

CHAPTER 14

MONEY LAUNDERING

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THE conversion of criminal incomes to forms that allow the offender unfettered spending and investment has been an ongoing concern to both criminals and the state since at least the early days of the American Mafia. Meyer Lansky's claim to fame was partly his supposed skill in concealing the origins of funds used to buy real estate and legitimate businesses. The goal was to avoid tax evasion charges, which had famously brought down Al Capone, by making it difficult to trace the connection between wealth, its ownership and its criminal sources.¹ One reason for this systematic approach to crime control was the growth of organized crime, itself stimulated by Prohibition. Laws against handling stolen property traditionally referred only to the physical property obtained in the course of the crime. Only in the past generation has the disguise or concealment of funds obtained from crimes itself become a criminal activity, created by a new set of laws and regulations aimed at what is now called "money laundering."

Developed initially in the United States to combat use of international banks for tax evasion, money laundering controls became a significant component of the war on drugs in the 1990s and the more localized Italian struggle against the *brigate rossi* (Red Brigades) in the 1980s. More recently the regime has grown into an extensive and global set of controls aimed at a wide array of offenses, from cigarette smuggling to corruption of high-level officials and terrorist finance. The fundamental innovation is to shift to the financial system (very broadly defined) the responsibility for keeping criminal money out and reporting instances when they suspect that criminal money has successfully entered or is being inserted into legitimate institutions. The liability has both criminal and regulatory penalties to induce

compliance by banks, insurance companies, pawnbrokers, and an expanding array of other businesses and professions, including, most controversially in some countries, lawyers. In both the United Kingdom and the United States the result has been a modest flow of cases against banks and their employees for violation of these laws, occasionally accompanied by fines in the tens of millions of dollars.

The Financial Action Task Force (FATF), a collection of 34 governments (as of 2007) of wealthy nations, has created the rules that are now on the books of almost every nation, rich and poor. A complex collaborative system, including the International Monetary Fund and the World Bank, monitor compliance with the rules.

Money laundering is difficult to study in part because it is conceptually elusive. Is it a separate activity, like the fencing of stolen goods, or is it better thought of as an element of certain criminal acts, such as conspiracy is? Sometimes it is indeed very like conspiracy, an inherent part of the act; for example, Andrew Fastow, the treasurer of Enron, pled guilty to money laundering as well as fraud, but they were two dimensions of the same act. Just as some thieves fence the goods they have stolen, some fraudsters, drugs traffickers, and robbers may put proceeds into bank accounts or businesses they run. In other instances laundering clearly is a distinct act, involving parties with no other connection to the predicate crime; for example, Lucy Edwards, a senior executive in charge of Eastern European operations at the Bank of New York, and her husband, the businessman Peter Berlin, earned large sums by laundering \$7 billion dollars for some Russians who were either evading taxes or concealing the fruits of criminal enterprise (Block and Weaver 2004).

Our focus here is on money laundering itself rather than the controls, though we cannot avoid some discussion of the latter and their effects, since the offense is so shaped by the regime.² We ~~seek to~~ describe the market for money laundering services. Who seeks to launder money? What crimes are they involved in, and in what countries? Who provides the services, and what sorts of services are provided to what sorts of people? The incompleteness of our answers to these descriptive questions is not a function of the brevity of the chapter but of the small amount of serious research and the difficulty that the phenomenon itself represents for research purposes. We also provide a brief assessment of the consequences of the control system.

Our conclusions are readily summarized:

- There is a great deal of uncertainty as to how much money is laundered and what share of criminal proceeds are laundered through the financial system rather than spent or stored for future use.
- The methods used for laundering are frequently unsophisticated.
- Professional money launderers certainly exist, but they may account for a small share of all laundering (at least by volume of offenders) and seem to occupy narrow niches.
- Although a huge amount of data is generated by the control system, ~~most of it is not~~ ~~most~~ ~~of it is not~~ utilized for investigation.

- The system of money laundering controls has weak conceptual foundations, and there is no evidence that it does much more than allow prosecutors to occasionally add additional criminal charges and obtain more severe penalties.

In the first section we define and describe the offense. Section II then presents examples that illustrate the variety of methods available and kinds of persons involved, along with some classifications. In section III we discuss the relationship of money laundering to corruption control, a major current motivation for the control system. In section IV we analyze the effects of anti-money laundering controls and offer a few comments on policy.

I. DEFINING MONEY LAUNDERING IN LAW AND PRACTICE

Legally, money laundering refers only to concealing the proceeds of ~~specific~~ crimes (the *predicate* crime). The list of predicates varies cross countries but has gradually been extended in most nations to all crimes with a maximum sentence of at least one year of imprisonment (e.g., the European Union Third Directive of 2005). Beyond the bare bones description of the act in terms of its intent, the question of what constitutes the act is more difficult. A standard but much critiqued description of the laundering process (e.g., by van Duyne 2003; van Duyne and Levi 2005) identifies three components: placement, layering, and integration.

Placement is the process of putting illicit funds into the financial system. This may be the riskiest stage for the criminal as it is only here that there is a clear connection between the money and the crime itself. As a result of this enhanced risk, much of the enforcement has been targeted at this stage of the process (Lilley 2006). The U.S. State Department (2003) claims that the regulations in place in the United States have resulted in most placement being done abroad, though it offers no supporting evidence.

Layering is the process of moving the money through the financial system in order to further conceal the connection between the money and the crime. It is common—though no one except the offenders knows how common—to use a variety of identities, shell companies, and trusts in a number of countries to make the trail more difficult to follow. The FATF annual ~~typology~~ reports provide a useful introduction into some of the ways the financial system can be exploited to make illegitimate funds both hard to trace and seemingly legitimate.

Integration is the final stage, in which the funds reenter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets,

or business ventures or might consume the resources with the claim, if challenged, that the funds were legitimately acquired.

Many parties can be involved in laundering, but the number can be as low as one. When Andrew Fastow used offshore banks to remove money from the principal accounts of the Enron Corporation, he committed both the predicate felony and the money laundering itself. There has been no claim that any one at the relevant banks *knowingly* assisted him. This insider involvement is not uncommon for large-scale financial frauds (see Levi, this volume); just as Cressey (1955) argued that all accountants could commit embezzlement, the perpetrator has exactly the skills required to also conceal the sources of his or her funds. At the other end of the sophistication spectrum, if drug dealers or thieves put the cash they have obtained from crime into a bank account in their own names, this is legally considered to be the offense of laundering in the United States and the United Kingdom (though not in countries where self-laundering is not criminalized). Thus one finds many newspaper reports stating that people have been charged both with drug trafficking and money laundering.

