at Security Pacific Bank in Seattle was arrested by the Federal Bureau of Investigation for doing exactly this. He simply had the Bank's computer credit his account in Zürich, Switzerland with a non-existent \$11 million. The problem was that he did not leave the country fast enough, and was found out

when the Swiss bank tried to collect the \$11 million from the Security Pacific head office. The system is a tricky one for embezzlers, who wish to "create" money transfer out of thin air. But it is almost failsafe for hiding large amounts of money. Once transferred, the illegal money disappears into the offshore banking havens, where no IRS men go.

Let us summarize the requirements for laundering \$100 billion in dirty money:

- (1) The dope traffickers must have control of major legitimate business with cash turnover in the tens of billions per day, overall.
- (2) The dope traffickers must have a sophisticated money-market operation which trades a much greater volume of securities than the cash to be laundered.
- (3) Traffickers must have well-placed contacts inside the commercial banks themselves, international banking contacts, Cayman Islands accounts, and so forth.

From the field to the bank

When we read in the newspapers of a Treasury crackdown against a small group of Florida bankers who allegedly "wash" a few million in dope money, we should consider both what this tells us, and what it doesn't tell us.

Who, for example, are the teenagers who hand satchels of small bills over to bank clerks? For the most part they are the sewer rats of the dope trade, the smugglers who bring the physical goods in. They are highly paid, are highly expendable, and often greedy enough to be incautious. They do not have the infrastructure to launder their payments quietly through the channels described. Of the \$13 billion Florida dope trade—if the Senate Committee's figure is accurate—probably less than \$300 million, or 30 percent of the wholesale cut, accrues to the smugglers themselves. From what the Treas-

Big drug banks move into Miami

It's no accident that while William Proxmire and the press are raising a storm over Colombians with shopping bags, 15 of the largest international banks in the world have suddenly set up shop in Miami, and not a word of it has appeared in the context of the so-called crack-down on money flows. The banks are precisely the ones that have been most prominently involved in banking for dope traders for generations. Some of them are the principal "off-shore" banks that launder the cash that is flooding Miami.

Here are five of the most prominent:

Bank Leumi. Israel's largest commercial bank, wholly controlled by Bank of London. Leumi's chairman is Ernst Israel Japhet of the infamous Charterhouse Japhet family. The Japhets had an official franchise from the British government during the 19th century running opium in and out of the Orient.

Israel Discount Bank. Israel's second financial house, also controlled by Barclays of London.

Bank Hapoalim. Israel's No. 3 bank, identified by European authorities during the 1960s as a key source of funds for terrorists.

Standard Chartered Bank, Ltd. Headquartered in London, but its primary business is in the heroin capital of the world, Hong Kong. It is the second largest bank in Hong Kong after the Hongkong and Shanghai Banking Corp., which officially

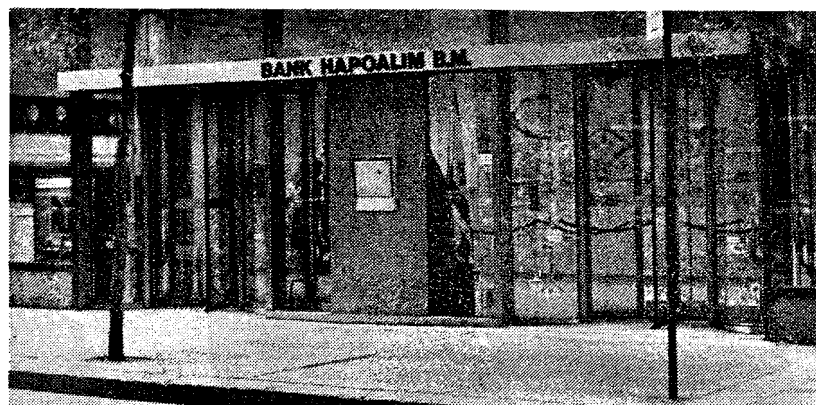


Photo: Stuart Lewis

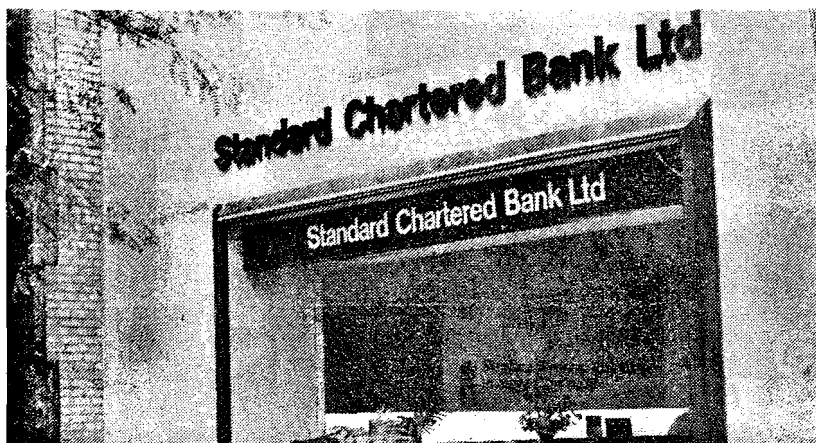


Photo: Stuart Lewis

Bank Hapoalim and Standard Chartered, old hands in laundering the drug trade's monies.

admitted opium-running up through World War II. Standard's board of directors includes Lord Inchcape, whose father wrote the 1923 Inchcape Report urging the British government to ignore the protests of the international community and continue promoting the opium trade.

