

Taxcast September 2023 - Drug War Myths

Naomi Fowler: Hello and welcome to the Taxcast, the Tax Justice Network podcast. We're all about fixing our economies so they work for all of us. I'm Naomi Fowler. On the Taxcast this month, and in next month's episode, we're going to look at the so-called 'war on drugs' and how to stop wasting precious lives. In part one, the supposed 'goodies' and the 'baddies.'

Here's President Nixon more than 50 years ago, back in 1971:

Nixon: *America's public enemy number one in the United States is drug abuse. In order to fight and defeat this enemy it is necessary to wage a new all-out offensive. I've asked the Congress to provide the legislative authority and the funds to fuel this kind of an offensive. This will be a worldwide offensive. If we're going to have a successful offensive we need more money. If this is not enough, more will be provided.*

Naomi Fowler VO: Since that announcement, the US government has spent an estimated \$1 trillion on their 'war on drugs.' But the cross-border flows of illegal drugs, arms and money has increased steadily. There are contradictions everywhere you look along this chain of misery: it's the *United States* that's the biggest *consumer* country of illegal drugs and not really the *producer* countries like Colombia, Afghanistan and Jamaica.

In Mexico alone, an estimated 80% of the weapons used by organised gangs are manufactured in the United States - that's a common story in many countries.

And as for money-laundering from the illegal drug trade, the two biggest facilitators and end destinations are the US and UK financial systems.

It's a mess. And it didn't need to be this way.

Karina Garcia-Reyes: I had a normal life... when the war on drugs started in Mexico in 2007, the beginning of 2007, and I witnessed how my hometown completely changed because of this war. Our lives were so affected by this war.

Naomi Fowler: This is Criminology lecturer and writer Karina Garcia-Reyes of the University of the West of England, where she now lives.

Karina Garcia-Reyes: I cannot explain to you the fear, you know that started spreading. And in two years I saw lots of businesses had to shut down because of the violence. Me, my friends, my family had to witness different shootings

between the military and organised crime groups. We stopped going out. I didn't feel safe in my hometown. this is the main reason why I started doing research on organized crime.

There's a big narrative of, you know, the war on drugs, a binary narrative, right? The good guys, the bad guys, you know, the good guys being the government, the police, the military - starting with the United States. And then in Mexico, we kind of bought this idea. We actually appropriated this narrative and I have to say, I admit, I admit that I actually reproduced that in my mind when I started my research.

My original research focus was exploring the effect of this war on vulnerable groups like children and young people. So with this in mind, I contacted this rehabilitation center in my hometown because I knew I was so affected by this violence and I lived in a very safe place, middle class, I wanted to know how exactly these groups were being affected.

I did four months of field work in this rehabilitation centre. I have to be honest, I was not looking for them. It would have never, ever crossed my mind to do interviews with criminals, especially with, with this type of criminals, to be completely honest. Um, but I bumped into them and you know, I think they found me.

Naomi Fowler: Karina ended up hearing the testimonies of 33 men - former hitmen, drug dealers and getaway drivers.

Karina Garcia-Reyes: at the beginning, I just listened to their testimonies out of curiosity. But after two weeks of listening to very similar stories, I decided to change my focus. I thought, okay, instead of interviewing what I, at that point I saw the *victims* of drug trafficking violence, now I'm gonna interview the perpetrators. I think one of the most important things that I learned is that there is a very fine line between victims and perpetrators.

I did life story interviews, meaning that I was listening to these men's whole life stories since they were children. If you just actually look at their childhood stories, they're really tragic, I still cannot believe how these individuals survived in the middle of so much violence because they were victims of, you know, horrible things like child abuse, child trafficking, neglect in the best case, some of them had to survive in the streets, which is really hard. And when I was listening to these stories, you know, these adult men crying you know, remembering how, for example their fathers used to beat their mums, how they were subjected to the most horrible types of violence and abuse, then I was able

to understand, and I want to clarify, *never* to *justify* the violence that they engaged with later on in their lives, they learn to be violent. So, if we want to stop this type of violence, we have to start by the roots.

