

## **DOES THE UNITED STATES HAVE THE POLITICAL WILL TO COMBAT TERRORISM? -- NO!**

### I. Introduction

The hunt for the September 11 terrorists has consisted in no small measure of a hunt for Mr. Bin Laden's money. Even though a hijacking is relatively inexpensive, Mr. Bin Laden needed to pool and move large amounts of money to pull off the hijackings.<sup>1</sup> The reported success in tracking down the money trail shows that despite the daunting volume of financial transactions, despite the array of financial conduits available to Mr. Bin Laden, despite the financial secrecy laws of the offshore money havens, police investigators can track down secret money. However, even with the wanted status of Mr. Bin Laden and his organization before September 11, he successfully pooled and transferred several million dollars. How was he able to secret away his fortune and move such an amount of money at will? Present world financial mechanisms allow for such movement of secret money.

The thesis of this paper is that terrorism on the scale recently perpetrated in the United States is made possible by financial secrecy, an area the United States has time and time again declined to regulate.<sup>2</sup> And the political will will always be lacking,

but only in small part due to the political influence of the secret money industry. In large part, the will is lacking due to the prevailing misconception of money, a misconception which renders the world of international secret money invisible. I will also argue that in addition to allowing terrorists to operate, secret money contributes in no small measure to a third-world environment that fosters would-be terrorists.

## II. Globalization and Secret Money

Not simply accompanying the globalization of production and trade but far outpacing it is the globalization of financial movements. There are two aspects of the globalization of money. First, in large quantities investors now move capital across borders in order to make direct investments. The phenomenon began in a large way with the privatization of third-world government debt in the 1970s and spread in the 1990s to the enormous investments in private business in certain developing countries.<sup>3</sup> The role of such movements of money was key in both the so-called miracle of the Asian Tigers as well as in the collapse of the Asian Tigers.<sup>4</sup>

Second, capital flight plays a major role in current financial globalization just as it has during any period of internationalization of finance.<sup>5</sup> We defined capital flight as any cross-border transfer of money when the transfer is motivated either by the desire to flee  
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a weak currency's limited investment opportunities or by the desire to secret money away from government authority. This flow of money is invariably in the direction of the developed world, often, however, by way of tax haven countries. The first type of capital flight, that motivated by desire to flee, ebbs and flows with the fortunes of the particular source country.<sup>6</sup> The second, that motivated by desire to secret away, is a constant.<sup>7</sup>

Five reasons account for the volume of capital flight in modern times -- and the flow is indeed enormous. First, the means of transferring funds are readily available. Second, the ubiquity of the U.S. dollar means that often one need not convert one's holdings before transferring it. Third, telecommunications and air transportation make it easy to keep track of foreign investments. Fourth, knowledge of and dissemination of information about financial centers, especially New York and London, mean greater confidence in the investment process. And fifth, the spread of capitalism and the increase in the number of large capital holders alongside the rise of the welfare state mean great taxation of these large capital holders and so greater motive to avoid taxation by secreting away money.<sup>8</sup>

### III. The Consequences of Global Secret Money

The global capital flight and secret money network makes  
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terrorism possible in four ways. First, the ability to move money makes the financing of terrorism possible.

Second, a global secret money network causes substantial harm to third-world economies, contributes substantially to the growing north-south economic divergence, and so creates a climate conducive to terrorism. Capital flight devastates economies eliminating all hope of economic development. Money deposited into a nation's banking system commonly allows the money supply to increase fivefold: a twenty percent reserve requirement allows banks to loan the rest; the eighty percent loaned out is redeposited, eighty percent of which is re-loaned. This continues until the money lent has increased by fivefold. Money, then, withdrawn from one banking system to be deposited into a second has both a positive and a negative multiplier effect -- the first economy will have no fivefold increase in money supply normally associated with deposited profits while the second economy will see the fivefold increase even though no underlying economic activity generated the deposited profits. The first economy will not be able to maintain normal economic growth, the second will have the means of rapid growth<sup>9</sup> -- banks will be poised to support the demand for loans needed to finance growth.

This effect is had even where significant production is  
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occurring in the third-world economy. The profits of production -- for example, profits from selling oil for export -- will not stimulate local growth since they are not deposited locally. The small, elite cadre of owners, managers, and technocrats will achieve individual prosperity through investment in developed economies. Thus, their prosperity is not linked to local conditions.

The result for the greater part of the population is a climate of isolation, a climate devoid of any sense of participating in the global economy, a climate devoid of a sense of solidarity with the Western-oriented prosperous class.

Third, in recent decades, Western countries have adopted two foreign-relation social policies which can only work to aggravate this sense of isolation. 1970s Iran witnesses to both. Firstly, Western countries at times cultivate an elite Western-oriented ruling and economic class, and they do so in order to obtain political objectives -- for example, a pro-USA, anti-USSR, pro-maximum-oil-production Iran of the Shah. Too often the prosperous and isolated elite fail to consider the political aspirations of the general population.<sup>10</sup> However, the resulting political frustrations eventually do find release, release in forms harmful to global stability and Western interests -- usually to the surprise of Western analysts: again witness the fall of the Shah of

Iran. Secondly, the developed world is aware of third-world poverty and does take an active role to lessen it. However, these good-intentioned attempts have often been in the form of a naturalistic social engineering offensive to traditional ways of life. Disregarding the family-oriented, traditional nature of Iranian culture, the United States offered family planning services taking no account of how the services would be viewed. Thus, Western analysts were caught off guard by the depth of Iranian hostility to the West.