Bank of Nova Scotia. One of the largest "laundering" operations for drug funds in the Caribbean. Nova Scotia's board includes Sir Kenneth Keith, a business associate of the HongShang's Sir Philip of Zulueta.

These and about a dozen other international banks have opened branches in Miami over the past two years, along with 18 branches of the top Wall

Street banks. The Wall Street "big boys" such as Chase Manhattan, Chemical Bank and Citibank, also maintain offshore operations in the Caribbean.

The laws permitting these banks to come in the back door went into effect in January 1978, when the Florida legislature, at the bidding of the Florida State Banking Commission, passed a revised set of banking laws. Since then, these laws have been gradually amended to give the international banks increasing maneuvering room. As of February of this year, international agencies can now make loans to firms in southern Florida, provided that such companies are involved in overseas "business." Further revisions are being debated at present in the Florida legislature.

ury has alleged, somewhat less than this has been deposited by traffickers in the 18 banks cited before the June 6 panel.

The smugglers are paid off by the growers in Latin America, in the case of the Florida-based marijuana and cocaine traffic. These are almost entirely old landed families, who also grow sugar, which needs the same terrain as

marijuana, and coffee, whose growing conditions are identical to those of cocaine. These are major powers in nations like Colombia or Bolivia or Peru. The old landed oligarchy has direct channels into the New York, London, and Caribbean banking markets, and accounts on the world's major commodities exchanges.

Take the example of a certain Italian coffee firm, controlled by one of Italy's oldest oligarchical families. The family came to international attention when Italian authorities arrested one of its leading figures in 1979 for helping to arrange the escape from a Costa Rican jail of two right-wing Italian terrorists, Freda and Ventura. Those two had fled Italy after planting a bomb in a public piazza that had killed 19 bystanders.

This company deals with the landed oligarchy in Central and South America. It also uses its large shipments of coffee into the United States to transport a fair volume of cocaine, according to commodity market sources. It is paid for the drugs in New York, in cash. The cash never leaves the United States.

The coffee firm goes to a British national who controls the coffee market division of one of New York's larger commodities trading houses. It pays cash for a futures contract betting both for and against the same month, or adjacent month's, contract on coffee

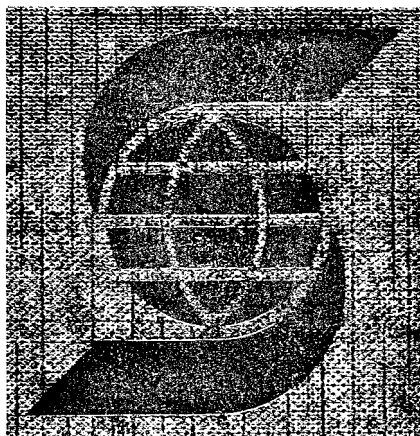
futures. The British national who makes the order writes two tickets, one of which will go up in value, the other of which will go down, as the market fluctuates. When the coffee company wants to collect, the corrupt commodity trader tears up the losing ticket. The loss is met with the coffee firm's original cash deposit—and commodity brokers do not have to report cash, unlike commercial banks. The record of the transaction, however, disappears from the coffee company's account at the brokerage house. The firm cashes in the winning ticket, and walks away with what appear to be legitimate commodity market earnings.

The actual dope-growers use a myriad of means to launder their funds. It is an entirely different world than that of the penny-ante smuggler with a few hundred thousand dollars burning a hole in his pocket. Back during Prohibition, **old Sam Bronfman** had the same problem with the petty racketeers who drove the trucks across the border. They were greedy, and too numerous. **Meyer Lansky's Murder Incorporated** provided the essential service of weeding their ranks. It appears that today the same service is performed for the dope traffic by the United States Treasury.

While the Treasury has been poking around at small Florida banks, several of the names encountered most often in this book moved into Florida since 1978, including Standard Chartered, Bank Leumi, and Bank Hapoalim, among others (see box). According to the Florida State Banking Commission in a June 1980 interview, "no one is even looking at the international banks." Why should they? Standard Chartered Bank is not so stupid as to accept suitcases full of cash over the counter. They are simply following their clientele, including same large Latin American cocaine planters, into the Miami area, banking their funds, and helping them to invest in real estate or diamonds.



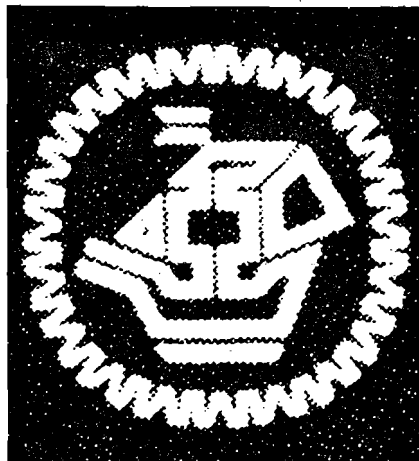
Resorts International



Bank of Nova Scotia



Prudential Life



Marine Midland Bank

A book that made history

Dope, Inc.: Britain's Opium War Against the U.S., was commissioned by Lyndon H. LaRouche to trace the international dope cartel to its highest levels—and explain how and why the “men above suspicion” have unleashed the drug epidemic. Below, right: Co-author Kostas Kalimtgis (left) at the December 1978 founding meeting of the Michigan Anti-Drug Coalition presented a copy of the newly released *Dope, Inc.* to Imam Qasim Ahmed of the World Community of al-Islam in the West. Above right: In November 1979, Italian and German antidrug leaders met in Frankfurt, West Germany to map out the strategy for the European Anti-Drug Coalitions, using the *Dope, Inc.* method. Below: The Italian edition appeared this September.

