

THE TWO SIDES OF MONEY LAUNDERING

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Abstract: *The mainly goal of money laundering is to carry out more and more illegal economic transactions or activities to produce individual or groups gains and then to legitimate them. Money laundering converts illicit source of money generated by criminal activities in order to hide the connection between money and their original illegal activities. This is one of money laundering side. The second side implies corruption. While money laundering is a passing channel for illicit funds due to its criminal origin source, such funds may derive from corruption offences. All corruption's forms represent the most important illicit funds branches for money laundering process. Corrupt people methods used to exploit the national and international financial system reflect the relationship between those two criminal activities. Criminals achieve their personal interests by hiding their corruption proceeds and transfer these gains to official economies. Corruption spread in any society entails money laundering spread, and the converse, too. There is a quite "indecent" relationship between money laundering and corruption. This paper tries to identify the multiple connections between the two phenomena showing the negative impacts these criminal behaviours are having on the national and international economy. We conclude by highlighting the necessity of a multidisciplinary approach in order to fight against money laundering and corruption by integrating these problem frameworks at national level. International community must focus their resources on money laundering and corruption risks areas and maximize their response impact.*

Keywords: money laundering, corruption, illicit funds, black market, organized crime, criminal activities

JEL Codes: K40, K42, H26, O17

1. Introduction

Masciandaro (2007, p.2) states that "money laundering is an illegal and autonomous economic activity whose essential function implies liquidity transformation by converting illicit purchasing power into real purchasing power used for consumption, savings, investment or reinvestment". Fundamentally, money laundering is naturally relating with the illegal subsidiary activity that generated it. Moreover, the illegal profits usually come from various criminal activities such as corruption, drug trafficking, lethal weapons trafficking, human beings trafficking, smuggling etc. Illicit financial funds are included in a complex transformation process. Money laundering is the best way and its purpose is to convert "dirty money" and provide illicit funds an apparent legal origin. However, corruption generates enormous incomes to be laundered. Introducing income sources to official market is strictly linking with the implementation of anti-money laundering rules. At the same time, robbery, swindling, embezzlement or fraud compromise anti money laundering systems.

Money launderers have always tried to hide their activities, which generate illegal gains. Based on black market openings, such organizations generate bigger and bigger profits. Their problems come from the more difficulties that appear when they try to blind these gains

in order to spend them on official and legal market. Corruption could solve these kinds of problems. One tends to create and reciprocally reinforce the incidence of the other. Corruption generate huge profits to be laundered, funds that usually are bleached in the international financial system. In the same time, funds resulting from bribery, influence trading, and embezzlement can compromise the success of anti-money laundering rules. That's why corruption and money laundering, subject of different approaches for a long time, are closely interrelated now. The failure of proper understanding of symbiotic relationship between corruption and money laundering made difficult the real knowledge of each particular problem and undetermined the real success of corresponding policies.

Finally, we have to underline that corruption facilitates money laundering and vice versa. Any success in combating one type of financial crimes can generate a fight in combating the others. Money laundering can take many different forms, but corruption covers an even wider range of behavior, from petty bribery to insider trading to wholesale looting by kleptocrat dictators (Chaikin & Sharman, 2009).

2. Corruption

Professor Joseph Nye defines corruption as a “behaviour that deviates from the normal duties of a public role, or violates laws against offering exercise specific influence types, such as bribery, cronyism, and funds misuse”.

Limited corruption to simple reports of bribes (small corruption) is less significant from economic point of view. Not the same problem arises in the case of grand corruption, a funds diversion for programs or projects with a national impact or their fraudulent spending, affecting budgets and automatically removes certain public services or keeps them at a very low quality standard, privatizations, and public procurement of fraudulent grant of preferential tax and licensing, facilities, trading of influence etc.

Corruption is a legal standards deliberate departure, a public resources misuse by officials, for private purposes. It has a deviant economic consequence. Individual's motivation and mechanisms are represented by tensions generated by their inability to accede to the legal ways to achieve personal goals.

Economic corruption often occurs in commercial contracts: to obtain a transaction with the State, you have to offer bribes. Getting profit involves certain costs. Bribery is one of them. Through bribes, favours companies intend to ensure fast and safe opportunities that would never have been able to accede to other conditions. They avoid costly expenses generated by advertising; staff salaries involved in the design of project documentation, it eliminates the risk of auction losing, gains time from bureaucratic formalities, and use the lack of competition that allows to avoid additional expenses monopoly necessary to maintain the leading position. Thus, in the economic context pursues Adam Smith's “invisible hand” becomes “invisible foot”, a term used to highlight the competition effect of economic actors in their attempt to purchase public property or to provide goods at any cost in order to obtain a gain. Corruption becomes the most prominent vector through which the exchange between Government and citizens can be a source of State institutions' inefficiency (Abraham P., 2005).

