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Narco-Dollars for Beginners
"How the Money Works" in the Illicit Drug Trade
by **Catherine Austin Fitts**
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"The Latin American drug cartels have stretched their tentacles much deeper into our lives than most people believe. It's possible they are calling the shots at all levels of government."

--William Colby, former CIA Director, 1995

Part I: Narco Dollars for Dummies

A Simple Framework:

The Solari Index and the Dow Jones Index

The Solari Index is my way of estimating how well a place is doing. It is based upon the percentage of people in a place who believe that a child can leave their home and go to the nearest place to buy a popsicle and come home alone safely.

When I was a child growing up in the 1950's at 48th and Larchwood in West Philadelphia, the Solari Index was 100 percent. It was unthinkable that a child was not safe running up to the stores on Spruce Street for a popsicle and some pin ball. The Dow Jones was about 500, the Solari Index was 100 percent and our debt per person was very low. Of course I did not think about it that way at the time. All I knew was that life on the street with my buddies was sweet.

Today, the Dow Jones is over 9,000, debt per person is over \$100,000 and my favorite hairdresser in Philadelphia, Al at the Hair Hut in West Philadelphia, and I just had a debate yesterday afternoon while Al was cutting my hair about whether the Solari Index in my old neighborhood was 0 percent (my position) or 10 percent (Al's position). Men always think it is higher than women.

Despite the boy-girl spread between us, it is fair to say that Al and I agree that the Solari Index is in the tank -- both in the streets of Philadelphia and throughout America.

Life on the street ain't sweet any more. I watched the slide of the Solari Index as a child. A lot of it had to do with narcotics trafficking and the people that narco dollars put in power on our streets -- and in city hall, in the banks, in Congress and the corporations and investors down town and that ring the city.

My mission is to see the Solari Index return to 100 percent and to do so in a manner that moves the Dow up and our debt per person down and makes me and my partners a whole pile of money.

A few years back when my efforts to improve the Solari Index were threatening to reduce narcotics profits in a few places, I discovered that I could not look to the enforcement or the judicial establishment funded with my tax dollars to protect me. Narco dollars had the upper hand throughout government and the legal establishment.

That's when I decided that I would have to learn how the money works on the drug trade.

Here is what I have learned that has been useful to me -- and may help you have a better map of how narco dollars impact you, your business, your family and the Solari Index in your neighborhood.

The Economics of Production: Sam and Dave Do Boat Loads of White Agricultural Substances

Okay, let's start at ground zero. It is 1947, and World War II is over. America is ready to go back to work to build the corporate economy. We are in New Orleans on the docks.

Two boats pull into the docks. The first boat is full of a white agricultural product grown in Latin America called sugar. The owner of the cargo, let's call him Sam, sells his boat load of white agricultural substance to the sugar wholesaler on the docks for how much money?

Ok, so let's say that Sam sells his entire boatload of sugar to the sugar wholesaler on the docks for X dollars.

Now, after Sam pays his workers and all his costs of growing and transporting the sugar, and after he and his wife spend the weekend in New Orleans and he pays himself a bonus and buys some new harvest equipment and pays his taxes, how much cash does he have left to deposit into his bank account? Or, another way of saying this is: What is Sam's net cash margin on his sugar business?

Well, it depends on how lucky and hard working and smart Sam is, but let's say that Sam has worked his proverbial you know what off and he makes around 5-10 percent. Sam the sugar man has a 5-10 percent cash profit margin. Let's call Sam's margin S for slim or SLIM PERCENTAGE.

Back on the docks, the second boat -- an exact replica of the boat carrying Sam's sugar -- is a boat carrying Dave's white agricultural product called drugs. In those days this was more likely to be heroin, these days more likely to be cocaine. Whatever the precise species, the planting, harvesting and production of this white agricultural substance, Dave's drugs, are remarkably like Sam's sugar.

Ok, so if Sam the sugar man sold his sugar to the sugar wholesaler for X dollars, how much will Dave the drug man sell his drugs to the drug wholesaler for? Well, where Sam is getting pennies, Dave is getting bills. If Sam had sales of X dollars, let's say that Dave had sales of 50-100 times X. Dave may carry the same amount of white stuff in a boat but from a financial point of view, Dave the drug man has a lot more "sales per boat" than Sam the sugar man.

Now, after Dave pays his workers and all his costs of growing and transporting the drugs, and after he and his wife spend the weekend in New Orleans and he pays himself a bonus and buys some new harvest and radar equipment and spends what he needs on bribes and bonuses to a few enforcement and intelligence operatives and retainers to his several law firms, how much cash does he have left to deposit into his bank account? Or, another way of saying this is what is Dave's net cash margin on his drug business?

It's also going to be a multiple of Sam's margin, right? Maybe it will be 20 percent or 30 percent or more? Let's call it B for Big, or BIG PERCENTAGE. Dave the drug man has a much bigger "cash profit per boat" than Sam the sugar man. Part of that is, of course, once Dave has set up his money laundering schemes, even after a 4-10 percent take for the money

laundering fees, it's fair to say his tax rate of 0 percent is lower than Sam's tax rate. While it is expensive to set up all the many schemes Dave might use to launder his money, once you do it you can save a lot avoiding some or all of the IRS's take.

Look at your estimate of Sam and Dave's sales and profits. Now answer for yourself the following questions.

