

THE BACK DOOR TO

BY DAN ARMSTRONG

Congress' recent accounting reform legislation appears to be all show and no go. Amid the cheers for stricter criminal penalties for white-collar crime, 20-year jail terms, the creation of an independent board to oversee accounting firms, and the placing of corporate accountability squarely on the shoulders of the executives that run the businesses, we see the same kind of political circus approach to business reform that we do in the war against drugs.

The sensational Adelphia arrests the morning of July 24 certainly sparked the stock market, but in reality had about as much effect on accounting reform as a big Coast Guard cocaine seizure does on Colombian drug cartels. Like action shots of cropdusters spreading Paraquat on marijuana fields in Mexico, it makes a great news clip to see pinstriped executives hurried from their offices into unmarked police cars. But if we really want to restore investor confidence and some measure of integrity to American business operations, why didn't Congress' legislation address the accounting procedures used for stock options? Why was there no mention of new laws regarding offshore bank accounts? Why didn't we see more force applied to the fight against money laundering?

Though several of the recent business scandals have been the result of outright fraud, in the bigger picture too many corporate accounting practices are only slightly more ethical than embezzlement and will remain legal under present laws.

The collapse of Enron and subsequent congressional investigations provided us with a unique insight into the workings of a large corporation. Throughout the Senate subcommittee hearings the questioning of Enron executives necessitated the assistance of armies of lawyers and accounting experts in order to unwind the labyrinth of subsidiaries, shell corporations, offshore accounts, and trading schemes that Enron had become.

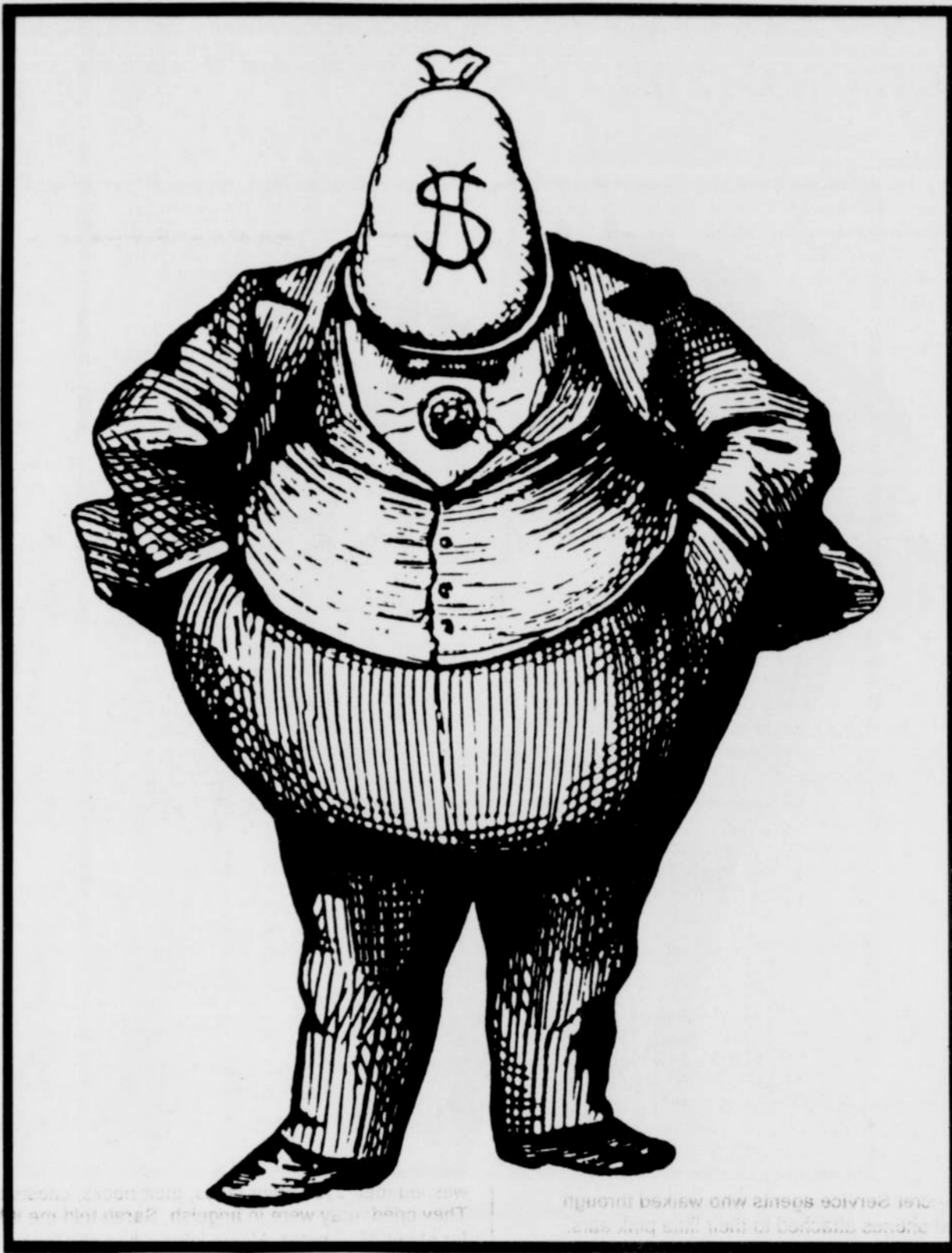
All judgment of wrongdoing aside, one must marvel at the depth and complexity of the legal machinations that are truly the financial skeleton of the beast. Essential to understanding this x-ray is that Enron is the model not the exception to the rule. With little amendment, what we see in Enron verges on commonplace in Fortune 500 corporations. The continuing cascade of like-bankruptcies, outright fraud, and incestuous accounting firm relationships that have followed in the aftermath of the initial Enron revelations prove this out. Everyone's scrambling to get their books in order. And some of them can't.

