
Report from Strasbourg

IMF liberalization and drug-money laundering

by C. Brannan

During Sept. 28-30, over 150 specialists from governments, the judicial system, police, and the world of finance gathered in Strasbourg, France for the first-ever International Conference on Money Laundering, officially organized by the Council of Europe. The conference, which took place behind closed doors, was held in a rather strange atmosphere, as officials from the International Monetary Fund (IMF), the World Bank, and the United Nations hobnobbed with officials from governments as varied as Bulgaria and Luxembourg, and only a smattering of information was made available to journalists in short "press points."

The restricted information flow may have been related to the obvious contradiction embodied in the conference itself. All the cited agencies, including the IMF, the World Bank, and the Council of Europe, have themselves been promoting the "economic adjustment," "liberalization," and "democratization" transformations, both in the so-called Third World and in the formerly communist sectors of east and central Europe, which have expedited the massive increase in drug production and/or trafficking and money laundering throughout these areas. Even with the restrictive information flow, the link between liberalization and the money-laundering danger was identified by various eastern and central European representatives. How this issue played itself out in the private hobnobbing is unclear, but judging by the disposition of the main organizers, it is evident that they wanted to avoid such embarrassments.

A major element in world cash flow

In one of the rare evaluations of some import made public from a western expert source, an agency called the Financial Action Task Force (FATF) stated that money laundering was becoming an ever greater problem, citing a figure of \$300 billion in drug sales alone, as being a major element in the world cash flow. Besides the sheer scale of the figures involved, another point raised by the FATF concerned the new, sophisticated electronic transfer of funds into a multitude of "fiscal paradises," as well as into real estate and "front" enterprises.

The FATF also warned of the immense new money-laundering markets opened up by the recent liberalization of the

eastern and central European countries, where, apparently, Hungary and Czechoslovakia have now overtaken Bulgaria in this domain. T. Sherman, president of the FATF, warned that the privatization of firms in the East and the convertibility of currencies could create "open counters" for professional launderers, and that, in fact, their criminal activity had already substantially increased.

Were Sherman to have been fully consistent, he might have arranged for the arrest of some of the IMF and related attendees at the Strasbourg event. But as the Council of Europe meeting was so strictly controlled to the outside world, the paradox was never really addressed, that the very policy of liberalization of eastern economies precludes interference into money flows and the activities of financial houses. Also not raised, is that Hungary and Czechoslovakia are pointed to as "success models" by the group around Jeffrey Sachs of Harvard, which sponsors IMF "shock adjustment" policies in the East, and that great advocates of "liberalization," like Milton Friedman, also support the legalization of drugs.

The consequences of 'liberalization'

The delegations from the formerly communist countries made the most telling points. Valentin Dobrev, Bulgaria's vice minister of foreign affairs, submitted a paper warning that professional money-launderers were targeting "private banks and their foreign branches, factories, insurance companies and even small shops." He asked: "What interest do banks have in inspecting the origins of capital arriving in their country?"

A Polish representative affirmed that in Poland several companies in financial difficulty had received offers in the mail, that they allow money transfers (of dubious origins and from abroad) into their bank accounts, with a promise of a commission for this "passage" of up to 10%. "The initial stage of transformation of the political and economic systems in Poland has been associated with a substantial liberalization of all forms of economic activity. . . . Conditions favorable to capital transactions have been brought about. Apart from the monies coming from legal sources, also those earned on illegal transactions have been used." Widespread shortages, and a confused legal system in a nation in transition, "have produced incentives for earning the so-called 'fast bucks,' also through illegal operations."

The minister of justice of Czechoslovakia (C.S.F.R.) concluded: "Our legal system faces a very difficult task—to stop the 'dirty money' influx into the C.S.F.R. from abroad, to hinder deposits of this and also domestic dirty money in financial houses, as well as not to interfere with the need of the Czech economy for transformation based, among other things, on the free circulation of capital."