- Who is going to get laid more, Sam or Dave?
- Who is going to be more popular with the local bankers, Sam or Dave?
- Who is going to have a bigger stock market portfolio with a large investment house, Sam or Dave?
- Who is going to donate more money to political campaigns, Sam or Dave?
- Whose wife is going to be bigger in the local charities, Sam or Dave's?
- Whose companies will have more prestigious law firms on retainer, Sam or Dave's?
- Who is going to buy the other's company first, Sam or Dave? Is Dave the drug man going to buy Sam the sugar man's company, or is Sam the sugar man going to buy Dave the drug man's company?
- When they want to buy the other's company, will the bankers, lawyers and investment houses and politicians back Sam the sugar man or Dave the drug man?
- Whose son or grandson has a better chance of getting into Harvard or getting a job offer at Goldman Sachs, Sam or Dave's?

Don't listen to me. And don't listen to Peter Jennings, Dan Rather or Tom Brokaw. Who do you think pays their salaries? Who owns the companies they work for? Sam or Dave? Don't listen to anyone else. Think about the numbers and listen to your heart. What do you believe?

There is very little about how the money works on the drug trade that you cannot know for yourself by coming to grips with the economics over a fifty year period of Sam and Dave and their boat loads of white agricultural substance. It is the magic of compound interest. As one of my former partners used to say, "Cash flow is more important than your mother."

Many Boatloads Later

It's more than fifty years now since the boats transporting Sam and Dave's white agricultural products docked in New Orleans. I don't know what the Narco National Product (Solari's term for that portion of the GNP coming from narco dollars) was in 1947, but let's say it was a billion dollars or less. Today, the Narco National Product that number is estimated to be about \$400 billion globally and about \$150 billion plus in the United States.

It helps to look at the business globally as the United States is the world leader in global money laundering. According to the Department of Justice, the US launders between \$500 billion -- \$1 trillion annually. I have little idea what percentage of that is narco dollars, but it is probably safe to assume that at least \$100-200 billion relates to US drug import-exports and retail trade.

Ok, so let's think about how much Sam and Dave have in accumulated profits in their bank and brokerage accounts.

Let's assume that the US narco national product in 1947 was \$1 billion and it has grown to about \$150 billion today. Assume a straight line of growth from \$1 billion - \$150 billion, so the business grows about \$3 billion a year and then tops out at \$150 billion as the Solari Index has bottomed out at or near 0 percent. America is about as stoned on illegal drugs as it can get, and growth in controlled "Schedule II" substances has moved to Ritalin and other cocaine-like drugs for kids that government programs and health insurance will now finance.

Let's take the BIG PERCENT margin that we estimated for Dave the drug man's net cash margin. Let's say that every year from 1947 through 2001, that the cash flow sales available for reinvestment from drug profits grew by \$3 billion a year, throwing off that number times BIG PERCENT. Okay, assume that the reinvested profit grew at the compound growth rate of the Standard & Poor's 500 as it got reinvested along the way.

That amount is an estimate for the equity owned and controlled by those who have profited in the drug trade. Total narco dollars. How much money is that? I made an Excel spread-sheet once to estimate total narco capital in the economy. My numbers showed that Dave the drug man had bought up not only Sam's companies, but -- if you throw in other organized crime cash flows -- a controlling position in about most everything on the New York Stock Exchange.

When you think about it, this analysis make sense. The folks with the BIG PERCENT -- big cash margin -- would end up rich and in power and the guys working their you-know-what off for SLIM PERCENT -- a low cash margin -- would end up working for them.



NYSE Chairman Richard Grasso with a FARC Commmander

A Real World Example:

NYSE's Richard Grasso and the Ultimate New Business "Cold Call"

Lest you think my comment about the New York Stock Exchange is too strong, let's look at one event that occurred before our "war on drugs" went into high gear through Plan Colombia, banging heads over narco dollar market share in Latin America.

In late June 1999, numerous news services, including *Associated Press*, reported that Richard Grasso, Chairman of the New York Stock Exchange flew to Colombia to meet with a spokesperson for Raul Reyes of the Revolutionary Armed Forces of Columbia (FARC), the supposed "narco terrorists" with whom we are now at war.

The purpose of the trip was "to bring a message of cooperation from U.S. financial services" and to discuss foreign investment and the future role of U.S. businesses in Colombia.

Some reading in between the lines said to me that Grasso's mission related to the continued circulation of cocaine capital through the US financial system. FARC, the Colombian rebels, were circulating their profits back into local development without the assistance of the American banking and investment system. Worse yet for the outlook for the US stock market's strength from \$500 billion -- \$1 trillion in annual money laundering -- FARC was calling for the decriminalization of cocaine.

To understand the threat of decriminalization of the drug trade, just go back to your Sam and Dave estimate and recalculate the numbers given what decriminalization does to drive BIG PERCENT back to SLIM PERCENT and what that means to Wall Street and Washington's cash flows. No narco dollars, no reinvestment into the stock markets, no campaign contributions.

