

Centre for Research on Globalisation

"Dirty Money"
Foundation of US Growth and Empire
Size and Scope of Money Laundering by US Banks
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***La Jornada*, Mexico, 19th May 2001**
Posted at globalresearch.ca 29 August 2001

There is a consensus among U.S. Congressional Investigators, former bankers and international banking experts that U.S. and European banks launder between \$500 billion and \$1 trillion of dirty money each year, half of which is laundered by U.S. banks alone. As Senator Carl Levin summarizes the record: "Estimates are that \$500 billion to \$1 trillion of international criminal proceeds are moved internationally and deposited into bank accounts annually. It is estimated that half of that money comes to the United States".

Over a decade then, between \$2.5 and \$5 trillion criminal proceeds have been laundered by U.S. banks and circulated in the U.S. financial circuits. Senator Levin's statement however, only covers criminal proceeds, according to U.S. laws. It does not include illegal transfers and capital flows from corrupt political leaders, or tax evasion by overseas businesses.

A leading U.S. scholar who is an expert on international finance associated with the prestigious Brookings Institute estimates "the flow of corrupt money out of developing (Third World) and transitional (ex-Communist) economies into Western coffers at \$20 to \$40 billion a year and the flow stemming from mis-priced trade at \$80 billion a year or more." My lowest estimate is \$100 billion per year by these two means by which we facilitated a trillion dollars in the decade, at least half to the United States. Including the other elements of illegal flight capital would produce much higher figures. The Brookings expert also did not include illegal shifts of real estate and securities titles, wire fraud, etc.

In other words, an incomplete figure of dirty money (laundered criminal and corrupt money) flowing into U.S. coffers during the 1990s amounted to \$3-\$5.5 trillion. This is not the complete picture but it gives us a basis to estimate the significance of the "dirty money factor" in evaluating the U.S. economy. In the first place, it is clear that the combined laundered and dirty money flows cover part of the U.S. deficit in its balance of merchandise trade which ranges in the hundreds of billions annually. As it stands, the U.S. trade deficit is close to \$300 billion. Without the "dirty money" the U.S. economy external accounts would

be totally unsustainable, living standards would plummet, the dollar would weaken, the available investment and loan capital would shrink and Washington would not be able to sustain its global empire. And the importance of laundered money is forecast to increase.

Former private banker Antonio Geraldini, in testimony before the Senate Subcommittee projects significant growth in U.S. bank laundering. "The forecasters also predict the amounts laundered in the trillions of dollars and growing disproportionately to legitimate funds." The \$500 billion of criminal and dirty money flowing into and through the major U.S. banks far exceeds the net revenues of all the IT companies in the U.S., not to speak of their profits. These yearly inflows surpass all the net transfers by the major U.S. oil producers, military industries and airplane manufacturers. The biggest U.S. banks, particularly Citibank, derive a high percentage of their banking profits from serving these criminal and dirty money accounts. The big U.S. banks and key institutions sustain U.S. global power via their money laundering and managing of illegally obtained overseas funds.

U.S. Banks and The Dirty Money Empire

Washington and the mass media have portrayed the U.S. as being in the forefront of the struggle against narco trafficking, drug laundering and political corruption: the image is of clean white hands fighting dirty money. The truth is exactly the opposite. U.S. banks have developed a highly elaborate set of policies for transferring illicit funds to the U.S., investing those funds in legitimate businesses or U.S. government bonds and legitimating them.

The U.S. Congress has held numerous hearings, provided detailed exposés of the illicit practices of the banks, passed several laws and called for stiffer enforcement by any number of public regulators and private bankers. Yet the biggest banks continue their practices, the sum of dirty money grows exponentially, because both the State and the banks have neither the will nor the interest to put an end to the practices that provide high profits and buttress an otherwise fragile empire.

First thing to note about the money laundering business, whether criminal or corrupt, is that it is carried out by the most important banks in the USA. Secondly, the practices of bank officials involved in money laundering have the backing and encouragement of the highest levels of the banking institutions -- these are not isolated cases by loose cannons. This is clear in the case of Citibank's laundering of Raul Salinas (brother of Mexico's ex-President) \$200 million account. When Salinas was arrested and his large scale theft of government funds was exposed, his private bank manager at Citibank, Amy Elliott told her colleagues that "this goes in the very, very top of the corporation, this was known...on the very top. We are little pawns in this whole thing" (p.35).

Citibank, the biggest money launderer, is the biggest bank in the U.S., with 180,000 employees world-wide operating in 100 countries, with \$700 billion in known assets and over \$100 billion in client assets in private bank (secret accounts) operating private banking offices in 30 countries, which is the largest global presence of any U.S. private bank. It is important to clarify what is meant by "private bank."

Private Banking is a sector of a bank which caters to extremely wealthy clients (\$1 million

deposits and up). The big banks charge customers a fee for managing their assets and for providing the specialized services of the private banks. Private Bank services go beyond the routine banking services and include investment guidance, estate planning, tax assistance, off-shore accounts, and complicated schemes designed to secure the confidentiality of financial transactions. The attractiveness of the "Private Banks" (PB) for money laundering is that they sell secrecy to the dirty money clients.

There are two methods that big Banks use to launder money: via private banks and via correspondent banking. PB routinely use code names for accounts, concentration accounts (concentration accounts co-mingles bank funds with client funds which cut off paper trails for billions of dollars of wire transfers) that disguise the movement of client funds, and offshore private investment corporations (PIC) located in countries with strict secrecy laws (Cayman Island, Bahamas, etc.)