Induced corruption

Russian Federation Minister of Justice Korastelev also addressed the paradox of wanting, at one and the same time,

to introduce a free liberal economy and to penalize the results of such a liberal economy. He stated: "In fact, the high taxation of profits and 'liberated' salaries has caused a reduction of production, as industrialists have no motivation either to modernize or to increase their productivity. Nor will they venture out into trying new technologies. One of the characteristic features of this transition period consists in the growing influence of bureaucrats, and especially those who possess the right, so to speak, of deciding whether it is rainy or fine economic weather . . . that is, to register or not register an enterprise, or to accord or refuse credits, and so on. This situation has led to considerable corruption in nearly all state institutions: the parliament, ministries, universities, schools, tribunals, police. Systematic screening and the fight against this scourge, which some believe to be the number-one threat to the state system, are hindered by a lack of appropriate laws and of qualified personnel."

Korastelev reminded his audience that the evil of money-laundering corruption could not be reduced to a problem of lawyers, because "this 'evil' has a quasi-global character."

Evasions

In the light of such identified problems, the behavior of western representatives, at least in public, seemed curious at best. The British delegation made a big deal about the fact that the U.K. would be the first of all countries to ratify the European Convention on Money Laundering, thereby, presumably, changing national laws to allow lifting of banking secrecy and confiscation of illegal money both at home and abroad. One Mr. Greenberg, chief of the money-laundering division of the U.S. Department of Justice (which presumably investigates, rather than engages in, the practice), boasted about the recent "anti-drug" successes of the Bush administration.

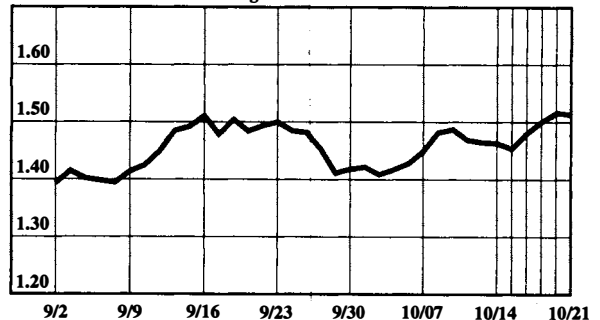
A Mr. Fischbach, the minister of justice from that well-known fiscal paradise of Luxembourg, solemnly demanded "an unbreachable internal solidarity with reinforced means of investigations for police and magistrates." Fischbach, however, could only reply, "No comment," when a journalist asked him to comment on the closing of the Bank of Credit and Commerce International (BCCI) because of drug-money laundering.

Indeed, most questions received no answers. One journalist asked how the participants could focus so much on merely technical problems, when such higher-ups as the former vice president of the United States had routinely utilized drugs-for-arms swaps operations, along with Col. Oliver North et al., in the Iran-Contra affair. To this, Council of Europe Secretary Catherine Lalumière darkly warned that threats and dangers exist that prevent people from naming names, that "we are not amongst good company" in the world as it is today, and that investigations are "still under way."

Currency Rates

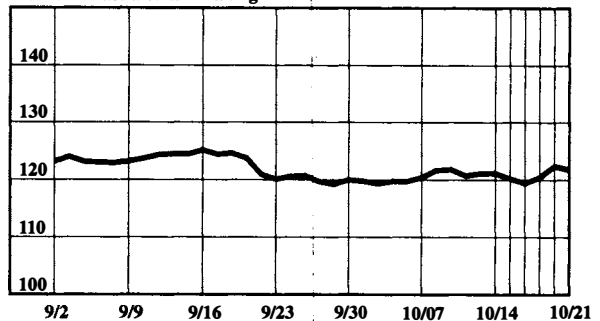
The dollar in deutschemarks

New York late afternoon fixing



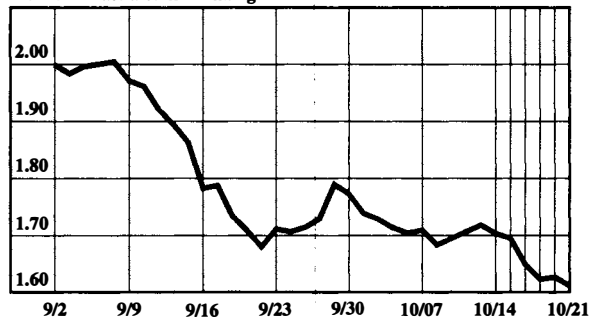
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