It was only a few days after Grasso's trip that *BBC News* reported a General Accounting Office (GAO) report to Congress as saying: "Colombia's cocaine and heroin production is set to rise by as much as 50 percent as the U.S. backed drug war flounders, due largely to the growing strength of Marxist rebels"

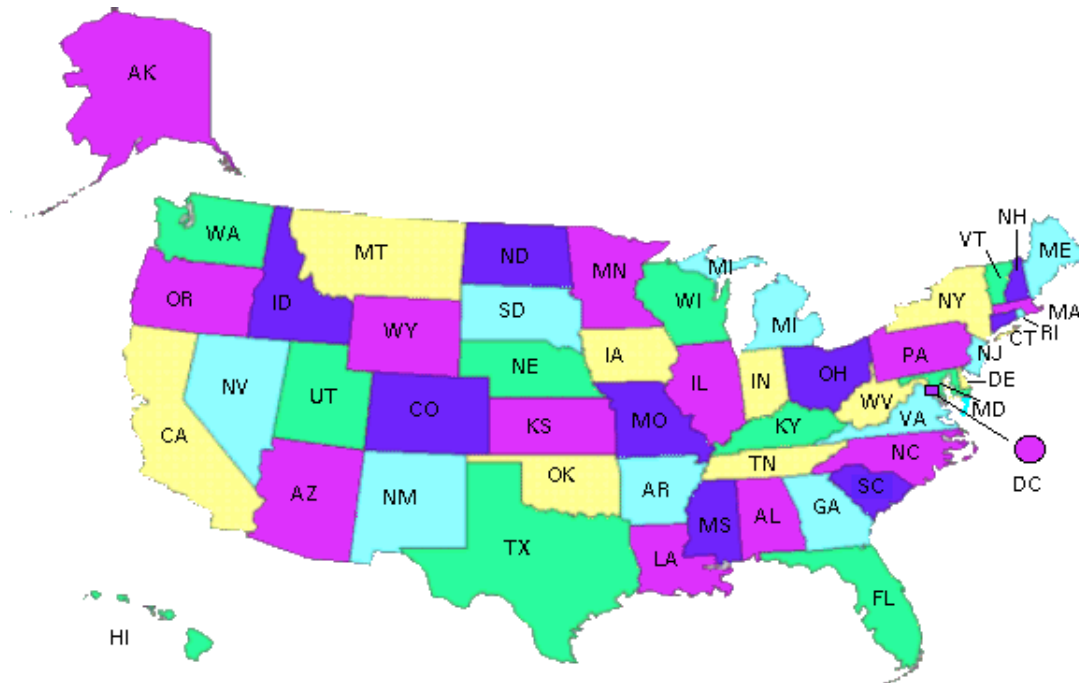
I deduced from this incident that the liquidity of the NY Stock Exchange was sufficiently dependent on high margin cocaine profits (BIG PERCENT) that the Chairman of the New York Stock Exchange was willing for *Associated Press* to acknowledge he is making "cold calls" in rebel controlled peace zones in Colombian villages. "Cold calls" is what we used to call new business visits we would pay to people we had not yet done business with when I was on Wall Street.

I presume Grasso's trip was not successful in turning the cash flow tide. Hence, Plan Colombia is proceeding apace to try to move narco deposits out of FARC's control and back to the control of our traditional allies and, even if that does not work, to move Citibank's market share and that of the other large US banks and financial institutions steadily up in Latin America.

Buy Banamex anyone?

Part II: Narco Dollars On Your Map

It helps to look at the drug markets by looking at a map of the United States.



What are the four states with the largest market share in illegal narcotics trafficking? Draw a map if you want and shade them in on your map.

Yup. You got it.

New York, California, Texas and Florida.

It makes sense. Those are the biggest states. They have big coastal areas and borders and big ports. It would make sense that the population would grow in the big states where the trade and business flow grows. If you check back to Part I of "Narco Dollars for Dummies", we described two businesses. One was Sam's sugar business that had a SLIM PERCENTAGE profit. The other was Dave's drug business that had a BIG PERCENTAGE profit. It would make sense that these four states would be real big in both Sam's sugar business and Dave's drug businesses.

OK. Now. What are the four states with the biggest business in money laundering of narco profits and other profits of organized crime?

Not surprising? Same four states. They are all known as banking power places.

New York, California, Texas and Florida.

What's next? What are the four states with the biggest business in taking the laundered narco profits and using them to deposit money in a bank, or to buy another company, or to start a new company, or just buy stock in the stock market? That's what I call the reinvestment business.

Same four, right? New York, California, Texas and Florida.

Who were the governors of these four states in 1996?

Well, let's see. Jeb Bush was the governor of Florida. Governor Jeb was the son of George H. W. Bush, the former head of an oil company in Texas and Mexico and the former head of the CIA and the former head of the various drug enforcement efforts as Vice President and President. Then George W. Bush, also the son of George H. W. Bush, was the governor of Texas. So the governors of two of the largest narco dollar market share states just happen to be the sons of the former chief of the secret police.

Do you think it is possible to become the governor of a state with the support of the SLIM PERCENTAGE profit businesses and the opposition of the BIG PERCENTAGE profit businesses, particularly after the BIG PERCENTAGE profits have bought up all the SLIM PERCENTAGE profit businesses?

What about president?

Of course, George W. is President today fueled by the single most successful campaign fundraising in the history of Western civilization. Now do you know why Hillary Clinton wanted to be a Senator from New York? Now do you know why Andrew Cuomo wants to be New York governor and is reported to be doing polls to see if people associate him with the Mafia and organized crime?

When you think about it, the President would need to win the majority of the people who donate from the SLIM PERCENTAGE profit businesses but control the reinvestment of the BIG PERCENTAGE profit industry cash flow to win. The competition for the support of the people who control the reinvestment from the BIG PERCENTAGE profit business cash flow in the biggest states would be fierce.

According to the Center for Responsive Politics analysis of the 2000 elections, donors in California, New York, the District of Columbia Metro Area (which is full of lawyers and lobbyists who represent all the other states), Texas and Florida contributed \$666.8 million, or approximately 47 percent of a total of \$1.427 billion in donations.

I can just paraphrase Tina Turner singing in the background. Care to hum along with us? . . .
."What's drugs got to do . . . got to do . . . with it?"