For example, in the case of Raul Salinas, PB personnel at Citibank helped Salinas transfer \$90 to \$100 million out of Mexico in a manner that effectively disguised the funds' sources and destination thus breaking the funds' paper trail. In routine fashion, Citibank set up a dummy offshore corporation, provided Salinas with a secret code name, provided an alias for a third party intermediary who deposited the money in a Citibank account in Mexico and transferred the money in a concentration account to New York where it was then moved to Switzerland and London.

The PICs are designed by the big banks for the purpose of holding and hiding a person's assets. The nominal officers, trustees and shareholder of these shell corporations are themselves shell corporations controlled by the PB. The PIC then becomes the holder of the various bank and investment accounts and the ownership of the private bank clients is buried in the records of so-called jurisdiction such as the Cayman Islands. Private bankers of the big banks like Citibank keep pre-packaged PICs on the shelf awaiting activation when a private bank client wants one. The system works like Russian Matryoshka dolls, shells within shells within shells, which in the end can be impenetrable to a legal process.

The complicity of the state in big bank money laundering is evident when one reviews the historic record. Big bank money laundering has been investigated, audited, criticized and subject to legislation; the banks have written procedures to comply. Yet banks like Citibank and the other big ten banks ignore the procedures and laws and the government ignores the non-compliance.

Over the last 20 years, big bank laundering of criminal funds and looted funds has increased geometrically, dwarfing in size and rates of profit the activities in the formal economy. Estimates by experts place the rate of return in the PB market between 20-25% annually. Congressional investigations revealed that Citibank provided "services" for 4 political swindlers moving \$380 million: Raul Salinas -- \$80-\$100 million, Asif Ali Zardari (husband of former Prime Minister of Pakistan) in excess of \$40 million, El Hadj Omar Bongo (dictator of Gabon since 1967) in excess of \$130 million, the Abacha sons of General Abacha ex-dictator of Nigeria -- in excess of \$110 million.

In all cases Citibank violated all of its own procedures and government guidelines: there was no client profile (review of client background), determination of the source of the funds, nor

of any violations of country laws from which the money accrued. On the contrary, the bank facilitated the outflow in its prepackaged format: shell corporations were established, code names were provided, funds were moved through concentration accounts, the funds were invested in legitimate businesses or in U.S. bonds, etc. In none of these cases -- or thousands of others -- was due diligence practiced by the banks (under due diligence a private bank is obligated by law to take steps to ensure that it does not facilitate money laundering).

In none of these cases were the top banking officials brought to court and tried. Even after arrest of their clients, Citibank continued to provide services, including the movement of funds to secret accounts and the provision of loans.

Correspondent Banks: The Second Track

The second and related route which the big banks use to launder hundreds of billions of dirty money is through "correspondent banking" (CB). CB is the provision of banking services by one bank to another bank. It is a highly profitable and significant sector of big banking. It enables overseas banks to conduct business and provide services for their customers -- including drug dealers and others engaged in criminal activity -- in jurisdictions like the U.S. where the banks have no physical presence. A bank that is licensed in a foreign country and has no office in the United States for its customers attracts and retains wealthy criminal clients interested in laundering money in the U.S. Instead of exposing itself to U.S. controls and incurring the high costs of locating in the U.S., the bank will open a correspondent account with an existing U.S. bank. By establishing such a relationship, the foreign bank (called a respondent) and through it, its criminal customers, receive many or all of the services offered by the U.S. big banks called the correspondent.

Today, all the big U.S. banks have established multiple correspondent relationships throughout the world so they may engage in international financial transactions for themselves and their clients in places where they do have a physical presence. Many of the largest U.S. and European banks located in the financial centers of the world serve as correspondents for thousands of other banks. Most of the offshore banks laundering billions for criminal clients have accounts in the U.S.

All the big banks specializing in international fund transfer are called money center banks, some of the biggest process up to \$1 trillion in wire transfers a day. For the billionaire criminals an important feature of correspondent relationships is that they provide access to international transfer systems -- that facilitate the rapid transfer of funds across international boundaries and within countries. The most recent estimates (1998) are that 60 offshore jurisdictions around the world licensed about 4,000 offshore banks which control approximately \$5 trillion in assets.

One of the major sources of impoverishment and crises in Africa, Asia, Latin America, Russia and the other countries of the ex-U.S.S.R. and Eastern Europe, is the pillage of the economy and the hundreds of billions of dollars which are transferred out of the country via the corresponding banking system and the Private Banking system linked to the biggest banks in the U.S. and Europe. Russia alone has seen over \$200 billion illegally transferred in the course of the 1990s.

The massive shift of capital from these countries to the U.S. and European banks has generated mass impoverishment and economic instability and crises. This in turn has created increased vulnerability to pressure from the IMF and World Bank to liberalize their banking and financial systems leading to further flight and deregulation which spawns greater corruption and overseas transfers via private banks as the Senate reports demonstrate.

The increasing polarization of the world is embedded in this organized system of criminal and corrupt financial transactions. While speculation and foreign debt payments play a role in undermining living standards in the crisis regions, the multi-trillion dollar money laundering and bank servicing of corrupt officials is a much more significant factor, sustaining Western prosperity, U.S. empire building and financial stability.

The scale, scope and time frame of transfers and money laundering, the centrality of the biggest banking enterprises and the complicity of the governments, strongly suggests that the dynamics of growth and stagnation, empire and re-colonization are intimately related to a new form of capitalism built around pillage, criminality, corruption and complicity.

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The URL of this article is:

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