

Jack Blum: We've gone back to the period when I had left the Senate and I was waiting for BCCI to explode. And I mentioned a congressional campaign, as the congressional campaign came to an end, I joined a law firm, a small law firm that gave me the flexibility to do what, really, whatever I wanted to do. And it was kind of unique in that regard.

Naomi Fowler: This is the Corruption Diaries from the Tax Justice Network. I'm Naomi Fowler.

Jack Blum: It's the kind of firm which existed in a moment and, and currently it'd be very hard to replicate in the current environment where law firms have a thousand lawyers and major clients who demand, uh, and law firms demand, unbelievable hours of work for billings that are enormous and it's a world that I, I couldn't survive in.

Naomi Fowler: Jack Blum used this new law firm experience to explore issues and areas that interested him. He gained further insights into the ways banks made use of so-called tax havens. He visited the Cayman Islands for the first time in 1974:

Jack Blum: When I got there there was one hotel, really one hotel for people to stay in on Seven Mile Beach, and it was called the Holiday Inn, later demolished and, you know, subsequently replaced with something a lot glitzier. But this Holiday Inn it turned out when I got there, was loaded with American lawyers and because there had been some kind of problem with the phone system in the hotel, there was a pay phone in the lobby and the lawyers are all lined up trying to call different banks on behalf of their clients. And all I had to do was sit in the lobby of this hotel and listen to the conversations. And these were all American lawyers who were saying, I have a client who wants to set up an account here, blah, blah, blah. And it was clear there was a lot of action going on.

I then went and visited with a number of the bankers and, uh, the American bankers said, oh, we, we don't deal with any Americans who want to cheat on taxes. We send them across the street to the Canadian banks. Right! And they send the Canadians to us.

Well, this was what we might call a clue that this was an unhappy situation. Now, to give you an idea of how early in the game this was, there were only about a dozen banks at the time in Cayman. And there was one other thing. When I decided to take advantage of the fact that I was on one of the world's great beaches to go for a swim, I, I did, and came out and was hit by a swarm of mosquitoes that had come out of the mangrove swamp. A couple of years later, a guy in Cayman was knighted by Queen Elizabeth for having eliminated the mosquitoes in the mangrove swamp, but apparently the mosquito problem was so bad that a cow had died because it inhaled too many mosquitoes.

Later came to find out that the explosion of interest in the Cayman Islands was a result of the independence movement in the Bahamas and the British had the Bahamas as a colony, but all of a sudden it was going to become an independent country and the bankers didn't trust an independent country run by Lyndon Pendling, who was then Prime Minister, who they viewed as not particularly trustworthy, so they thought we'd better have another operation somewhere where we can count on the British law, and British governance giving us the stability we need to sell our services to clients. And they began shifting from the Bahamas to

Cayman, and I was there literally at the beginning of it. The independence came in '72. I must have been there in '74, '73, '74.

I began to come up with a number of people who were coming to me because they'd heard about me one way or another and it was especially true after the BCCI affair hit. My phone rang and I picked up some rather unusual clients and people who came to me with different stories about different problems, which were nothing short of remarkable.

In one case, a gentleman came to me and got me to pay attention to what was going on in the Cayman Islands, and he was a guy who was a citizen of the Caymans and he was bound and determined to do something about drug trafficking and money laundering that had gone on through the Caymans. He was a very religious man, a born again preacher who was determined not to allow the kinds of things that had been happening. And he told me about a number of things. He told me about something called Fishing for Square Grouper. What was happening was drug traffickers were bringing packaged cocaine up to an area off the islands. They would dump the cocaine overboard in the ocean near the island and then small fishing boats would come out and pick up the cocaine and run it up to the Gulf Coast. So, the, the packages were what were euphemistically called square grouper. It was all wrapped in a way so it was protected. And there would be divers or others who would get the stuff from off the bottom, the ocean floor, the water is pretty clear there, you know, and just pick it up and put it in the boat and off, off they go.

So, that was one of the things that he was pretty upset about. And the other thing was the money laundering. And for a period of time kept giving me information about what was going on in the banking world and in the money laundering arena in the islands. That led to a point where uh, he called me about a banker in the islands who was an obvious promoter of tax cheating. And that banker was running ads in the airline magazines, inviting people to come into the bank for a consultation on how you could beat American tax. So, I was then talking to some people from BBC about the money laundering problem. And BBC was very interested in trying to do an undercover sting of this banker. We organized that, and I went to Cayman. They gave me a television camera and a briefcase uh, and I went into this banker's offices and said okay, I read your ad. Tell me, you know, what, what can you do for me?

Well, he started explaining, he said, well, I don't really understand what your business is. I presented myself as an American businessman. But he said we have a way of allowing you to make payments to various shell companies that we have that will look like you're paying a supplier or you're buying material for your business or whatever. And that money will go directly into an account that we set up for you. And you can just do that and regularly syphon money out of your business into an offshore account and you'll be showing much lower income for tax purposes inside the United States. So I, okay that sounds plausible. Well, what about how I get access to the money?