Getting Out of Narco Dollars HQ

In 1996, my company and I were targeted by a private informant and a group of investigators working for the Department of Justice and the Department of Housing and Urban Development (HUD). If you have ever seen the movie *Enemy of the State* with Will Smith and Gene Hackman, then you understand how the drill works.

Will Smith plays a successful Washington lawyer who is targeted in a phony frame and smear by a US intelligence agency. The spooky types have high-speed access to every last piece of data on the information highway -- from Will's bank account to his telephone conversations -- and the wherewithal to engineer a smear campaign through the papers and the Council on Foreign Relations types.

The organizer of an investment conference once introduced me by saying, "Who here has seen the movie *Enemy of the State*? The woman I am about to introduce to you played Will Smith in real life."

One day I was a wealthy entrepreneur with a beautiful home, a successful business and money in the bank. I had been a partner and member of the board of directors of a Wall Street firm and then Assistant Secretary of Housing-Federal Housing Commissioner during the Bush Administration. I had been invited to serve as a governor of the Federal Reserve Board and instead started my own company in Washington, The Hamilton Securities Group. Thanks to our leadership in digital technology, financial software and analytics, Hamilton was doing well and poised for significant financial growth.

One of my software tool innovations, Community Wizard, helped communities access data about how all the money works in their place. Accessible through the World Wide Web, Community Wizard was illuminating an unusual pattern of defaults on HUD mortgages and other government and homeowner losses in areas in which the CIA had admitted to facilitating cocaine trafficking by Iran Contra supporters.

According to the CIA, we were paying our government to help the narco dollars make money in a way that -- if you read Community Wizard's comic book-like money maps -- was losing taxpayers and homeowners billions of dollars.

The next day I was hunted, living through 18 audits and investigations and a smear campaign directed not just at me but also at members of my family, colleagues and friends who helped me. I believe that the smear campaign originated at the highest levels. For more than two years I lived through serious physical harassment and surveillance. This included burglary, stalking, having houseguests followed and dead animals left on the doormat. The hardest part was the necessity of keeping quiet about the physical danger lest it cost me more support or harm my credibility. Most people simply do not believe that such things are possible in America.

In 1999, I sold everything to pay what to date is approximately \$6 million of legal and administrative costs. My estimate of equity destroyed, damages and opportunity costs is \$250 million. I moved to a system of living in several places on an unpredictable schedule in the hope that this would push up the cost of surveillance and harassment and so dissuade my

tormentors from following.

The places were chosen to move me as far away as possible from the corridors of power in Washington and on Wall Street filled with people benefiting from narco dollars and their reinvestment. That strategy-combined with excellent legal and administrative work by a first rate team of very courageous people -- has been successful in besting the targeting. It made it possible for me to understand how our economic addiction to narco dollars worked and how to it was draining our neighborhoods. I teamed up with the members of my family and friends and their neighbors who were getting drained.

Four days after *Insight* Magazine published its cover story on me this summer, the head investigator targeting us resigned unexpectedly. Three weeks later the last of 18 audits and investigations was suddenly closed down. A follow-up article by *Insight's* Paul Rodriguez described the closed investigation as something that "many inside both HUD and the Department of Justice regarded as a political vendetta against Fitts."

The miracle had happened. We have overcome a serious targeting. Like in the movie where Will Smith comes out fine, my story has a happy ending. It's a wonderful feeling. As Winston Churchill's once said, "Nothing is more exhilarating than being shot at without result."

I believe that one of the reasons for my happy ending was that our actions to deal with the investigation reflected the understanding of narco dollars that I acquired from living and traveling throughout America and talking with people from all walks of life about how narco dollars were impacting our lives and neighborhoods in many different places.

Understanding narco dollars is something I need to know to help entrepreneurs around the country build the profitable deals and businesses that will get the Solari Index and Dow Jones in our neighborhoods rising together.

Where I live, folks do not want to know about what is wrong on the Titanic. They do not want to know that a flood of narco dollars is rolling over us. They know these things. What they want to know is how to build arks.

Georgie, West Philadelphia and the Stock Market

One of my new homes is in the city in Philadelphia, near where I grew up in West Philadelphia. Another is in a very beautiful and close knit farming community in Hickory Valley, Tennessee where my father's family has lived since the 1850's.

Once a month I drive to Philadelphia from my home in Hickory Valley to attend a board meeting. I stay in a lovely little apartment in the first floor of a row house owned by my friend Georgie.

Georgie is one of my favorite people in the world. She lives in the apartment on the second floor. Just about my favorite thing in the world is hanging out with Georgie. We watch Oprah, we talk, we go to movies, and we giggle over ice cream with long names and cookies.

Georgie is an awesome cook and my little apartment fills up daily with the smells of something delicious that Georgie is making.

One day, Forest, my dog, and I were up in Georgie's apartment to enjoy a fresh plate of scrapple that Georgie had fried up that morning. The conversation turned to narco dollars. Georgie said that looking at the big picture was simply too overwhelming. Couldn't I explain this without using the words millions or billions -- just dollars and cents in terms of our neighborhood in West Philadelphia?

I always have this problem explaining international money flows to moms and grandmoms. Most really great women want to know about the real world. The world of real people -- her world full of her kids and grandkids and other kids she loves.

So we got out a blank piece of paper and started to estimate.

Every day there are two or three teenagers on the corner dealing drugs across from our home in Philadelphia. We figured that if they had a 50% deal with a supplier, did \$300 a day of sales each, and worked 250 days a year that their supplier could run his net profits of approximately \$100,000 through a local fast food restaurant that was owned by a publicly traded company.