Frequently, however, there is a customer for and a supplier of money laundering services. Once this individual generates a volume of business too large to spend immediately, the predicate drug dealer will need someone with other skills to launder his or her revenues. Both will be guilty of money laundering, a useful fact to remember when interpreting statistics from the criminal justice system. It may be even more common that there are three parties: the money launderer could be an intermediary who recruits someone inside a financial institution to make the transaction or opens accounts to facilitate transactions in violation of due diligence Know Your Customer regulations that the institution is required by law to follow.

Although there are hundreds of articles and books that review responses to money laundering, and even specialist periodicals such as the *Journal of Money Laundering Control*, the empirical research literature on the phenomenon of money laundering is very slight indeed; key references are Beare and Schneider (2007), van Duyne and Levi (2005), Levi and Reuter (2006), Naylor (2004), Passas (2003), and Reuter and Truman (2004). In contrast to drug dealing, there are no ethnographic studies of money laundering; money launderers are better able to protect themselves from intrusion by researchers. There are occasional books written by reporters about particular cases, some of which are very useful; see, for example, Woolner (1994), who chronicles a money laundering investigation that reached the highest level of the Colombian cocaine trade. Criminal and civil complaints in the United States and elsewhere sometimes also provide useful details. ~~In all these cases it is hard to see~~ a basis for generalizing patterns of laundering over time and place.

More might be expected from official overviews; after all, given the political, bureaucratic, regulatory, and enforcement resources devoted to combating laundering, one might hope to see some systematic analysis of the *modus operandi* developed by launderers. Each year the FATF produces the oddly named *Typologies* report, which provides examples of different kinds of money laundering methods,

often clustered around a particular theme, such as the use of professional intermediaries, trade-based value transfers, or wire transfers, or the laundering of funds from particular activities, such as Value-Added Tax frauds. These are intended to be highly schematic representations which are often hard to understand, but they do provide a useful additional set of descriptions. However, it would be a mistake to think that these are always based on a rigorous examination of a run of cases; rather, they may be the product of whatever those consulted are aware of and choose to volunteer. Enforcement agencies typically are too busy dealing with cases and processing inputs such as reports from banks to review systematically what they might learn from the cases they deal with, though occasionally deeply sanitized reports are issued. Otherwise we are reliant on what appears in the press concerning specific high-level cases. The *Wall Street Journal* has provided detailed and insightful coverage of some major cases, such as the Beacon Hill case (involving J. P. Morgan-Chase) and the ABN-AMBRO scandal concerning payments in the Middle East (e.g., Simpson 2005). The growing literature on corruption in developing countries has also generated some writing on money laundering (Levi, Dakolias, and Greenberg 2007), though mostly about governance and law (e.g., Pieth, Low, and Cullen 2007) and scandals rather than economic analysis.³

It is rare for a description to be complete; instead, it will be focused on a particular transaction or individual and omit a lot of the contextual detail. An exception is the case of John Mathewson, whose activities are briefly described in the next section. He had strong incentives to provide everything to the U.S. authorities and did manage to give them his complete electronic records (U.S. Senate 2001).

II. MONEY LAUNDERING METHODS AND MARKETS

There is both a demand and a supply component to money laundering. It takes little to create a legal basis for the offense of laundering: concealment or disposal of the proceeds of any crime. Anyone minded to store crime proceeds for a short or long period may be said to be seeking to launder money, and anyone actually supplying those facilities is a de facto launderer. Likewise, all ambitious offenders who try to hide their assets from the authorities, to make it harder to connect them to the crimes and thus confiscate their wealth, will seek to launder. All that is needed is a bank account or some similar relationship with a financial institution that allows the movement of funds from one location and owner to another location and owner. Any businesspeople willing (for profit or in exchange for vice opportunities or relief from debts) to run up additional revenues on their cash registers or to sell antiques, art, and jewelry (especially for cash) can help criminals conceal the proceeds of crime. This may put at risk their own businesses and assets, as well as their liberty.

However, many money laundering *cases* involve more elaborated and distinct roles than this. We offer here a few brief descriptions of figures involved in different ways as providers or intermediaries. Our tentative conclusion, still in the nature of a conjecture, is that most money launderers occupy quite narrow niches. Some, perhaps most, have only a very few customers; they will be cautious in taking on new business. This has important implications for the market for money laundering services.

John Mathewson was a U.S. businessman who in 1984 started a bank in the Cayman Islands that catered primarily to U.S. tax evaders, as indicated by the flurry of convictions that emerged after he turned state's evidence. His customers learned about his services through word of mouth or through advertisements at the airport on the British colony's main island, Grand Cayman. They usually came to his Guardian Bank and Trust Company offices with a letter of reference and enough cash to pay the \$8,000 fee to set up and maintain the non-interest-bearing accounts. Mathewson had no prior criminal record; he had been a moderately successful small-town businessman.

A recent case involves allegations that a banker with a long record of involvement in other questionable activities (e.g., busting UN sanctions against supplying oil to South Africa, defrauding the Soviet government in oil transactions) operated a Caribbean bank that laundered money from what is called "carousel fraud."⁴ The U.K. authorities have identified 2,500 persons involved in such fraud with accounts at that one bank, and over £50 million in tax evaded. No allegations have been made that the banker had any involvement in the fraud itself. He appears to have occupied a narrow, though lucrative niche.

A Russian national, Alexander Yegmenov, laundered funds for numerous Russian criminals by setting up literally thousands of shell companies in New York State, where the requirement to identify owners and directors is not (or certainly was not then) enforced (Komisar 1999). Yegmenov may himself have been involved in some of the offenses in Russia but seemed to spend much of his time on the U.S. laundering activities. No charges have been brought against the banks he used for these purposes. Other than this, along with many aspects of "organized crime" there are many allegations and ongoing investigations about real estate and other business moguls acting as launderers for the underworld, but evidence in the form of convictions is thin on the ground. (Another aspect of this, the involvement of lawyers and other professionals, is discussed later.) Moreover, as with other investment firms, launderers can lose as well as gain money from their investments, for example in real estate (van Duyne and Levi 2005).

A. How Much Money Laundering Is There?

A modern problem requires estimation of its scale, so that it can be compared to other problems and so that performance measures can be developed against which to judge the efforts of those who aim to combat it. Thus there have been modest

efforts to develop estimates of money laundering at the national and global levels (see Reuter and Truman 2004, chapter 2, for a review).