Of course, none of this complication came overnight.

The last 20 years have witnessed a radical evolution of business management and finance technique. Nixon's floating the dollar in the 1970s, Reagan's deregulation of the banking industry in the 1980s, and advent of the computer have completely transformed the world market environment, particularly the financial markets. Trading at warp speeds, money has the potential to be anywhere and everywhere at the touch of a key. It can't stay still. Every dollar must be doing something. Billions of trades are carried out every day seeking a quarter-cent margin here, a half-cent there. The simplest measure of the extent of this revolution is on Wall Street. In 1980 the Dow Jones Average hovered at 800. It is a hundred times that now.

Thirty years ago, trade was primarily in commodities — corn, soybeans, pork bellies; physical, deliverable items. Today, 95% of all exchanges is fiscal entities, contracts and paper. Financial instruments are the primary substance of trade. Every business of size, regardless of its name or its industry, is also a financial trader or investment service. Most offer their own credit cards. They are radically different business animals than what existed a quarter century ago. They are as complex and diversified as higher math. They shield themselves in thick legal webs of interlocking subsidiaries and shell corporations. Accounting practices are compartmentalized and revealed only on a need to know basis. They make widespread political contributions instead of paying taxes. This is what we see over and over again in corporation after corporation as evidence of this new age business paradigm. Again, with all this considered, Enron was more than business as usual — if, perhaps, extreme in size and extent.

Of particular interest in the x-ray of Enron is the use of offshore banking — totaling some 881 accounts and subsidiaries. The offshore account is arguably the "aggressive" account's



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most important tool in this creative finance design. The offshore account is a well known method of tax shelter, but when used in conjunction with dummy subsidiaries, shell corporations and correspondent banking through large and compliant U.S. banks, as Enron did with J.P. Morgan-Chase and Citigroup, it is an excellent way of disguising the true nature, source, location, disposition, movement or ownership of financial proceeds. In more vulgar terms, we are talking about money laundering.

Dollar for dollar, money laundering is the third largest industry in the world. United States congressional investigations estimate that anywhere from \$500 billion to \$1 trillion of criminal proceeds, possibly a third of that drug profits, are laundered annually worldwide. Half of that sum filters through America's most prestigious banks and Wall Street with an impact rivaling that of the petroleum industry. In other words, this is one of the biggest games in town.

In the case of Enron, creative accounting methods allowed them to hide losses, disguise insider trading profits and evade taxes. In fact, this 2001 top ten Fortune company paid absolutely no U.S. taxes in four of the last five years. This narrowly legal practice of using offshore tax shelters is so common that the Center for Public Integrity estimates that U.S. businesses launder nearly \$200 billion annually of tax liability. In spite of the tremendous loss to U.S. revenue, this gigantic tax loophole provided by offshore banking techniques is not part of Congress' present business reform package.

Even though offshore accounts are absolutely essential to laundering top-end drug profits and the hiding of terrorist finance, these banking havens are protected like the back door to Fort Knox by the 'Devil Dogs' of commerce and are simply off limits to anything but token corrective legislation and modest penalty. They are just too important to big money of all kinds.

(As an exercise, run a search of "offshore banking" on the internet. All you get is offers — advertisements from little countries you never heard of before pushing tax shelter and private banking services. Search *legislation against*. You might get a hit or two. A search of *legislation for* gets a full thousand. What money wants, money gets.)

That President Bush's failed economic stimulus package included a \$254million tax rebate for Enron reveals the revolting extent of this kind of corporate/political irreverence. In this day and age, when the word "Patriot" is tossed around like religious testimony, the worst offenders of its use are America's business giants — who in the name of smart business bow out of the annual payment for the cost of running the country. While waving Old Glory with one hand, they take their profits offshore with the other. They are not truly American business entities at all. They are expatriate transnationals beholden to no country and deserve no special fare.

In the end, these kinds of quasi-legal money laundering operations, particularly at the level and quantity that corporate America participates, have enabled two critical and equally egregious insults against the United States and the world in

general. The present Wall Street "correction" is a direct result of unethical and evasive accounting procedures born of the "go-go" deregulated financial world virus of the 1980s. The huge and delusory investment bubble of the 1990s was to some extent a construct of juggled profit statements and wholesale money laundering. Additionally, and sadly, world drug sales, primarily of cocaine and heroin, have advanced hand in hand as a silent partner in Wall Street's fandango.

The size of drug profits, literally hundreds of billions of dollars annually, could not have passed into legitimate U.S. banking systems without the smoke screen of an equal amount of corporate laundering. When offshore banking is linked to large U.S. banks through correspondent relationships, white-collar graft dollars are intermingled with drug money coming from banks in places like the Cayman Islands, the Bahamas or the Dominican Republic. No matter how you tell the story, all the dirty money ends up in the same sinking barrel.

Think about it.

Drug sales persist because they are so profitable. When the money becomes harder to move, so will the drugs. Until Congress takes a serious look as the use of offshore banking and the relationship between offshore financial services and U.S. bank giants, there can be no real reform in the business world and the war on drugs will remain a sham.

If we really want to bring integrity to American business, if we really want to stop the proliferation of drugs in our society, we close down the money laundry. We get right to work on tough legislation against offshore banking and big bank compliance.

Dan Armstrong transplanted back to Eugene from Astoria four years ago. He has worked on books, traveled to China and occasionally writes an article for old time's sake for the *Times Eagle*, which regularly exploited his talent for political and economic synthesis the six years he lived here.



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