Assuming that company has a stock market value that is a multiple of 20-30 times its profits, a handful of illiterate teenagers could generate approximately \$2-3 million in stock market value for a major corporation, not to mention a nice flow of deposits and business for the Philadelphia banks and insurance companies.

The Narco Dollar Double Bind: Dow Jones Index Up, Solari Index Down

As described in Part I, the Solari Index is my way of estimating how well a place is doing. It is based upon the percentage of people in a place who believe that a child can leave their home and go to the nearest place to buy a Popsicle and come home alone safely. The Solari Index is about how safe you feel you and your neighbor's kids are.

When I was a child growing up in the 1950's at 48th and Larchwood in West Philadelphia, the Solari Index was 100 percent. It was unthinkable that a child was not safe running up to the stores on Spruce Street for a Popsicle and some pinball. The Dow Jones was about 500, the Solari Index was 100 percent and our debt per person was very low. Of course I did not think about it that way at the time. All I knew was that life on the street with my buddies was sweet.

Today, the Dow Jones is over 9,000, debt per person is over \$100,000, and I think the Solari Index in my old neighborhood is 0 percent.

Life on the street ain't sweet anymore.

To understand how this works, we need to understand "pop."

It's Not Just About Profit, It's About the Pop

Here is the part that is particularly hard for women. It took several times at our sheet of paper before Georgie understood what I was saying.

The power of narco dollars comes when you combine drug trafficking with the stock market.

The "pop" is a word I learned on Wall Street to describe the multiple of income at which a stock trades. So if a stock like PepsiCo trades at 20 times it's income, that means for every \$100,000 of income it makes, it's stock goes up \$2 million. The company may make \$100,000, but its "pop" is \$2 million. Folks make money in the stock market from the stock going up. On Wall Street, it's all about "pop."

The people who own a corporation make money on the stock going up. So a company has investors, with the most powerful investors typically being large institutions who are typically represented on the board of the company. The board is the group of people who decides what goes. The senior management officials who run the company day to day are also on the board. Most of the money they make comes from stock options that they get to encourage them to get the stock to go up for the investors. That means that what everyone who runs the company wants is for the stock to go up. The way to do that is to increase net income or to increase the multiple at which the stock trades.

So in the case of PepsiCo described above, if the management increases soda pop sales in a way that net income goes up by \$100,000, the stock goes up \$2 million. Now let's say, the board and management do a whole series of things to attract new investors and improve the company's image and, as a result, the stock starts trading at 22 times profits. Then, the stock value goes up even more. Whether increasing net income or increasing the multiple at which the stock market values the company profits, the board and the management are focused on making the stock go up. That is how their money works.

The winner in the global corporate game is the guy who has the most income running through the highest multiple stocks. He is the winning pop player. Like the guy who wins at monopoly because he buys up all the properties on the board, he can buy up all the other companies.

So if I have a company that has a \$100,000 of income and a stock trading at 20 times earnings, if I can find a way to run \$100,000 of narcotics sales by a few teenagers in West Philadelphia through my financial statements, I can get my stock market value to go up from \$2 million - \$4 million. I can double my "pop." That is a quick \$2 million profit from putting a few teenagers to work driving the Solari Index down in their neighborhood. Bottom line, I can make a lot of quick money on the stock going up and the Solari Index going down

OK, now what does this all mean for the Solari Index in Philadelphia? If I am a group of mothers in my neighborhood who want the Solari Index to go back up to a 100%, what's stopping me?

Well, if the Department of Justice is correct about \$500 billion-to-1 trillion of annual money laundering in the US, then about \$20-40 billion should move annually through the

Philadelphia Federal Reserve District.

Assuming a 20% margin for the BIG PERCENTAGE profits and a 20 times multiple on the stock of the companies that Dave and his investors and banking partners were using to launder the money, let's look at how much of the stock market value would be "addicted" to the drug and money laundering profits flowing through the Philadelphia area.

The total stock market value generated in the Philadelphia area with \$20-40 billion in narco retail sales would be about \$80-160 billion. If you add all the things you could do with debt or and other ways to increase the multiples, and you could get that even higher, say \$100-250 billion.

Assuming that there are 3 million people in the greater Philadelphia area, the total stock market value generated would average anywhere from \$27,000-to-\$85,000 per person. Imagine what would happen to the economy in Philadelphia if this stock market value suddenly disappeared because all the teenagers in Philadelphia stopped dealing or buying drugs?

Imagine what happens to your stock multiple if you are a Philadelphia corporate chieftain and you don't run narco dollars or large purchases fueled by narco dollars through your financial statements and you don't attract narco dollars to reinvest in your stock? What happens to your corporate income and your stock profit if the ones who invest narco dollars -- accumulated over the last fifty years compounding at their magical compound interest -- don't like you? How is everyone in Philadelphia who loses money on your stock going down going to feel about you?

The Department of Justice says that we launder \$500 billion - \$1 trillion. Multiply those times a BIG PERCENTAGE cash flow profit margin. Now figure how much of that "income" gets run through the income statement of publicly traded banks and companies and multiply that number by the multiple of income at which their stocks trade.

Voila. I don't know what your number is. All I know is that, as Ed Sullivan used to say, it is "really, really BIG."

Understanding Money Laundering in America

Part III: Drugs as Currency

"Who can compete with the government?"
--John Gotti, Jr.