It is not clear that it is either useful or feasible to estimate the figure. Numbers are frequently cited with minimal documentation, becoming “facts by repetition.” For example, the IMF estimated a total of \$590 billion to \$1.5 trillion globally in 1996. In 2005 the United Nations cited the range of \$500 billion to \$1 trillion (http://www.unodc.org/unodc/en/money_laundering.html, accessed June 2, 2005). A sustained effort between 1996 and 2000 by the FATF to produce a fully documented estimate failed. There are, however, a few estimates of the potential demand for money laundering that are regularly treated as actual money laundering estimates. The estimates fall into two categories: macroeconomic and microeconomic. Neither yields estimates that can be considered anything more than indicative. The macroeconomic estimates are methodologically flawed: they generate implausibly high figures. For example, taken at face value they indicate that the German economy grew 50 percent faster than measured officially over the period 1991–2001 (Schneider and Enste 2000). The microeconomic estimates lack a credible empirical base. For example, fraud, the largest source of criminal revenues for the United States, is estimated from a survey that had only a 10 percent response rate and asked questions very imperfectly related to the relevant quantity (Association of Certified Fraud Examiners 2002 and follow ups to 2008).

Even taken at face value these numbers are only weakly related to money laundering. Much of this income is earned by people who use the cash to purchase legal goods directly without making use of any financial institution. Small-time thieves earning \$25,000 annually are unlikely to make use of a bank or any other means of storing or transferring money. It is impossible to estimate or even guess what share of these revenues will require laundering.

The aim of laundering is to conceal the derivation of funds from crime and yet retain control over them. This involves trust of a particular person or persons—perhaps a member of one’s family or ethnic or religious group—or trust of an institution, such as a bank or a money service business (MSB). The imagery of money laundering may involve cross-border transfers, but it is not clear how often this happens; logically it should depend on the risks and advantages of keeping funds within one’s own jurisdiction. But sending money via institutions is not the only technique; the point is to transfer *value* by whatever means, including mispricing and misdescribing exported goods (Zdanowicz 2004) or matching those businesspeople or tourists who want dollars or euros with those who have those currencies as proceeds of crime (Passas 2003; FATF 2006). Such financial match-making can be undertaken by banks, but it can also be done by partly legitimate networks, usually within the same ethnic or nationality group. The global trade in money is assisted by the vast sums repatriated by millions of expatriate workers around the world, making it hard to distinguish legitimate- from illegitimate-source funds. The authorities have tried to regulate this market by requiring MSBs to register and to identify both the senders and the recipients of funds.

It is helpful to look at laundering techniques in terms of the problems that offenders have to confront. The laundering methods used may depend on the nature of the regime that is in place (see section III). The identification of “suspiciousness” by professionals and others with a legal responsibility to combat money laundering is often a judgment that the people or transactions are “out of place” for the sort of account they have and the people they purport to be. If the would-be predicate offenders start out with a business that is being used as a medium for what looks like legitimate activity, such as Enron before its collapse, then placement of funds may look unproblematic: corporate lawyers may be falling over themselves to offer well-paid services in the construction of corporate vehicles. They will not routinely suspect senior corporate staff of being major criminals, perhaps especially because they were appointed by them and would like to be paid by them in the future. Because many frauds would be unsuccessful if they did *not* look like legitimate activity, this gives them a structural advantage over other types of offenders. We now turn to examine what is known about patterns of laundering, and because many studies are country-specific, we examine European evidence before turning to the laundering of the proceeds of corruption. (See also Beare and Schneider 2007 for a broad range of Canadian cases based on investigations by the Royal Canadian Mounted Police.)

B. Drugs and Money Laundering in Europe

Although European research on laundering is patchy, it is more extensive than in the United States and on a par with the Canadian work. The relative lack of research is surprising, given that the United States has been the policy leader in this field.

Van Duyne and Levi (2005) review what is known about money management by European offenders. The classification in table 14.1 aims to map the ways Dutch drug perpetrators attempt to hide from government the crime money itself, or the illegal ways of acquisition. The categories are not mutually exclusive because more than one way of handling proceeds of crime may be employed in the same case

Table 14.1. Methods of disguising and laundering crime proceeds

Forms of concealment/disguise	Frequency
Export of currency	31
Disguise of ownership	10
False justification	
Loan-back	3
Payroll	2
Speculation	1
Bookkeeping	7
“Untraceable”	4

Source: van Duyne and Levi 2005.

and with the same money. For example, a portion of the money may be exported, part of which is subsequently brought back by means of a loan-back construction, while the expensive car is paid for in cash, to be subsequently put in the name of a relative to retain effective ownership in the event of proceeds confiscation. Subsequent gangland killings in the Netherlands have targeted (previously blackmailed) wealthy real estate magnates such as Willem Endstra, who was alleged to be the banker for the underworld and whose murder in 2004 supposedly left some serious criminals uncertain of where “their” assets were (personal interviews). The issue of *how* offenders get proceeds into those property purchases is often more obscure, though some notaries have been suspected of being conduits (Lankhorst and Nelen 2005). Many British cases involve lawyers depositing substantial sums in cash in the law firm’s client and even office accounts (Bell 2002; Middleton 2008). In one case, £193 million was passed through the client account of the law firm in which the accused, who was not himself a solicitor, worked. This enabled the fraudsters to say that these solicitors could confirm the authenticity of the companies concerned, and that the transactions were taking place on behalf of their legitimate clients (Middleton 2008).

Bearing in mind that these observations derive only from identified cases, and some may have derived from an era in which it was expected that money hidden abroad was safe from the clutches of the courts, it seems plausible to interpret the evidence as follows.

1. *Export of Crime Money*

As can be observed in table 14.1, in most cases the money was simply exported: the 31 observations, covering 17 cases, concerned €16.6 million that had been found in foreign bank accounts (over a time span of eight years). In four cases there was evidence of money export to foreign bank accounts, though either these accounts were already cleared before the police arrived or the files did not mention any figures. In the cases of Turkish and Moroccan drug entrepreneurs, this export appeared to be an obvious option, given their country of origin. Either through bureaux de change or by means of physically transporting the cash, the crime moneys were brought safely to their home countries.

2. *Disguise of Ownership*

The second most frequently observed form of safeguarding assets while still being able to use them is the simple *disguise of ownership* by putting them in someone else’s name. Only in a few cases was this done with any sophistication, for example, when corporate structures (legal persons) were used. The usual defects were the closeness of the relationship between the nominal owner and the beneficiary and the difficulty of the nominal owners to prove having possessed the means to acquire the assets in the first place. Nominal owners were frequently acquaintances or relatives; some found themselves to be the involuntary owner of unknown property. For example,

the mother of one middle-level Dutch cocaine trafficker, who lived only on a meager pension, was surprised to learn that she owned a villa. In other cases, criminals (ab)used relatives by putting (moveable) assets or bank accounts in their names.

