Selling America's cities on the black market

by David Goldman

Some little-noticed new items portend the most dramatic changes in American banking and America's international position since the founding of the Bretton Woods system in 1944. In the fight over the composition and policies of the incoming Republican administration, groups like the Twentieth Century and the Heritage Foundation have proposed the re-making of American cities on the model of the British Crown Colony of Hong Kong.

What Twentieth Century Fund chairman Murray Rossant described to *EIR* as a combined banking, urban, and real-estate investment program for the United States is identical in principle to the International Monetary Fund's treatment for Argentina during 1978. After a spectacular devaluation—recommended by the International Monetary Fund—Argentina became Latin America's bargain basement, attracting big spenders on the basis of the cheapness of local goods and labor.

What the United States has to put up for sale, against several hundred billion dollars of net foreign liabilities, these groups are saying, is the land and population of its major cities. Half the American banking system moved, during the past 15 years, to the so-called offshore market, a $1.2 trillion monster. As this publication has argued in the past, the size and character of the Eurocurrency market based in London and a dozen Caribbean tax havens are a primary cause of the weakness of the American dollar. Now the plans favored by the cited think tanks and promoted by the New York Clearing House, the New York state legislature, and such potential cabinet members as Citibank's Walter Wriston would bring the offshore markets back onshore.

From the banking standpoint, the implication of the proposed "International Banking Facilities"—Cayman Islands banking at home—is regulation-free business for the major commercial banks with access to international funds, and the capacity to install the electronics funds transfer systems required to turn funds over on a few seconds' notice. But the proposals go much further: once the banking operation is brought onshore, the mass of

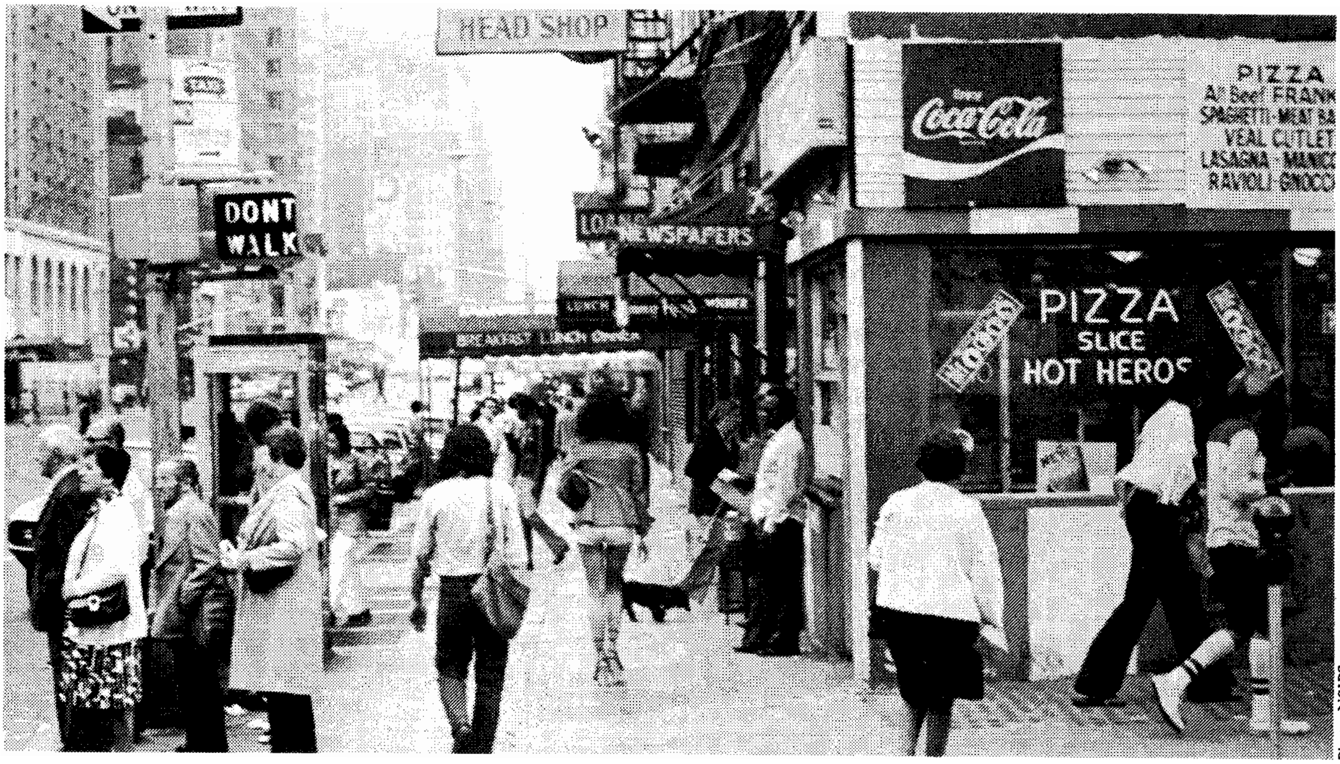

Photo: NSIPS

Eurodollar deposits will flow into purchases of urban real estate, attracted by liberalized tax codes and the elimination of such obstacles as rent control. The ultimate purchase-worthiness of urban real estate, they conclude, is a matter of using the most depressed parts of the urban population in low-wage light industry.