The Hickory Valley-Philadelphia Fast Food Franchise Pop

Two things helped me understand money laundering in America. First, as I drove from Hickory Valley to Philadelphia once a month and drove around the country with my dog Forest all sorts of people started to teach me about how the money worked truckers and the ladies who run the brand-name motels and the folks who work the late shifts at the gas station food marts. Second, I read *Black Money*, a mystery novel by Michael Thomas, a former partner of the Wall Street firm, Lehman Brothers.

In *Black Money* a government investigator investigating S&L fraud starts to look into the revenues and expenses of a fast food chain, which is experiencing far more deposits from sales than it is selling pizzas. As Thomas walks you through a handful of the near infinite number of possible money laundering schemes known to mankind, you start to get a sense for some of the economics of fast food franchises that have nothing to do with feeding people.

After I finished *Black Money* I started to pay attention to "how the money works" at the fast food and motel franchises at every interstate exit between Tennessee and Philadelphia. What I noticed about them was that no matter when I drove by -- day or night, weekday or weekend -- some of them were suprisingly empty. Indeed, one or two name brands were defined by their perpetual emptiness. Conversations every time I stopped filled in a lot here and there about how much cash was coming in and going out on the food and retail business.

Some quick estimation on what was being spent per interstate exit to start up and operate all the retail establishments versus what was coming in the door in terms of legitimate business said that some businesses had to be an excuse, an excuse to generate stock market capital gains by combining laundered money or phony profits with retail franchises -- or both.

The problems this presents to people trying to run an honest business are numerous. The problems it creates for our work ethic and culture are numerous too. It increasingly puts the low performance people in charge, and everyone starts to behave like and follow them.

For example, I drove ten miles to Bolivar, our county seat, one night to go through the car wash at the local big chain publicly traded gas station. I tried to pay for a three-dollar car wash with quarters. I was told they would not take coins. It was a policy. Counting coins was too much work, the person at the register and then the manager said as they sat and gossiped

with their friends, no other customers in sight. So I got back in my car and drove ten miles home and washed the car with a hose and some paper towels, the symbolic economy being too busy to care about steady customers or to do the real work in the concrete world.

If you are feeling energetic, go drive around to a few areas with a heavy concentration of retail fast food and motel franchises. Try estimating out the numbers. See how they work for you in your place. Are your local businesses in the retail business or the money laundromat business or both?

Another quick and dirty estimation technique for your neighborhood is to take the Department of Justice's figure of \$500 billion - \$1 trillion and divide by 281 million Americans for a "per American" estimate of money laundering market share. Now multiply that times the number of people in your area. Now divide by the number of local banks. What do the numbers say to you?

The next time you are out on the streets, see if you can guess where the money is. It's bound to be there someplace.

Enforcement: At the Heart of the Double Bind

I tend not to get bogged down in discussions about how the various police, enforcement and prosecution industries relate to narco dollars.

Here is my bottom line on how the money works on enforcement and the war on drugs.

Every year since I was a child the Solari Index goes down and the budgets that I pay for as a taxpayer to fund more enforcement, prosecution and incarceration go up. If you look at what taxpayers are paying, you would think we were picking up all the narco dollar industry's expenses.

The more we pay for enforcement, the more the Solari Index goes down and drug profits go up. The more we pay for national security, the more thousands of boat loads of white agricultural products seem to have no problem moving back and forth across the borders.

After fifty years, the correlation is documented and clear.

What is also clear is that the person who has inside help from the national security, intelligence, enforcement and prosecution bureaucracies will have the biggest BIG PERCENTAGE cash margin (see Parts I & II for background on BIG vs. SLIM PERCENTAGE).

John Gotti, Jr, not a reliable source, when asked by a reporter whether or not the New York Gotti family was dealing in narcotics said, "No, who can compete with the government?"

The CIA, also not a reliable source, backs up Mr. Gotti's position. According to the CIA's own Inspector General, the government has been facilitating drug trafficking. Indeed, according to the CIA and DOJ (Dept. of Justice), the CIA and DOJ created a memorandum

of understanding that permitted the CIA to help its allies and assets to traffic in drugs and not have to report it.

Where I come from powerful people pay for performance. I can only presume that the narco dollars are getting the performance they want from the expenditure of our tax dollars for more and more enforcement. After all, enforcement keeps profit margins up and the franchise controlled.

The best example I know is my own case. My estimate is that the federal enforcement establishment may have spent more to target me over the last six years than they spent to get Bin Laden before September 11. They clearly were not hampered in my case by having to respect the spirit or the letter of the law. I deduce from that only that the Solari model is not as good for the narco dollar and money laundering businesses as Bin Laden was -- at least until recently.

Drugs as Currency

One of challenges of doing the numbers on the narcotics business is that narcotics are not always a commodity -- sometimes narcotics are a currency used to pay for other things.

The arms industry sometimes markets to third world countries, or groups such as terrorists, who cannot pay with cash, but can pay with drugs. So, for example, it is not unusual to see arms-drugs transshipment operations, in which payment for arms is taken with drugs and then the drugs retailed in the US to facilitate the arms trading and profits.

A case in point is the Iran-Contra operation at Mena, Arkansas. It has been alleged that Oliver North and the White House (National Security Council) were dealing drugs through Mena not to make money, but to facilitate arms shipments. Mena has received attention as a result of its alleged financial contribution to Bill and Hillary Clinton's rise to national prominence.

You also see the arms-drugs relationship as you estimate how the money works on the private profits from various taxpayer funded wars. Vietnam, Kosovo, Plan Colombia, Afghanistan, what do they all have in common? Drugs, oil and gas, arms. Add gold, currency and bank market share and you have the top of my checklist for understanding how the money works on any war or "low intensity conflict" around the globe.