Though preexisting legal persons were used to channel drug money, few of them were actually set up for the purpose of disguising ownership. The notable exceptions were a British crime entrepreneur, two Dutch cannabis traffickers, and a Turkish heroin wholesaler, all of whom invested in real estate using legal persons for the beneficial ownership. Another Dutch hash trafficker established an extensive network of legal persons to disguise the ownership of cash, bank accounts, and vehicles. These corporate constructions to *disguise* real ownership overlap with the laundering (*justification*) category discussed below: tampering with paperwork and with other evidence.

3. False Justification

From the point of view of “real” laundering, the successful *justification* (in the event of investigation) of ill-gotten moneys or assets is the core craft: providing documentary evidence that the increase in wealth, whether in terms of money, assets, or valuables, has a legitimate source. One of the methods most frequently used is *loan-back construction*. Given the frequent references in the literature to this method, it is surprising to learn that its sophistication is shallow. Van Duyne, Kouwenberg, and Romeijn (1990) described a professional provider of loan-back constructions who designed professional loan contracts, complete with related correspondence and a real money flow of interest and repayments to the lender corporation abroad in order to imitate perfectly real loan transactions (and deduct the interest paid from tax liabilities). The loan-back provider saw to it that his clients did pay the required monthly interest and repayment. Except for one case, such professional conduct could not be observed in this study. Loan contracts were sometimes missing, or the apparent “contracts” did not mention the repayment and interest terms, nor was there any record that the required demonstrable “flow back” of interest and installment payments were carried out.

In two cases the laundering of a monthly income by means of salary payment could be observed. In one case €75,000 was loaned to an independent but friendly small firm which subsequently handed out a modest monthly salary. This laundering was not intended to justify the millions of euros in proceeds, but to placate the Inland Revenue Service and create the illusion of a genuine income.

“Real” laundering, by setting up *phony bookkeeping* to make the money really “white,” appeared to be a craft mainly used by drug entrepreneurs who lived in the Netherlands, mimicking the sort of business they were in. For example, a florist, using his horticulture as a cover for growing cannabis plants, had to obtain invoices to cover expenses as well as the income from the cannabis sales. In the cocaine traffic with Colombians, certificates of transportation of goods and accompanying phony paperwork with commodities (sugar) on the parallel market was carried out to justify the return flow of the money to Colombia. Such cover stories were easily busted by investigators.

4. *The Untraceability of Crime Profits*

This is a “default” category, consisting of supposed moneys that could not be found.

C. Worldwide Laundering?

A recurrent refrain in the money laundering literature and political speeches is the transnational dimension: money trails around the world through impenetrable accounts held in sunny, faraway resorts. Such far-flung hideaways do exist, but the question remains to what extent wholesale drug entrepreneurs are customers of these facilities. Dutch convicted drug wholesalers were certainly not customers: the exotic “financial secrecy havens” rarely figured as target countries for depositing drug money. The frequency distribution over the foreign countries clustered around *neighboring* countries: Belgium, Luxembourg, Germany, and (depending on nationality) Morocco and Turkey. Other jurisdictions were infrequent: bank accounts in Panama, Gibraltar, Liechtenstein, Jersey, the British Virgin Islands, and Dubai did occur, but in only six cases. It seems that the Dutch drug entrepreneurs favored Belgium and Luxembourg, the Turks and Moroccans their own countries. A Dutch-Thai couple held bank accounts in Thailand because of the nationality of one of the partners. This finding contradicts the usual image of “transnational” criminals spreading their ill-gotten profits worldwide over the “bad” financial secrecy havens. Instead, it seems that the choice of banking jurisdiction is largely determined by proximity to the drug entrepreneur’s economic home.

Suendorf’s (2001) German-language study of laundering in Germany contains 40 examples of money laundering in the broad juridical meaning of the word: that is, every subsequent handling of illegal profits aimed at disguising their origins. Two cases can be considered to fall into the category of thoroughly organized money management: organizations were established to move the crime moneys of heroin wholesalers to their respective home countries. One of them, the Bosphorus case, identified an extensive and complex network of money-exchange bureaus directed by an Iranian entrepreneur, who served a Kurdish heroin wholesaler. The funds were collected in various cities in Germany, carried to branches of the Iranian or associated independent bureaus. Subsequently the cash was placed in German banks and transferred to bank accounts of allied money change offices in New York. From these accounts the moneys were diverted to Dubai and—if required—back to Germany or Turkey. To fool the German police, the bureau de change submitted occasional suspicious transaction reports (van Duyne and Levi 2005). In 11 of the 40 cases examined by Suendorf, there was an attempt to make an investment in the underworld, though with variable success and degrees of professionalism. Three examples illustrate this:

- Three instances of insolvent real estate enterprises; one was a construction firm that obtained a suspicious Italian infusion of money but nevertheless

went bankrupt (Suendorf, 2001, pp. 208–10). No relationship with drugs is mentioned.

- A greengrocer, whose son was involved in heroin traffic and who invested part of the proceeds in the father's firm, which expanded quickly (207).
- A designer bathroom store, whose licit Russian owner was pressured to accept a compatriot as a manager. Money laundering is suspected (208–9). Likewise, no drug relationship is mentioned.

Most of the other examples concerned only the channeling of funds into accounts rather than full integration of suspected moneys. Overall, the sophistication and professionalism displayed was modest.

Finally, a recent British interview-based study of drugs dealers suggests a pattern of expenditure and laundering (Matrix Research and Consultancy 2007, p. 39). Table 14.2 summarizes key findings.

Some dealers stressed that they “did not do anything flashy with their earnings,” for example, “just spending the money on the kids... and paying the mortgage.” The information collected pointed to unsophisticated money laundering techniques with a tendency to use friends and family, for example by investing in their businesses or bank accounts. One interviewee reported establishing a fraudulent painting and decorating business and buying winning betting slips that he cashed at betting shops across the country. One freelance hauler involved in the drug trade reported that his boss would identify a firm in financial trouble but that still had regular consignments coming into the country. He offered them a deal so he could use their legitimate consignment as a front to enable drug importation.

The danger (not avoided by van Duyn and Levi 2005) of this sort of analysis is that although it throws some appropriately skeptical light on official claims and popular assumptions about money laundering sophistication, it rests on those cases successfully dealt with by the authorities to conviction. It therefore excludes those cases that are difficult to prosecute, including those involved as victims or offenders in gangland killings.