Hong Kong 'exemplar'

This is how the island of Hong Kong became "the modern exemplar of limited government and free markets," in the glowing words of Reagan adviser Milton Friedman. Hong Kong real-estate market conditions show how puny the boomlet in land values in, for example, New York City has been during the past three years: Luxury apartments in the colony rent for $10,000 per month and up, and a junior executive of a commercial bank resident in Hong Kong will count on spending $50,000 per year for modest accomodations.

Hong Kong also has the highest crime rate of any major city in the world; education and literacy levels that compare miserably with, for example, Taipei; the world's most corrupt body of law enforcement (official estimates put the annual volume of bribery of police officers at $1 billion), and a cash flow dependent on an estimated $10 billion per annum in narcotics-related revenues.

As we show in this Special Report, the implications of the Twentieth Century Fund and associated groups' package is the transformation of American cities into a vast black market—the basis of the Hong Kong eco-

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nomic miracle, when all is said and done.

The $1.2 trillion Eurodollar markets, unregulated by any central bank, are the repository for an annual flow of narcotics revenue alone of $200 billion. The circuit between street sales of narcotics in New York laundered through the Caribbean offshore markets, to the massive volume of foreign purchases of New York real estate by narcotics operators, is already much tighter than most observers realize.

A few cities in the United States—Miami is the most frequently cited—are running into the same problem that has plagued the economies of developing countries: most of their economy is running into "extralegal" channels. Conservatively estimated, 40 percent of the economies of India and Brazil, and 80 percent of the economy of Colombia, are accounted for by the black market. In the case of Italy, the figure is close to 25 percent.

Unique trap

If the United States falls into the black-market trap, it will be unique, and not merely because the United States is still the West's premier industrial power. It will have been accomplished from the top, calculated in advance and presented as a positive social program! Advocates of the Hong Kong program are as cynical as Milton Friedman is about the consequences of the plan, although not all are as vocal in support of heroin legalization as Friedman is. They are almost boastful that the tide is moving against all regulation, down to the capacity of the monetary authorities to distinquish black money flows from legitimate transactions.

And their ultimate argument is that the virtual bankruptcy of the dollar, the amassed hundreds of billions of dollars of foreign liabilities, make their solution "inevitable." Like Argentina, America will have to sell its assets to the foreign money pool that holds its IOUs.

At first reading, much of what the Hong Kong advocates propose is fantastic. Even the adoption of the real-estate side of this program by the Reagan Urban Policy Task Force, and the endorsement of the banking features by the Federal Reserve Board of Governors on Nov. 19, seem many steps away from the transformation some Reagan advisers are proposing. It does not seem credible that the President-elect himself would agree to it.

As in Argentina, these measures are only possible under advanced crisis conditions.

EIR has emphasized the dangers to the American dollar should Reagan act outside his small margin for error. These dangers are clearly evident to scavengers in London and elsewhere. Therefore the danger of crisis is real, and the Hong Kong plan, however grotesque, is not to be dismissed.

FREE BANKING ZONES

Laundering offshore funds onshore

by Kathy Burdman

The Nov. 19 approval by the Federal Reserve of the major New York banks' proposal for International Banking Facilities (IBFs) free banking zones will thoroughly transform the U.S. banking system—much as casino gambling legalization has transformed the economy of New Jersey.

Under free banking zones, much of the activity now conducted offshore in the $1.2 trillion Eurodollar and other offshore markets will be brought back onshore. Included, banking and electronics funds transfer experts tell *EIR*, will be most of the laundering through free banking offshore of the more than $200 billion annual revenues of the international drug and gambling trades, of world terrorists, and the rest of the underground international "black economy."

The results: a dramatic increase in narcotics traffic and other illegal activities in the U.S., as these multibillion-dollar businesses are encouraged by tax and legal incentives which allow them to launder the proceeds of illegal business right here in the U.S.

"International Banking Facilities will transform the U.S. banking system through the introduction on a nationwide scale of Electronic Funds Transfer banking," M. J. Rossant, director of the Twentieth Century Fund commented. "The same kinds of transactions now cleared freely in the offshore banking markets through Electronic Funds Transfer will move onshore."

Federal authorities will find it next to impossible to detect just what sort of transactions are being "freely cleared" due to the technology of Electronic Funds Transfer (EFT) used in the International Banking Facilities, Mr. Rossant continued. "The problem with the [bank] regulators is that their job will become much more difficult. Regulators are always a step behind. With EFT, there is the possibility that they will fall two steps behind.

"The possibility of the kinds of funds transfers, both geographically, and in volume, which can be done with EFT are fantastic. There are some bankers who can play EFT like a virtuoso plays the organ—and the regulators will be lost. The banks will do things they will never catch up with."

EFT "will change the complexion of world financial