Many of the members of our global leadership were trained in wartime narcotics trafficking in Asia during WWII. George H. W. Bush and his generation watched our ally Chang Kai Shek finance his army and covert operations with opium. I am told that the Flying Tigers were the model that taught Air America how to fly dope.

If you trace back the history of the family and family networks of America's leaders and numerous other leaders around the world, what you will find is that narcotics and arms trafficking are a multigenerational theme that has criss-crossed through Asia, North America, Europe, Latin America and Eurasia and back through the City of London and Wall Street to the great pools of financial capital. Many a great American and British fortune got going in

the Chinese opium trade.

One of the benefits of learning how narco dollars work is that it will help you sort through the money laundering and insider trading news on the War on Terrorism. Terrorism and narcotics trafficking often get linked through narcotics as currency. Terrorists need guns. Narco dollars need private protection and covert operations.

In Defense of the American Drug Lords

It's 1947. You want to make sure that America wins in the great game of globalization. The winner will be the country that accumulates the largest pool of capital to finance its corporations and investment in new technology. That is a problem because Americans vote for leaders who help them spend, not save. No matter how hard Sam the sugar man works and no matter how much he saves, how much capital can be pooled at SLIM PERCENTAGE? It is fair to say it is not enough to beat the investment network that can pool capital at BIG PERCENTAGE growth rates. (See Part I for the story of Sam and Dave).

Indeed, what a history of narcotics trafficking and piracy and various other forms of organized crime over the last five hundred years show is that our leaders have been in a double bind for centuries. The only thing more dangerous than getting caught doing organized crime, is not being in control of the reinvested cash flows from it. This is why monarchs played footsie with pirates in Elizabethan times and no doubt have been doing so ever since.

After taxation, organized crime is a society's way of forming lots of pools of low cost cash capital. Organized crime is a banking and venture capital business.

So the reality is that if you want to control the cash flow and capital that controls the overworld, you've got to control the cash flows getting generated by the underworld. Indeed, you've got to have an underworld. If it does not exist, you need to outlaw some things to get one going.

Here is the bottom line on how the money works on narco dollars. Unless Sam switches to dope, Dave will win his wife, his mistress, his banker, buy his company, buy his Congressman and be the star at the local charities. Everyone will admire and pay attention to Dave.

It's the power of compound interest.

It's 1947. If you don't do it, you will be the loser. What would you do?

The Pogo Problem: We Have Met the Enemy and It is Us

The Sam and Dave dilemma of "to deal or not to deal" is made worse by the power of popular opinion.

Last summer, I made a presentation called "How the Money Works on Organized Crime" to a wonderful group of about 100 people at an annual conference for a spiritually focused foundation in Philadelphia. This is a group of people who are committed to contributing to the spiritual evolution of our culture.

After walking through the various Sam and Dave dilemmas with Sam's SLIM PERCENTAGE profits sugar business and Dave's BIG PERCENTAGE profits drug business, as well as the intersection between the stock market and campaign fundraising and narco dollars for about an hour, I asked the group what would happen to the stock market if we decriminalized or legalized drugs?

The stock market would crash, they said.

What would happen to financing the government deficit if we enforced all money-laundering laws? Since most of the bank wire transfers are batched and run through the New York Federal Reserve Bank, this should not really be that hard, right?

Their taxes might go up. Worse, yet, their government checks might stop, they said.

I then asked them to imagine a big red button at the front of the lectern. By the power of our imaginations, if they pushed that button they could decriminalize narcotics trafficking and stop all money laundering in the United States.

Who would push the button?

It turns out that in an audience of approximately 100 people committed to spiritually evolve our society that only one person would push the button. Upon reflection, 99 would not. I asked why.

They said that if they pushed the button, their mutual funds would go down and their government checks might stop.

I commented that what they were proposing is that an entire infrastructure of people continue to market narcotics to their children and grandchildren to ensure that their mutual and pension funds stay high in value.

They said, yes, that's right.

Which is why I say that America is not addicted to narcotics as much as it is addicted to narco dollars.

The National Security Council's Double Bind in 1996

Here is the acid test.

It's August 1996. Gary Webb has just broken the story in the *San Jose Mercury News* about the CIA helping to deal drugs into South Central LA. He has put the legal documents up on their website. The proof is hard. The government is dealing drugs.

Catherine Austin Fitts's company is publishing a tool on the web called Community Wizard that shows maps with Geographic Information Systems software that include patterns of defaults on HUD mortgages in the areas of LA with the heaviest concentration of CIA supported Iran Contra drug trafficking.

The patterns between HUD defaulted mortgages and narco dollars are much too close for comfort. What would you do if you were Bob Rubin (Secretary of Treasury, now Co-Chairman of Citicorp), Larry Summers (Deputy Secretary of Treasury, now President of Harvard), John Hawke (Undersecretary of the Treasury; now Comptroller of the Currency), Al Gore (Vice President, now teaching) and John Deutch (Director of the CIA, now teaching) sitting on the national security council or the related narco dollars task force?

Would you target Webb and get him fired and the story discredited or would you let the story grow and flourish?

Would you target Fitts and have her business and her software tools and databases destroyed or would you let her business flourish, allowing every community to see and track the narco dollars that were helping to drive their Solari Index to 0% while driving the Dow Jones Index higher?