Naomi Fowler: Karina's book is called 'Morir Es Un Alivio' (- Dying Is a Relief). We can't hear the testimonies directly from the men she spoke with because she gave her word that no one but her would ever hear them, but she writes about them.

What was really interesting was that you said 28 of the 33 men you spoke with said at some point in their lives their greatest aspiration was to kill their fathers because of the experience they'd had in the home.

Karina Garcia-Reyes: It is shocking, but also very telling in terms of how violence is, is learned and taught, you know, if you want to be a real man, this is how you have to be a man, you're violent, people have to be afraid of you, they conflate respect and fear. And they, they spoke about feeling so hopeless because they were little, but once they grew up and they were old enough, strong enough to actually confront their fathers they did become like them. Violence was everywhere, within their homes, but also in the streets, because most of them joined a street gang since they were little. What they learned there was the law of the jungle, you know, the law of the fittest, right? You had to be violent in order to survive. This toxic masculinity is a common thread in their narratives.

Naomi Fowler: You also connect that in your book with the sort of the consumerist individualistic culture that came along with neoliberalism in the 80s, which is really interesting.

Karina Garcia-Reyes: Yes. Remember that Mexico is a huge country. We are like 130 million people and half of the population at least is living in conditions of poverty. So what I'm trying to say here is that we have a really big, big breeding pool, so to speak for these different types of violence to happen. I'm not saying that being poor makes you violent, but what I'm saying is that unfortunately, poor neighbourhoods living in the margins of society with little or no access to the most basic services, they, they are so vulnerable because they're isolated, basically they rule themselves somehow. They feel that their lives are not worth because nobody's paying attention to them, if they die, nobody cares. So again, it's like a jungle. All of them repeated these words a lot. *We live in the jungle.*

Naomi Fowler: You also said that there's a kind of moment of realisation where you say *'I will never forget his words because it was then I understood who the real villains are'* and then you started to see your participants, your interviewees as secondary in this whole industry, and as scapegoats and *'the perfect enemy that every war needs'*, is how you described it.

Karina Garcia-Reyes: Yes, because some of my participants were sicarios or hitmen. And one of them was telling me about erm, because one of my questions was, you know, what was your daily job, what you used to do, and one of them, he said that, you know, they, they were given the names of people they had to kill and they never knew why. But he, by chance I guess he mentioned that he killed a journalist and I said, why would you kill a journalist? And he said, well, I don't know, you know, I would never ask my boss why am I killing this person, I would just do the job. But then he complimented his answer by saying that journalists usually uncover links of corruption between organized crime groups and important people. Could be local politicians, important politicians at the national level, but not only politicians, it would be important people in the industry, like, you know, entrepreneurs, lawyers. And this is something that I, I wouldn't never forget because he said, we have nothing to lose. As criminals, we don't have a reputation. If anything, we want people to be afraid of us. They're killing journalists to protect the reputation of these people because they actually *do* have something to lose.

Another one told me that part of his job was he was a bodyguard for an accountant in Texas and you know, he never knew what he was doing. Again, you know, these people don't ask questions, they are the very base of the pyramid here, and I asked, okay, so what was the link between this accountant and, you know, the organisation? What did he do? And again, no idea, I mean, his job was to keep this man alive. And I can give you so many examples like these.

This is something that really frustrates me because in, you know, cultural products like movies or TV series, you see, for example, *Narcos*, either in Colombia or Mexico, which are the trendy ones at the moment, I guess. You know, you see them sometimes as powerful and of course, you know, of course, there is hierarchy within organized crime organizations. But when you look into it, you will always find that there's always somebody in the legal world, making decisions, not them. And this is something we rarely see in these shows or these movies. They're reproducing this very binary narrative of the good guys and the bad guys. I'm trying to remind people that there's a blurred line, you know, we don't have two separate worlds, we don't have the legal world and the illegal one, we don't have, you know, the government pure, pristine, no! Or, for

example, speaking about professional enablers, we rarely see or we rarely hear about accountants, lawyers, even architects, you know, you name it, you know, it's a huge world the organised crime world so they do need professionals to help them, but we barely speak about them.