Corruption and bribery are the main causes of lack of administrative management and inefficient funds allocation. There may be underline some serious certain allegations to the municipality:

- Aid and domestic compensation preferential allocation;
- Award of public contracts by underperforming companies;
- The criminal offences interpretation depending on circumstances;
- Use of public property for private purposes;
- Licensing facilitated by money transfers;

- Permits granting;
- Extended functions, generating serious social problems;
- Lack of transparency in local contracts implementation;
- Huge local taxes that push taxpayers to tax evasion;
- Ineffective decisions.

The corruption level may be symptomatic for economic, political, and social life development. In addition, all forms of corruption harm public morals and ethics and public confidence in the rule of law.

Institutionalized corruption assessment (at the level of governmental or political decision) is made using the index "state capture" that highlights the State's seizure of this phenomenon. The values of this indicator, ranging between 0 and 10, indicate companies in certain industries to "State capture" or exercising inappropriate influence, lack of honesty, political process. The higher the score, the greater the lower the tendency of companies to use contributions to politicians and political parties to get a certain influence on policies, laws or Government regulations. The standard deviation is less than the wider consensus among respondents.

We are witnessing corruption infiltration in areas that should support a country economic development. Firms are pushing into the shadow economy gearing. The immediate effect is a vicious circle in which endemic corruption generates public revenue and investment decreased and rule of law credibility weakens.

The effects of corruption on the formal economy may be viewed from different perspectives: corruption as ante-profit tax, can stimulate the market new goods or technology entry, involving some initial investment costs, but generates negative changes in economic development through inefficient, slow and transactions lacking rationality. We can even say that the low economic development may be associated with systemic corruption, affecting the accumulation of capital and its Government revenues, productivity and quality of public infrastructure.

3. Money laundering

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Nowadays globalization offers a very important facility for legalization of illegal activity incomes. The freedom of capital movement and the international financial market are an appropriate way to clean dirty money. Obviously, such operations generate negative effects for worldwide countries and societies because underground businesses have got an international character. In order to prevent such activities, international organizations have adopted a lot of issues and legal rules referring to transnational crime and money laundering. International community makes important efforts and progresses to find the best way to fight against organized crime using anti-money laundering policies. A proper policy has to account that a boost of national and international sanctions can produce higher crime rates. A higher sanctions policy does not hold. It can extend organized crime because the corruption rings may extend on state domain controlling in order to obtain a real reduction of expected punishments. So, we can think to a criminal sanctions paradox where the higher punishments level and frequency lead to higher organized crime activities and higher level of corruption (Kugler, Verdier, Zenou, 2003).

The power of money laundering phenomenon generate critical effects on the economic growth, brings a lower productivity for the real economic sector, diverts financial resources, and encourages corruption. It erodes the structure of financial institutions that are vulnerable

to corruption carried out by criminal elements who seek to acquire a greater influence on money laundering channels. The diversion of financial resources and their orientation to less productive activities by fostering corruption and organised crime, minimize the economic growth rate, placing those savings in contrast with the principles of sustainable growth.

Money laundering involves significant funds that affect all economic sectors and generates significant macroeconomic effects. Economic models could reveal the multiplier effect that dirty money plays when they are generating in underground economy and they are spending in formal economy. Unfortunately, data regarding “clean” money spending are insignificant or not available. However, the identified illegal profits and offences are always higher than penalties or punishments imposed to cover the economic damages.

4. Vulnerabilities

Corruption and money laundering are closely linked. Corruption offences are usually committed in order to obtain private gain and profits. Money laundering is concealing illicit gains or profits that were generated from illegal activities.

Money laundering is used both ex ante and ex post corruption. There are not many individuals that pay huge bribes using their own money obtained from legitimate sources. The most cases show that bribe money comes from illicit activities such fraud, fictitious invoices, fictitious contracts etc. Those involved in corruption make arrangements to hide the source of funds and who receives them.