Which will it be in an election year? Will you do everything you can do to attract the reinvestment of the narco dollars into your campaign and into the stock market or will you let Fitts and Webb continue to illuminate "how the money works" on narco dollars in a way that might crash the stock market and make it harder and more expensive for the government to finance the deficit?

Before you answer, let me tell you one more story.

In 1999, I was at a revival for Christian women. One of the presidential candidates made a guest appearance. A friend of mine, an Afro-American minister, who used to work for the Drug Enforcement Agency (DEA), leapt to her feet to applaud him with tremendous enthusiasm. I was surprised at her response given that she understood his success in attracting narco dollars not to mention his and his colleague's silence on Gary Webb's Dark Alliance reports and the subsequent CIA admission of drug dealing by the government.

She looked at me and said, "He is going to be the winner." So I said, "You mean, I am a loser because I tried to stop the corruption and he is a winner because he profited from it and helped it grow. So you will clap for him and not for me." She replied, "That's right. You are a loser. He is a winner"

Not such an easy decision to vote for the "rule of law" is it?

Indeed, Webb got fired and Fitts' was targeted and, after spending \$6 million on legal and related expenses, my fortune sank down to the same 0% as the Solari Index.

But whatever I do, I can't blame it just on the top guys. Whatever they did, whoever it was, they were doing what it took to please and win the crowd.

Americans love a winner.

Solari Index Up, Dow Up, Debt Down

The good news on all of this is that there are solutions. New technology blesses us with the potential tools we can use to radically increase productivity in a way that can "jump the curve" on our narco dollar addiction.

Will it happen? I don't know.

My pastor says, "If we can face it, God can fix it." The question is can we face our addiction to narco dollars? Can we do it in a way that entrepreneurs like me can build successful businesses and transactions that profit from getting the Solari Index and the Dow Jones Index to go up together?

Sound impossible? Far from it. It's quite possible. Add up all the current income generated by small businesses in America. It is currently valued at a multiple of 1-5 times because it is private-not publicly traded in a liquid stock market. Investors have no way to invest in a liquid publicly traded stock.

The creation of a solari, a local knowledge manager/databank that publishes neighborhood financial statements and information and tracks the Solari Index in your place, can make it possible for your neighborhood to create a mutual fund that could channel capital to the profitable small businesses in your neighborhood so that participating small business income could start to trade at a multiple of 10 times -- even 20 times or 30 times eventually. The potential capital gains are in the trillions of dollars.

That is a lot of low cost capital that local entrepreneurs can use to create jobs and to build their businesses -- even start new ones.

Better yet, while your doing that how about reengineering billions of federal, state and local government investment that has a negative return on investment to both taxpayers and communities to a positive return on investment. More big capital gains that can be securitized and traded in a liquid stock market -- again the potential profits are in the trillions.

Finally, add up the value of all the homes and real estate in your community. OK, what would happen to the value of that equity if the Solari Index went back up to 100 percent? Real estate financed through a local trust or REIT or mutual fund that could be traded in the

stock market would create a way for investors to start to "trade places." That means they would profit from the Solari Index going up along with local real estate owners, homeowners and small business folks. Add some more trillions to the potential capital gains.

Helping the Solari Index rise back to 100% is the biggest capital gains opportunity in America, particularly when combined with reengineering government investment and pooling small business equity in a manner that provides competitive access to the stock market. Generations of accumulated narco dollars could do very well investing successfully in such a capital gains opportunity.

A trillion here, a trillion there -- pretty soon you are talking about a lot of "pop." It can only happen if we can look into the face of our addiction and start having a conversation about how we move out of our current financial incentives that keep the Solari Index down to a more positive, sustainable and wealthy future for our children and grandchildren. For example, think about what would happen if every government worker in America had their annual salary fluctuate based on the performance of the Solari Index in their jurisdiction? I bet it would take about three years to get the Solari Index back to 100%.

That is why all the yah-yah in Washington about new stricter money laundering laws to deal with terrorism won't work. If government officials and bankers can keep making money when the Solari Index is at 0%, it will not rise no matter how many people -- innocent or guilty -- we put in jail. The day we decide that government officials only make money for performance and all the companies that get money from government -- whether contractors or banks that use taxpayers credit -- only get money if we are better off and the Solari Index is rising, is when we will start to face and solve the real problems in a money making way.

It's time to face our addiction to narco dollars and to grapple with how to reverse our incentive systems. It is time to figure out how publicly traded companies and our banks and insurance companies can make more money from our kids succeeding than from them failing. Indeed, it can be done.

So here is my last message on how the money works on narco dollars. Now that we have run the Solari Index down to near 0% while fueling the rise of the Dow Jones about 20X since I was a kid, the new opportunity is going to be the fortunes to be made on businesses and investment vehicles that fuel the Solari Index rising.

Wouldn't you pay for streets to be sweet for your child once again? Especially if it made you a whole bunch of money on an IPO of your neighborhood mutual or venture fund in the stock market?

I want to make money on kids succeeding. I want to teach Dave a way to make more money by getting out of narco dollars and backing Sam starting a solari and "trading places."

My money is on Solari rising.

For more on starting a solari for your neighborhood, see www.solari.com, or contact Catherine at catherine@solari.com

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After three years of plowing through hundreds of books, videos and articles, here are the sources that I found most useful to helping me understand "how the money works" in the drug trade. Assuming that you are a busy person who knows nothing about narco dollars and does not want to become an expert -- you just want to have a good map of "how the money works" in your world -- I have put an (*) next to my top four book and one video recommendations. These are the ones that will be the most useful to help you understand the drug trade and what it means to you, your family, your business and the Solari Index in your neighborhood.

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