The global capital flight and secret money network makes terrorism possible in a fourth way. This economic and cultural isolation of large parts of third-world countries is accompanied by a greater juxtaposition with the West in other ways. Despite a lack of resources of the general population, they, nevertheless, possess greater knowledge of the West -- or at least a certain image of the West -- through the media. Great economies of scale exist in radio, television, and videotape diffusion and distribution so that even some of the poorest populations are aware of the glamour and prosperity of the West -- as portrayed by Hollywood anyway. This juxtaposition works to foster a feeling of being left out, of envy, a sense of isolation.

Such an environment of a lack of economic opportunity, of

alienation from a Western-cultivated and value-oriented elite, of a juxtaposition with a prosperous, but out-of-reach, glamorous West -- such an environment is an environment bound to foster terrorism.

#### IV. Why Ignorance of the Role of the Capital Flight Problem

If capital flight is such a large, wide-spread phenomenon with such harmful effects, then why has not more notice been taken? Although several reasons contribute to its invisibility, one is the root. Understanding this root bolsters the basis of this paper -- that the United States is without the political will to combat the financing of terrorist acts. The root of capital flight's invisibility is not the usual suspects: it is not U.S. or Western greed; it is not ill-will toward poorer countries or toward Islam; it is not a neo-imperialism. The root is philosophical and conceptual. It is a misunderstanding of the nature of money. At root is an abandonment of the classical distinction between production and finance.

In classical thought as seen in the world's moral codes, finance was seen as distinct from and subservient to production. Production was to be encouraged -- after all, valuable goods and services were produced. In the financial sphere, fortunes -- sometimes enormous -- can be made and can be lost, made and lost

with little or no effect on production! Thus, the classical proscription of Usury forbade the paying of interest on non-productive loans. (Note the classical Usury is much broader than the modern proscription of Usury -- the paying of interest at an excessive right.) At root, the proscription was an attempt at directing economic activity toward production, an attempt at maintaining an organic link between finance and production.

Modern, dynamic, free-market economies rely on financial markets to convey information about production and production opportunities so that finance is now an integral part of production. Therefore, the classical rigid separation of production from finance is inappropriate: Since finance serves production so directly, it merits a much freer rein.

However, finance is still distinct from production; this distinction must be kept in mind when studying economics and sociology; and the distinction still calls for some restrictions on finance. However, this distinction, for several reasons, has been lost on both the popular consciousness and on academic analysis. As we shall see, when this distinction is neglected, the capital flight and secret money phenomenon and problem will remain largely invisible.

Economic thought oriented toward overall economic

growth as measured by the financial markets takes little account of the production-finance distinction. After all, short-term political stability depends heavily on overall growth; if overall growth is present, the modern welfare state will have the resources to pay to alleviate the social costs of turbulence in production.

This orientation toward the immediate end of overall financial stability and growth is aided and abetted by the general current of modern social thought -- mechanistic in nature and so not very much concerned with philosophical distinctions. Several reasons account for this orientation. Most notably, a society dominated by the use of technology accustoms us to rely on machines without knowing, wanting to know, or possessing the ability to know how those things work -- as long as they to work.

And the U.S. stock market is working. Thus, we take the phenomenon of our financial stability and growth as a given without much inquiring of its source. We do not possess the conceptual means needed to analyze a great financial phenomenon, a phenomenon contributing to our prosperity, yet a phenomenon without any direct link to promoting production, a phenomenon so damaging to third-world economies.

A libertarian view of the regulation of finance is correct in ending the classical prohibitions on Usury; however, finance still

possesses only a supporting role to production. It is conceptually distinct from production. At times prudential considerations call for restrictions directing finance so that it better supports production. A public debate is in order on the question of how to regulate international capital flows so that terrorism can be combated – both the financial mechanisms terrorism relies on and the financial environment from which it comes.

## V. Conclusion

Terrorists move money across borders to finance their operations. This movement of money is conspicuous since no commercial transactions is associated with it -- no purchase of goods, no purchase of stocks, no purchase of bonds. And it is even more conspicuous since its source is often not traceable to legitimate business profits. Law enforcement should be able to detect such conspicuous movements, confirm the legitimacy or illegitimacy of the movement, and, if illegitimate, trace the money to its source. As seen in the world-wide cooperation and success in tracing Mr. Bin Laden's money, law enforcement has such abilities. But law enforcement seems incapable of detecting such movements before a disaster and, after such a disaster, seems capable of mustering the cooperation of foreign banking authorities only in a case of world-wide infamy. Why not beforehand? Why

not in other instances, instances of lesser infamy?

The large volume of capital flight money renders inconspicuous any illegitimate movement of money. And the regulatory framework and financial infrastructure does not permit of cooperating to trace secret money -- the secret money industry by definition would disappear if it allowed financial secrets not to be secrets. Therefore, the political will to grant law enforcement the powers needed to detect and track down terrorist money before the fact of a major strike would necessarily encompass the political will to put an end to a great extent the secret money industry. The size, profitability, and role this industry plays in Western prosperity indicates the political will will not be found. In fact, tax evasion is sometimes not even illegal.<sup>11</sup> In addition, the modern tendency to conflate finance with production makes the capital flight phenomenon largely invisible. Democracy necessitates explaining a problem to the general population in order to confront the problem. The explaining of such a conceptually invisible phenomenon is problematic and another indication of a lack of political will.

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## ENDNOTES

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