There are some ways to limit money laundering generated by corruption and create the opportunities to weed out corruption. International legislation provides few advices:

- Confiscation of the proceeds of economic crimes, including corruption and bribery;
- Require suspicious transaction reports;
- Require the real identity of money owners by financial institutions;
- Establish enhanced identification procedures for public officials;
- Provide effective methods for international financial data exchange.

The corruption approach was always problematic due to its hidden and multifaceted nature. The activities that involve corruption and money laundering are generated by a corrupt behaviour. These kinds of behaviours involve different activities and different areas. The most affected sectors are:

- Procurement;
- Contracts;
- Human resources appointing;
- Delivering programmes and/or services;
- Infrastructure construction;
- Licensing/regulation/issuing of permits;
- Justice, health, education;
- Public administration;

As it sees, any public sector that delivers goods and/or services is vulnerable. Despite a clear difference between poor and rich countries (corruption focuses especially on poor countries), there are worldwide strategies that develop methods for:

- economic crimes activities and offences;
- investigation, prosecution and sanctions of economic offences;
- anti-corruption and anti-money laundering governmental agencies;
- structural reforms;
- capacity buildings.

These means implementation are not always successfully. Corruption can take many forms and scopes, as money laundering, by the way. That's why any strategy should focus on both corruption and money laundering by creating a functional relationship between initiators,

participants, and targets. Moreover, any strategy must refer to sector-by-sector basis (agriculture, energy, infrastructure, justice etc.).

Corruption and money laundering have international and even global impact. Much legislation is limited to national borders and law enforcement is constrained by jurisdictional limits. These phenomenon controls must imply a public policy perspective as well as general prevention and control principles.

5. Corruption – another side of money laundering

Corruption excesses have served as an incentive for anti money laundering systems both the national and global levels. Ideas that grand corruption has harmed development efforts have motivated international organizations to take some measures against corruption and money laundering.

Opportunities for corruption and money laundering are increasing even if the international economy has become a riskier place both for those who accept or demand bribes and for those who pay them. At the same time, the complexities of national and international financial flows have increased.

Almost all the time the financial investigation techniques used to identify money laundering can be also used to detect, investigate, and prosecute corruption. Prevention is a very important matter. At the same time, the enforcement must include investigation, prosecution, freezing assets, confiscation, and punishment for money laundering and often for the underlying predicate crime (Reuter and Truman, 2004). Both prevention and enforcement must be interdependently.

Money laundering provides an international mechanism to carry out and obfuscate corruption. It always includes international transaction and it depends on the financial systems and business practices of some other countries. Offenders have seized on all new globalization opportunities by expanding their activities.

Almost all important financial centers have experienced corruption and money-laundering scandals. We have no reason to suppose that they will not be redundant. We agree that “offshore laundries” represents an important corruption enabler, since without them, funds might have to be stored “onshore,” exposing them to detection and confiscation by a successor regime or an independent justice system.

We have to underline that anti money laundering regulation is not specific to corruption. It is true that some of its primary aims are stopping a broad class of crime that involves moving large amounts of money. These could be a cover for grand corruption of political leaders. But much corruption takes place on much smaller scale. Sometimes the suspicion of even medium-scale corruption may not be considered important enough for scarce financial allocation to investigate.

Another issue refers to anti money laundering measures that require a wide section of the public to see a possible connection between a commercial transaction and a corrupt act and to be motivated, or sufficiently afraid of sanctions, to report suspicions. Also, there are no statutory checks for money laundering at a critical weak point—inside the organization undertaking the act of corruption.

Despite of international higher barriers against money laundering, it will continue but through more devious and costly laundering mechanisms. In addition, where heads of state or their families are involved in grand corruption, it is far from obvious that none has sufficient motivation to take serious action.

6. Conclusions

There is a vicious circle of money laundering and corruption. Grand corruption has a very important impact on the national culture and the public’s perception of corruption. That

is a reason of anticorruption programs that need to consider not only national efforts to curb opportunities for corrupt behavior but also international mechanisms to detect money laundering which almost always represents the proceed of corruption.

Corruption is one of the most significant contributors to proceeds of crime that become available for laundering. Its connection to money laundering prevents the adoption of effective measures against money laundering, and may succeed if not detected and checked. Corruption could impede the implementation of anti money laundering measures by interfering with the capacity of mandated institutions to perform their duties, or corrupting the relevant officials. It also sabotages the effective implementation of anti money laundering measures by falsifying information or concealing information. Finally, corruption can take advantage of differences in levels of implementation of anti money laundering measures in different countries to frustrate transnational co-operation to investigate money laundering or track proceeds of crime.

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