Table 14.2. Uses of profits by U.K. drug dealers

Use of profit	Often	Sometimes	Never	Nonresponse	Total
Profits spent on lifestyle	68	2	5	29	104
Profits reinvested in drug trafficking	48	1	7	48	104
Profits invested in property or other assets	25	12	29	38	104
Profits laundered through legitimate business	19	2	39	44	104
Profits spent on drug habit	17	11	10	66	104
Profits sent overseas	8	8	48	40	104

Source: Matrix Research and Consultancy 2007.

III. CORRUPTION AND MONEY LAUNDERING

Money laundering controls are an important tool for dealing with corruption, particularly in developing countries (Levi, Dakolias, and Greenberg 2007). The recovery of illicitly acquired assets is one of the centerpieces of the UN Convention against Corruption²⁰⁰⁵. The Iraq Oil for Food Program was merely one example of the circumvention of sanctions (Independent Inquiry Committee 2005). The range of activities and the ways wealth transfers are effected illustrate some of the difficulties in using anti-money laundering (AML) measures to punish corruption. Whereas Grand Corruption is identified with notorious dictators and their cronies, many other forms of corruption are not insubstantial. Large bribes are paid to border or internal law enforcement officials and to judicial officers or those who control them not to proceed against criminals or their goods. The goods can be illegal (e.g., narcotics), counterfeit (software and other intellectual property, alcohol, medicines, cigarettes, tobacco), or legal but untaxed smuggled dutiable genuine goods. Corruption can arise in any area of procurement. But no formal bribes in the form of direct transfer of cash or bank transfer need take place, making the identification of the offense, proof of corruption (and laundering), and appropriate sanctions nearly impossible. Sometimes it is simply understood that if people want to do business in a particular town or country they have to buy or sell via businesses or professionals whom they know to be connected to elites, criminals, or both.

Value transfers need not take place via electronic funds transfer or other banking methods. They may involve false invoicing or more convoluted chains of agreements that rely on family relationships and minimize direct financial flows in the short term. For example, consider that X is a central government official with authority over logging permits in a district suitable for tourism and villa development, the market being residents of the provincial capital. He issues a permit to Y and asks him to bribe a provincial official Z, to give high priority to a road in a forthcoming regional infrastructure project that will connect capital and district. The father Q of X's son-in law R owns 3,000 acres in the district, which is ideal for real estate development. The land has little value without the road. Q, for his daughter's sake, agrees to sell land to his son-in law, who hangs onto it until land values rise. He then sells the land and helps to support his father X's retirement. It is not obvious how this typical roundabout kind of trade in favors requires money laundering or can be inhibited by AML controls.

Nonetheless, money laundering is an important correlate of corruption, embezzlement, and other serious crimes for gain.⁵ This may mean the assets are expatriated illicitly or, when the procurements are large enough, placed by the companies paying the bribes, perhaps via "commission payments" to intermediaries. It is common for falsified documentation—the overpricing or even invention of services—to be used. Again, payments do not occur in either country but go offshore. Unlike proceeds of crimes such as drug trafficking that result in cash

payments, many corrupt transactions are not easy to arrange through informal value transfer systems (Maimbo 2003; Maimbo and Passas 2004; Maimbo et al. 2005). They are more suited to formal systems, at least where the corrupted persons wish to place their assets overseas.

Two examples of major long-running corruption cases are described in boxes 14.1 and 14.2: “Kazakhgate” and “The Montesinos Case.” That both involve Switzerland is almost accidental; although Switzerland historically was the destination of choice for many plundered assets—having the desirable combination of honest safe-keeping, political stability, and ethical neutrality toward the sources of funds—there is no longer any reason to suppose that it is the destination of choice for corrupt assets nowadays. Indeed, the activism of the Swiss authorities might be regarded as a deterrent, though large forfeitures remain quite rare.

IV. ANTI-MONEY LAUNDERING MEASURES AND THEIR EFFECTIVENESS

AML measures were first developed at a national level in the United States and the United Kingdom in the mid-1980s (though bulk cash deposit Currency Transaction Reporting was introduced as early as 1970 in the United States). Since that time, by

Box 14.1. Kazakhgate

James Giffen had long-standing ties with the Kazakh leadership. Through a company called Mercator he became a special advisor to President Nazarbayev when he took office in 1991. The company received success fees for deals between the government and U.S. oil giants Chevron and Mobil between 1995 and 2000. Giffen allegedly diverted approximately \$70 million that had been paid by oil companies into escrow accounts at Swiss banks for oil and gas rights in Kazakhstan to secret accounts under his control. Mobil paid a \$5 million “advance” to Mercator for the first contract, the right to negotiate a share in the Khazakh company Tengiz. For the second, Mobil agreed to finance an assetless shell company called Vaeko Europe to purchase, transport, and process condensate (a liquid form of natural gas) from Kazakhstan for a refinery in Orenburg, across the Russian border. Millions of dollars of Kazakh customs revenues were lost, as the processed material appears to have been sent on to Europe rather than being reimported to Kazakhstan. In March 1996 \$1.1 million was transferred from Vaeko’s bank account into a secret Swiss account controlled by Giffen. Giffen subsequently wired \$1 million to the account of former oil minister Balgimbaye’s Orchard account. He allegedly used the money, inter alia, to purchase over \$180,000 worth of diamond jewelry and a spa vacation for his family.

Box 14.2. The Montesinos Case

In September 2000 Vladimiro Lenin Montesinos Torres, former head of the Peruvian National Intelligence Service, was charged with a host of illegal activities, including drug trafficking, arms dealing, embezzlement of public funds, and violations of human rights. He fled Peru but was later arrested in Venezuela and extradited to Peru, where he was sentenced to a 15-year prison term on corruption charges. In September 2006 Montesinos was sentenced to a 20-year prison term for his direct involvement in an illegal arms deal aimed at providing 10,000 assault weapons to Colombian rebels.