Naomi Fowler: Yeah I always think of it as there's the goodies, the baddies, and the *borings*. And the *borings* are what I'm really interested in. Because nobody wants to watch a film about the boring men in suits in offices, and you know, the deals that are done in these glass buildings, and the phone calls, the accountants, papers, the transactions.

Karina Garcia-Reyes: I *completely* agree. How many movies and TV series we have about narcos? I don't know, countless. How many movies do we have about professional enablers or financial crime or money laundering? What's going on, you know, in terms of money laundering laws and how this works, it takes a lot of time to, to understand the system because it's, it's complicated. It's quite technical. It's easier to watch a movie where the villain is clear. You know, he's a sicario, he's a hitman, you know, that's the bad guy. It's easy to follow.

Naomi Fowler: Yeah, it's a classic story structure and it's so unhelpful. And so dangerous. It's all part of the thinking that accelerated organised crime and violence in the first place.

Karina Garcia-Reyes: Yes. We have to look at the prohibition paradigm, the fact that drugs are illegal. First of all, we created the enemy, okay? So the drug traffickers as we know them now, didn't exist in the 70s but, the toughest laws created the toughest criminals. The ones who initiated the war, literally the war, was the US government. In the case of Mexico *is* the Mexican government, and nobody is asking the governments to stop their violence. It's, it's, it's nonsense. The only thing we're doing is increasing the violence, okay? And at this point, where we are now, only the most violent will survive.

And the money doesn't stay in Mexico. Part of the money of course it does, and I'm not trying to minimise the importance of organised crime groups in Mexico, or their leaders, I'm not saying that they're not powerful. *They are*, of course, they have some sort of power, but they are not the top of the pyramid, that's what I want to say. If anything, they're in the middle. And who helps them to launder money? They need help from corrupt lawyers, financial advisors, there are many people benefiting from money laundering. The money that comes from organised crime and drug trafficking in particular doesn't stay in the producing countries and that's a myth that we really need to discuss because

again, in this binary narrative, you know, we are portrayed and by *we*, I mean, in the case of Mexico as a producer country, these, you know super powerful drug lords, like for example, El Chapo Guzman or Pablo Escobar in Colombia. But we have seen what happens when they are either killed, like in the case of Pablo Escobar, or now in the case of Joaquin El Chapo Guzmán, he's in jail. What happened to drug trafficking? According to the United Nations, drug trafficking continues and actually increased. What does that tell you?! After 50 years, over 50 years of an international war on drugs, after this strategy - and we haven't had any impact. It's increasing. So what does that mean? This is a business and let's go back to the financial secrecy here and money laundering.

Who makes the rules? The international regime against money laundering to, you know, *tackle*, you know, quote unquote, *tackle* money laundering was designed by the US and the UK. We have to ask about political will here. What are the interests of these countries and other major players here involved? It's not only the governments, we're talking about banks. I think banks at the moment are as powerful as countries, especially in these two nations. This is a very lucrative business and people all over the world are getting lots of benefits from this. And that, to me, that should be the focus.

TV Presenter: *A Senate investigation has found that HSBC Bank for years allowed Mexican drug cartels to launder billions of dollars through the bank's U.S. operation. A trail of emails the investigation uncovered indicate that some officials, including the anti-money laundering director were aware of the illicit transfers:*

'There were allegations of 60 percent to 70 percent of laundered proceeds in Mexico going through, executives didn't care about anti money laundering controls.'

David Bagley, HSBC's head of compliance, said he will step down from the position but he'll remain at the bank. The Justice Department is conducting a criminal investigation into HSBC's operations. It declined to confirm that the bank is in settlement talks.

Naomi Fowler: HSBC bank ended up paying a \$1.92 billion fine over their *seemingly* non-existent money laundering controls which facilitated two organised crime groups in Mexico and Colombia to shift \$881 million in illegal drug profits, through the bank. Well, that's what they got caught for anyway. On some days drug traffickers actually deposited hundreds of thousands of dollars at HSBC Mexico using special boxes that fitted the size of teller windows at the

bank branches to speed things up. *No one* asked the obvious questions they should have.

Eric Gutierrez, Research Associate of International Centre of Human Rights and Drug Policy: Over time, HSBC Mexico accumulated so much cash, more than the dollars repatriated back by Latin American central banks.