So he turns around and says, well, we have another, another way of handling that. We can give you a debit card. And the debit card can have any name you want on the card. It can be your name, but it can also be the name of a corporation. It can be the name of a dummy corporation. It can be the name of our bank. And all you have to do to access your account is to go to any cash machine anywhere in the country and you'll be able to withdraw up to the limit of that card on a daily basis. I said, well, what about if I want to have a large amount

of money out of that account? And he came back and said, well, we have an arrangement for that too. What we'll do is write a mortgage on a property that you buy in the United States. You can make payments on the mortgage to the bank that makes the mortgage loan and that bank will be a bank that cooperates with us that's located on the island of Jersey. So there won't be any connection between the mortgage and this bank. And what we'll be able to do is first get the payments you make on the mortgage and put it in your account. But at the same time, we'll be able to have you deduct interest on the mortgage payments from your own taxes. And if you need the, the money, you need money back, we can always lend you money against the money you have on deposit. And you can always say proceeds of a loan.

Well, I had all of that set up. It was on tape with the BBC. And the BBC ran uh, the story on one of their major investigative news programs. By the way, the same group of reporters that was doing that story tried to go interview some of the corporate formation agents I directed them to in the British Virgin Islands and the British Virgin Islands government wouldn't let them get off the plane. And, of course, BBC raised a stink, saying what is this? You're a British colony, and you're saying you won't let BBC get off the plane? Are you people out of your minds? But, uh, the government was pretty strict about that, because they simply didn't want this stuff out there.

The show aired, and not only that, the U.S. PBS Frontline picked up the taping, did some additional taping, and in 1994 ran the piece about tax evasion through the Cayman Islands. Well, the stink that therein came, led to the bank being closed and the guy who was running the bank, who was an American, being thrown off the island. And I'm pleased to say that when time came, he tried to open another bank, this time in the Bahamas, and I got in touch with the editor of a newspaper in the Bahamas and detailed what had happened to him in Cayman, and they wouldn't let him open the bank in the Bahamas either.

In the middle of all of this, the banker's ex-wife showed up and she had a collection of documents to indicate that he had skated on something like 12 million dollar judgement from IRS and he'd been involved with some mob activity and a whole lot of other really tantalizingly juicy stuff, I mean, not probative but, uh, suggestive, highly suggestive. And she said, I want you to take this to IRS and I want you to see to it that this guy has to pay up what he, what he owes. Well, I took all of this stuff to an Assistant U.S. Attorney in Brooklyn and the guy looked at it and said, ah, I don't know, I can't do anything with this. And, you know, that was the end of that. And I thought, this is really bizarre. And I lambasted him. I said, you know, what are you doing here? Why, what do you think your job is? You know, and he's pointing to the pile of drug cases he has, and I said, this is serious stuff, this guy skated on a very substantial debt.

There was another situation again in the Cayman Islands, where, uh, I learned about a a guy who had a real estate operation and there were a large number of Americans who owned condos in the Cayman Islands and these condos were all, in fact, in the name of offshore corporations, but it was the Americans who owned them and used them and rented them, and every one of the condos was tied to a Cayman Islands bank account, and all of the rental monies were to go into the Cayman Islands bank account, and the manager was to pay the expenses out of that same account, and the owners were never to be called directly, uh, identifying the caller as being part of the bank, that perhaps there would be

some signal and they were to then find a secure way of calling in. And I was given the list of names of these condo owners, names and addresses, so I thought, well, I'll go in to IRS Criminal Division in Miami and say, here, you know, here it is! You've got 'x' characters who, who are hiding money, obviously, have offshore accounts and, and they're managing all of this through offshore accounts, so they're not reporting the income and all you have to do is go chase it down. Well, the first guy I ran into said, I can't touch this. I said, why? He said, it's a career killer. He said, every time anybody has tried to go after offshore evasion they found themselves ostracized in the system. And he said that's been true ever since the Castle Bank case when a courier who had the list of depositors at Castle Bank in the Bahamas uh, had that list intercepted and turned over to IRS, and this was during the Nixon administration, the Nixon administration discovered a number of large Republican contributors were on the list. It was a very embarrassing list. And all of a sudden, everybody connected with that list was either reassigned, demoted, or fired. And he said, I'm, I'm not up for that, you know we can't do what you're asking us to do. This was the penalty for going after an offshore account. He said, I've got your list, but, you know, for me, this is a career killer, it'll end my career if I pursue it, which really, again got me very upset.

Naomi Fowler:And, in the next episode, Jack does something about it.

The Corruption Diaries is a production of The Tax Justice Network, made by Naomi Fowler and Jo Barratt. Interviews with Jack Blum were recorded over several days at Jack's home in Maryland by Zoe Sullivan.