Thanks to the proactive attitude of the Swiss judicial and police authorities, the illegal assets Montesinos had deposited in Swiss accounts were frozen and the Peruvian authorities notified. The Swiss started money laundering proceedings involving \$113.6 million in several different accounts. The investigations revealed that the funds belonging to Montesinos originated from corruption-related crimes. Since 1990 Montesinos had received “commissions” on arms deliveries to Peru and had this bribe money paid to his bank accounts in Luxembourg, the United States, and Switzerland. Montesinos received bribes for at least 32 transactions, each worth 18 percent of the purchase price. He also collected \$10.9 million in “commissions” on the purchase of three planes bought by the Peruvian Air Force from the state-owned Russian arms factory. In return, Montesinos used his position to ensure that certain arms dealers were given preference when these orders were issued. On the basis of these facts, a total of \$80.7 million was transferred to the Peruvian National Bank. In addition, one of the arms dealers who enjoyed preferential treatment “voluntarily” repatriated from his Swiss bank accounts his \$7 million commission from these transactions. General Nicolas de Bari Hermoza Rios also accepted bribes relating to arms deliveries to Peru and also agreed to return the money (\$21 million). In August 2004 U.S. officials returned to Peru \$20 million in funds embezzled by Montesinos that had been deposited in U.S. banks by two men working for him.

In a separate action, the Swiss Federal Banking Commission (SFBC) investigated the activities of five banks in connection with the Montesinos case. The SFBC found that after due diligence, despite significant amounts deposited and indication of activities in arms dealing, one bank did not investigate any further. It failed to recognize Montesinos’s politically exposed person quality, even though publicly accessible information would have enabled it to do so with reasonable effort. Because of the general manager’s position in the hierarchy of the bank’s management, the SFBC held him responsible for the bank’s organizational deficiencies. The general manager also was alleged to have personally approved the opening of accounts with Montesinos despite formal shortcomings in the opening procedure. Furthermore, he was held co-responsible for not recognizing Montesinos as a politically exposed person. The SFBC held that the general manager was not fit to hold his position and ordered that he be removed immediately; he left by September 15, 2001. The banking commission also ordered that a special audit of the bank be conducted by an outside auditor in 2002.

With the exception of UBS Ltd., none of the banks involved contacted Montesinos directly but based decisions on opening accounts solely on information provided by third parties. The commission said that was insufficient in the case of significant private banking relationships.

Source: Levi, Dakolias, and Greenberg 2007, pp. 402–4.

a combination of imitation, political peer pressure, and technical assistance, the world has witnessed an extraordinary growth in efforts to control crime for gain (and more recently, terrorism) via measures to identify, freeze, and confiscate the proceeds of crime nationally and transnationally.⁶ This is an attempt to deal with the crime-facilitating consequences of the core policy to open up money flows via the liberalization of currency restrictions and marketization in developing countries, including former communist societies. Stripping the proceeds of crime from offenders, both by criminal and, increasingly, by civil process, is politically popular and has a positive demonstration effect in local communities. It is expected a priori to inhibit criminal careers of individuals and organized crime groups by restricting their ability to save and to integrate their funds, which remain at risk. Moreover, many on the political left who would ordinarily be civil libertarian see pro-transparency AML activities as mechanisms to reduce the kleptocracy and Grand Corruption that has damaged Central and Eastern European countries as well as much of Africa, Asia, and South America; hence the passage of the UN Convention against Corruption 2005, to match the previous UN Vienna Drugs Convention (1988) and the UN Transnational Organised Crime Convention (2002).

More and more entities and professions are being brought into the AML network. Banks must train their staff and report suspicions that are fairly standard throughout the EU under the 2001 and 2005 European Directives. In addition, accountants, art and car dealers, casinos, jewelers, lawyers, and notaries are required to identify clients and report them to the authorities if their transactions are in cash over €15,000 or are deemed “suspicious.” Few such reports would have been made without the threat of criminal and regulatory sanctions. One useful way of conceptualizing the issue is as a global crime risk management exercise that seeks to conscript as unpaid deputy sheriffs those parts of the private sector and foreign governments that seem unwilling to volunteer for social responsibility (Favarel-Garrigues, Godefroy, and Lascoumes 2008). Many former communist European countries, having rejected all-knowing invasive states, find themselves pressured into establishing central databases for financial transfers and sharing data on these reports across the EU.

In 2006 in the United States over 1 million Suspicious Activity Reports (SARs) were filed; indeed, between 1996 and 2006 4.2 million SARs were filed there (FinCEN 2007). From a few informal tip-offs from bankers to police in 1986, the number of SARs filed in the United Kingdom rose to 20,000 in 2000 and then to 213,561 in 2006. Over the same period, Dutch reports more than doubled; this rise has occurred throughout the 47 countries of the Council of Europe (not just the EU) covering some 800 million citizens, reflecting the increased training and number of bodies covered by AML legislation, plus political pressures of the EU *acquis communautaire*, the detailed criteria with which countries must comply before they are admitted to the EU.

Nonetheless, the totals still vary enormously between countries. By contrast with the U.S. and U.K. figures, in 2006 Switzerland filed 619 reports (involving

815 million Swiss Francs; Money Laundering Reporting Office Switzerland 2007). What are the implications of this? At first sight, the data suggest that Swiss authorities are doing little about money laundering. However, a suspicious transaction report has much graver consequences in Switzerland. When an account is reported as suspicious there, it is *automatically* frozen for up to five days pending investigation of whether or not a formal criminal investigation should be opened, placing a premium on having few ill-founded suspicions. If 1 million Americans (there are fewer customers than there are SARs because some attract multiple filings) had their accounts frozen, there would be a significant outcry and increased investigative resource would be needed to process the reports within a few days! Takats (2006) has developed a model that suggests the government can be flooded and rendered less effective by an overly broad reporting system.

One way of looking at the impact of AML laws is to examine the famous 1983 Brinks' Mat gold bullion robbery at London Heathrow, which netted around \$52 million in gold. This happened before any money laundering legislation in the United Kingdom. The gold was largely smelted down and used to make jewelry, leading to sudden very large increases in the business turnover of one suspect, funds from whose company were withdrawn in cash to the extent that the regional Bank of England branch ran out of £50 notes with which to supply the local bank branch. Yet no one made any report to the authorities, nor were they obliged to do so. In the absence of corruption or intimidation, that would not happen now. On the other hand, in a separate prosecution linked to the Brinks' Mat robbery, solicitor Michael Relton set up a Liechtenstein foundation into which £3.16 million was paid and at one stage had bought property for £5.4 million in London. Had AML laws been in force, Relton would have been vulnerable to prosecution for transferring the proceeds of criminal conduct; but because, unusually, the funds could be traced directly to the robbery, he was convicted anyway and was jailed for 12 years for handling stolen property.