Naomi Fowler: This is Eric Gutierrez of International Centre of Human Rights and Drug Policy speaking at a recent event:

Eric Gutierrez, Research Associate of International Centre of Human Rights and Drug Policy: So this is one of the reasons why the U.S. started investigating where is HSBC getting all these dollars, U.S. dollars from, bringing it back into the U.S?

So first, the cocaine is smuggled to the U. S. and then it's sold in the U. S, so dollars are earned for selling it. The wholesale and retail distributors who then resell it to their markets, and then once the sales are made, it is moved via small accounts, money transfers through banks, through postal services, through various means, no, Western Union, whatever. And then, it goes to the currency exchange firms who does the conversion and then these currency exchange firms, their preferred bank is HSBC Mexico. And then it goes typically into the accounts held by legal persons. Now, what I mean by legal persons are mostly registered companies, so once you are registered as a company, you're able to open a bank account and transact business across borders. Now, these accounts by mostly registered companies goes to the casas de cambio, the money exchange houses, who then converts it into the local currency and then they deposit the dollars that they have accumulated to HSBC Mexico.

So, HSBC Mexico and HSBC U.S. was of course involved and they were investigated by the US Senate but their defence was that they have not broken any law because their customers are the legitimate money exchange firms. Now, if you ask the money exchange firms, they said that we accept transactions from legal persons because that is basically their business. Now, the registered companies, those with the bank accounts, the legal persons, they remain as a legal entities, even if their beneficial owners are unknown. When you go further up, it is impossible to conduct due diligence, know your customers on, you know, thousands, even, you know, hundreds of thousands of small daily transactions in moving money.

So, what this shows is that the focus of law enforcement is all on the illegal actors, but nothing is being done on the legal actors that enable this trade. And

this is the main problem. And this is replicated as well in tax avoidance by many big companies. The tools of tax avoidance are the same tools that enable the illicit drug trade's extraordinary resilience to prohibition.

The solutions to these problems are already known, but they are not being implemented. One key reform is to compel companies to declare their true beneficial owners and to make that information publicly accessible. So there have been movement in this regard in the EU, but at the moment, there are a lot of tax havens, UK overseas territories who are refusing to do so and, you know, lobbying, against the implementation of this reform.

Naomi Fowler: Let's remember too that the US is the number one worst financial secrecy offender on our financial secrecy index. The UK would be number one if you combine all its satellite havens.

Anyway, HSBC bank *didn't* lose its licence. And it's really just the most obvious example of how the doors to the international financial system are open to people with hot cash to move. As Eric Gutierrez was just explaining, there's a whole white collar crime feeding chain. Lawyers, middle men, company formation agents, bank staff, accountants, fixers, front people. Suits, offices. These are *the borings* that we mentioned earlier. I'm sure they'd see themselves as quite separate to the 'baddies' you see on Narcos, the TV series...

NARCOS Mexico clip

Naomi Fowler: I actually think understanding the real crime story is much more interesting than the fantasy version. But let's rewind a bit, back to how the whole thing started.

Mary Young: The US government should have stopped trying to ban something which would only make it mushroom and grow. They did have alcohol prohibition in the 1920s as a basis, they could have looked at that as a framework for something that *didn't work*.

Naomi Fowler: This is Associate Professor of International and Organised Crime at Bristol Law School, Dr Mary Young.

Mary Young: The war on drugs in 1971 targeted certain groups of people in America. That was the main issue rather than tackling drugs. So the war on drugs was ill informed, incorrect and flawed from the beginning.

We always tend to think of organised crime moving from a lesser developed country into a Western country but the U. S. government never really assesses why and how drugs get so easily into its *own* country, I think there's just a demonisation of other countries.

Transnational organised crime is a US political construct. We need to know that the war on drugs has come from that. I tend to reject the word 'cartel' because it means a price fixing organisation if we were looking at international law, disciplines such as international competition law, and I don't think that drug trafficking organisations tend to fix prices and monopolise in that way. It's the user and demand, and also even to do with where the drug is being sold, in which country, tends to fluctuate the prices, leads what prices drugs will be traded at. So I will refer to drug trafficking organisations.