What other kinds of effects of AML can we deduce? Levi and Reuter (2006) have reviewed the evidence of impact of AML and have concluded that there has been little crime suppression to date, nor—given the poor quality and vast range of estimates of proceeds from drugs, for example—is it plausible that we would be able to detect any effects and separate them from error. Given the small direct operational costs of recent European terrorist attacks—less than \$10,000—it seems very unlikely that sufficient sums from legal or illegal sources can be denied, though the ready availability of funds for facilitating movement between countries, indoctrination, and preparation undoubtedly makes terrorism easier. As for the impact of AML on improving criminal justice performance, the few analytical studies carried out show that this has been very modest to date. The extent to which this is attributable to low resource investment and to poor communications between public and private sectors, especially cross-border, remains to be determined. No one knows what the total number of *persons* subjected to extra surveillance is in Europe (EU and beyond), but it is a significant feature in the policing landscape,

even though scarce financial investigation resources mean that relatively little is done about many of the reports that are received.

In many respects the policy transfer process in AML and anti-corruption methods, assisted by foreign aid for particular developments and economic sanctions for noncooperation, has been a major success. Nevertheless, the goal of affecting the organization and levels of serious crimes has been displaced in practice by the more readily observable goal of enhancing and standardizing rules and systems; the critical evaluation of what countries actually do with their expensively acquired suspicious transaction report data remains in its infancy; and the punishment for poor AML performance, though apparently similar internationally, in practice has focused more sharply on smaller and weaker jurisdictions than on the Great Powers, raising questions about the equity of the process. The mechanisms that facilitate laundering are intricately linked to those that enable wealthy corporations and individuals to hide their assets from public knowledge and—a separate issue—to minimize the taxes that they are obliged to pay (Blum et al. 1998; Godefroy and Lascoumes 2007). However, it remains a fact that in wider Europe, out of the billions of euros obtained and then in part saved from crimes annually, far less than 1 billion is confiscated, and, for all their successes in individual cases, the shift to civil forfeiture independent of prosecution in the United Kingdom and in the Irish Republic has hitherto had only a modest impact on this, especially net of the costs of investigation, court action, and asset management (Public Accounts Committee 2007; Harvey, forthcoming). What has happened to these unconfiscated billions over the decades? What social harm do they do, and where?

A. Effectiveness

How should the effectiveness of the AML regime be assessed? Money laundering itself is only the intermediate target; the true target is the volume of predicate crimes, perhaps weighted in terms of their harmfulness. Reduction in the volume of the money laundered is not a conceptually strong measure of the effectiveness of the regime; subtler outcome measures are needed. Levi and Reuter (2006) examine in detail the problem of finding such measures to reduce crimes other than terrorism and bribery or kleptocracy, since the bulk of AML activities have been devoted to such criminal activities as drugs, other illegal markets, and white-collar crimes.

In terms of crime control the AML regime may generate two other benefits. First, part of the social appeal of proceeds of crime confiscation is the public satisfaction that offenders are denied the fruits of crime. Second, seizure of funds generates revenue for the government, and the incarceration of those who conspire to make the profits of crime appear legitimate punishes senior offenders. The seizures attack the negative role models offered by offenders living high on the hog. Research in Europe finds ample illustrations of law enforcement officers stressing the pain that asset confiscation brings to offenders, both in absolute terms

and compared with at least European levels of imprisonment (Levi and Osofsky 1995; Nelen 2004);⁷ though plausible, this has not been independently verified on a large sample of offenders, nor is it clear how it affects the willingness of these or other offenders to commit crimes in the future. Given the stakes that financial and legal professionals have in maintaining their employment and licensure, they may be relatively deterrable (Lankhorst and Nelen 2005; Middleton and Levi 2005; Middleton 2008); that is, unless they are being blackmailed or threatened or unless they or their firms are at serious risk of going bust anyway, modest expected risks of apprehension and punishment may be enough to discourage many from participating. In some instances the only way to apprehend those principal offenders who separate themselves from the predicate offenses is to convict them of money laundering offenses associated with predicate crimes that have been committed by others. Such cases show that, with respect to a wide range of predicate crimes, the law applies to everyone.

However, it is also important to think about what the AML system does not affect. Because scrutiny of sources of criminal earnings for low earners is limited, it is probably only criminal incomes of more than perhaps \$50,000 annually that create a need for concealing the source of the revenues. Thus unless the AML processes stop all bigger league criminals from importing drugs or committing frauds, most offending by volume will be unaffected. However, it seems unlikely that laundering is such a scarce skill that incarcerating a few hundred will have a major impact on availability. The rise of artificial tanning and nail parlors in the United Kingdom is an illustration of cash-hiding self-laundering potential, especially since tax agencies do not profit from and are not set up to investigate over-reporting of taxable income. Although professional money launderers certainly exist,⁸ they are surprisingly infrequent in reported cases. Terrorist financing cases also seem to involve people who belong very much to the cause rather than being mere commercial launderers; the latter, after all, might be more likely to trade in their sources in exchange for liberal official treatment of their own past and future delinquencies.

This is important for both policy and research purposes. The rationale behind the current AML regime is based in part on the implicit assumption that the regime provides tools to apprehend and punish a set of actors who provided a critical service for the commission of certain kinds of crime and who had previously been beyond the reach of the law—an assumption that makes the market model a useful heuristic device for analyzing the effects of laws and programs. However, if money laundering is mostly done by predicate offenders or by nonspecialized confederates, then the regime accomplishes much less. For research purposes, the prominence of the amateur launderer – at least in cases of which we have public knowledge - implies that the market-model concept is a strained analogy, since most laundering is done by amateurs who are not regular players.

In short, AML performance measures are difficult to develop because they would have to link the AML actions to changes in the predicate crimes; this is

hard enough in the case of drugs, on which evidence is best, though one might expect bank detections to be better for frauds. High-level dealers, the only ones who need money laundering services, account for no more than 25 percent of total drug revenues. Assume that in the current regime money launderers charge customers approximately 10 percent of the amount laundered. Now assume that an improved system raised the price for money laundering services by half, to 15 percent. The result would be an increase in the price of drugs of only 1.25 percent, far too small to be picked up by existing monitoring systems. This is not an argument that money laundering controls are not effective or cost-effective, but only that their success cannot be empirically assessed by examining prices and quantities in drug markets.