And rather than piling all this legislation, and one trillion dollars at the war on drugs the US should have been looking at rehabilitation, *why* people use drugs, and a big part of combating organised crime for the US needs to be them assessing their own borders.

Naomi Fowler: Yeah. 'Fix your own house!' And the US at the time was absolutely paranoid about communism, their war on drugs slotted nicely into all that too. And if *only* they' d used some of those *huge* resources they threw at all this to tackle their *own* banking secrecy things could have been very different, I mean without an army of intermediaries to help them move money across borders there's a limit to how much cash you can launder and therefore how big an organised group can become.

Mary Young: Yeah, so offshore financial centres, financial secrecy havens, tax havens, all phrases that we tend to use interchangeably and synonymously, but we're all usually referring to the same thing, a jurisdiction or a country or a territory which enables somebody to bank basically anonymously. And financial secrecy havens will say that they don't have laws which exist which guarantee anonymity, that there's always the chance that information can be released if an investigation is started, but the US weren't going to put all their money into combating organised and drug trafficking crime. Neither were the UK. Because when Britain's financial services industries really started to kick off in the 1980s, along with the U. S., when they really started recognising the value of these small island states, especially in the Caribbean, as places where they could put money very easily, they were not going to undermine their ability to use their financial havens for their own dealings, if you like.

It's not that the US, it's not that the UK, it's not that Western countries were ever going to put the trillions used on the war on drugs into combating financial secrecy havens because it was never about the destruction of drug money laundering. It was never about ending criminal financial enablers with hot money. It was always about the U.S. and the UK in particular, protecting and leveraging their own national trading interests on both sides of the Atlantic.

Naomi Fowler: Yeah and you and another researcher Michael Woodiwiss analysed six months of previously unseen, classified personal correspondence and documents exchanged between various actors in the UK and US government in 1987 which absolutely bears that out.

Mary Young: Yes. For me, it's really frustrating to read through hundreds of pages of correspondence and see how anti money laundering control was actually being constructed so that they *didn't* tackle money laundering. We looked through 600 pages of exchanges between the US and the UK, between bankers, between politicians, which showed that these vested interests were being talked about, which showed that the point of the financial secrecy havens, point of financial services industries embracing financial secrecy was to really leverage the US and the UK's own trading interests. And you know, the US Bank Secrecy Act was constructed in 1983. Has it worked? No. Is there still financial secrecy? Yes. Are U. S. territories embedded with financial secrecy? Yes. And the economic interests, we only need to look at some of the world's biggest banks, some of the biggest Western banks which reside in these financial secrecy centres to know that they are used by the U.S., they are used by the U.K., they are used by the big, huge Western companies who need them, who need the financial secrecy centres to keep their economies ticking.

Naomi Fowler: I'm going to put a link to that research in the show notes because it really is fascinating and I know you're looking through more exchanges at the moment which will be really interesting too.

Mary Young: Yeah. We're still doing it now. The US and the UK may tend to advertise how they want to stop money laundering, how they want to stop money laundering in their offshore territories, how they want to combat money laundering at the wider global level because it's destructive to the international financial architecture. But actually, they're very important. Offshore financial centres are very important for Western countries. And we know this because the US and the UK policymakers who started to set the agenda for regulating the financial services industry, the financial secrecy jurisdictions. And we know by the fact that *nothing has been done*, that still nothing is being done by the UK government, for example, that there is no incentive to do so because they still

remain a large part of our trading and economic interests. It will never work. It can't work. It never gets a fair chance from the beginning.

Naomi Fowler: The Tax Justice Network's been arguing for so many years now that *if* governments are *really* serious then yes, they would make proper laws and they would enforce them. There's a whole army of what we call 'professional enablers' delivering financial secrecy and wielding huge influence in high places. They never get the attention they deserve.

In Part 2 of the drugs war myth in the next Taxcast, we're going to focus on the *invisibles* in this story, the money managers and how we fix the systems that facilitate all these hot money flows creating such misery and destruction in so many nations. We'll explore how to have real impact without firing a shot.

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