B. Improving Performance

AML regimes might have two other benefits in addition to controlling crime: improving the efficiency of the system and catching offenders who otherwise would escape. Cuéllar (2003) agrees that such regimes might have improved efficiency in drug control and in reducing a few related criminal activities, but argues that they have failed in the second area. The principal use to which the U.S. AML regime has been put has been to increase the penalties with which prosecutors can threaten predicate offenders. The regime has had little success in apprehending professional money launderers or high-level criminals. In Europe there has been some activity against professionals, such as lawyers and bankers—though more by regulatory than criminal sanctions—but the extent to which this has incapacitated crime networks, reduced the variety of their offending, or reduced the scale of their growth as criminal organizations remains unknown and largely unanalyzed (Levi and Maguire 2004; Nelen 2004; van Duyne and Levi 2005). There are limits to the extent to which the police (or, for that matter, bankers) can pursue the rationale behind suspected transactions without interviewing suspects. However, greater attention to beneficial ownership of assets should logically help with asset recovery compared with postarrest or even postcharge financial investigations that were commonplace before; in this sense, AML has an influence on law enforcement methodologies, from drugs to Grand Corruption. Thus in the U.K. regime since passage of the Proceeds of Crime Act 2002, developed further by the financial reporting orders (for up to 20 years following a court order) in the Serious Organised Crime and Police Act 2005 and increased powers in the Serious Crime Act 2007, investigators can place monitoring orders on suspected offenders' accounts that prospectively allows them to track fund movements and to require forfeiture of cash over £1,000 inland as well as at borders unless the suspect can convince the court that the funds were legitimately acquired. This introduces a conviction-to-grave process of financial self-reporting by offenders, in which provable lying introduces extra risks. In terrorism investigations, though few money laundering reports may have triggered preventive interventions against

pending attacks, financial investigations are deemed useful for tracking movement and associates (see Biersteker and Eckert 2007).

It is generally agreed that there is scope for better use of the data generated by the AML system. Greater skilled commitment to financial investigation and adjudication is likely to improve criminal justice and disruption yields, whatever effect this may have on levels of offending of different kinds. There are many individual cases in which SARs have added to (or, more rarely, stimulated) investigations and proceeds of crime recoveries (Gold and Levi 1994; Fleming 2005; Lander 2006; Serious Organised Crime Agency 2007; see also Harvey, forthcoming).

The paucity of cases against stand-alone launderers and investigations that have their origin in money laundering information supports the criticism that the AML regime has brought in few new offenders. There are no systematic data on the origins of cases against major criminals, such as principal drug dealers, so it is impossible to tell whether more of them are being captured through money laundering laws and investigations. Furthermore, where heads of state or their families are involved in Grand Corruption (including embezzlement and, sometimes, illicit trafficking and other major crimes) it is far from obvious to whom either domestic or foreign institutions should report without fear of retaliation, or who has sufficient motivation to take serious action. In this respect, the national Financial Intelligence Unit model, like most national crime investigation and prosecution models, breaks down when confronted with key elites, even where they have no formal immunity for acts performed in office.⁹

Finally, whatever the gains from money laundering controls, there are also a variety of costs that need to be considered. Reuter and Truman (2004) offer a very rough estimate of \$7 billion for the costs of the U.S. AML regime in 2003. That figure includes costs to the government (\$3 billion), the private sector (\$3 billion), and the general public (\$1 billion). It does not include two potentially important cost elements: the effect on the international competitive position of business sectors subject to AML rules and the costs of errors.¹⁰ There has been a rise in demand for money laundering reporting officers—who must by law be appointed in every regulated institution, though they do not have to be exclusively devoted to that role—and escalating use of expensive software that tries to identify suspicious transactions on the basis of pattern analysis.

V. CONCLUDING REMARKS

Money laundering, though a traditional activity, is a very modern crime, created by the late twentieth-century state to enlist the financial sector in its pursuit of the proceeds of crime and deterrence of career criminality, particularly transnational crime. There can be no doubt that many billions of dollars are laundered,

but whether that is 1 percent or 10 percent of GDP in developed economies is very much a matter of guesswork.

Money is laundered in many ways by offenders of very different kinds. It is one of the few activities that connect Al Qaeda, Colombian drug dealers, and Enron officers. There are many different techniques for laundering, involving both the most respectable and the most marginal of institutions. Given the commitment of state authority and individual privacy to the pursuit of money laundering, it would be worthwhile learning a great deal more about laundering itself.

A broad and intrusive set of controls has been erected to prevent money laundering. These controls have potentially large effects. For example, U.S. banks have at times made it difficult for MSBs to wire remittances of immigrant workers back to their home countries, or even handle MSBs' accounts, because they fear that bank regulators will monitor them more closely for possible money laundering violations, and that they might be penalized themselves if the MSBs do launder proceeds of crime. The AML requirements of extensive documentation before opening an account can reduce the access of poor persons to the financial system. Showing that the system generates substantial crime or corruption control benefits ought to be high on the agenda of the relevant policy-making community.

NOTES

1. Mark Haller provided helpful clarifying comments on this matter.
2. A more extensive review of the regime is presented in Reuter and Truman (2004). For a good ethnographic study of the French private sector regime with some universal application, see Favarel-Garrigues, Godefroy, and Lascoumes (2008).
3. Many such scandals may be found in the publications and press releases of Transparency International.
4. The scheme takes advantage of the fact that value-added tax (VAT) is rebated if the item is exported to another country. Sales are made to dummy foreign corporations, and rebates are then fraudulently claimed, while companies owing the VAT to the national tax authorities typically go bust and cannot pay their bills. Often the difficulty is proving the connection between companies and managers, since they claim to be independent of each other. See FATF (2007) for a description of the scheme. This is a far from trivial phenomenon, costing several billion dollars worth of losses annually and forcing a restatement of the U.K. balance of payments (Levi, Dakolias, and Greenberg 2007). The fact that relatively little is known about what happens to the money therefore is interesting in itself.
5. Often such acts could be labeled corruption, embezzlement, *and* theft, as the terms are not mutually exclusive.
6. For a sound legal and institutional history of these changes, see Gilmore (2004). For a more sociological history, see Levi (2007).
7. These are supported by interviews with U.K. law enforcement personnel, 2002–5.

8. According to the Dutch investigative authorities, in Dutch organized crime investigations in 2004 a third of those under investigation were described as having laundering as their primary and another third as a secondary aspect of their criminal work. The significance of laundering to the final third was unknown (Council of Europe 2006). We are not in a position to test these ascriptions, but van Duyne and Levi (2005) note the relative lack of sophistication in those laundering schemes that make it through to final conviction after appeals.

9. This is not uniquely a problem for the countries of the South, especially Africa: scandals engulfed Prime Minister Berlusconi (Italy) and President Chirac (France) while in office, as well as, at a more modest level, former German chancellor Kohl. In the wealthier as well as some poorer countries many of these scandals involve campaign finance.

10. Z-Yen (2005) estimated annual AML costs for U.K. banks as £85–120 million, with total costs of £220–90 million (\$440–580 million). See also Harvey (forthcoming).

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