THE MONEY LAUNDERING PHENOMENON IN THE CONTEXT OF ECONOMIC CRISIS

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Abstract:

The following paper represents a analytical article, that aims to describe the impact that the economic crisis has on the money laundering phenomenon. The procedures and behavior of different participant of banking and financial market. We describe the methods, tools and costs that are used to legalize dirty money from illegal activities, emphasizing the importance of cooperation between supervision authorities and low enforcement structures that are in charge with prevention and combating the money laundering activities in a jurisdiction. The main issue is to analyze the influence that the economic crisis has on the financial infrastructure and to use the right method to assess this influence and to create the necessary tools to reduce the negative side of this phenomenon.

Key words: Transactions, banking system, financial infrastructure, supervision, legalization.

JEL classification codes: *G01, G28, K42, L51.*

Introduction

Money laundering is a very vast, complex and large topic, which requires a flexible and well thought understanding of the financial and nonfinancial mechanisms of the world economy, trans-border relations and international financial system. The global economic crisis has highlighted many problems and weaknesses of the modern world, from this point of view the money laundering phenomenon is not an exception. The present paper will only deal with the relationship between money laundering and the economic crisis, for functional and informational reasons.

The channels for money laundering in the modern world function as joint elements where money can flow from one area to all the rest. That’s why only a global approach to anti-money laundering, can be effective in order to understand the link between financial crimes and economic crises.

- ***Money laundering is a criminal offence aimed at presenting wealth of illicit origin or the portion of wealth that has been illegally acquired or concealed from the purview of authorities, as legitimate, through the use of methods that cover the identity of the ultimate beneficiary and the source of the ill-gotten profits*** *(Van der Does de Willebois, E, 2011).*

Keep in mind that money laundering is a criminal offence that effects usually are harmful for the functioning of a state and damaging the socio-economic structure, both domestically and globally. The process of laundering money may occur in a variety of ways, such as with the tenuous exploitation of a complex list of webs, secrecy jurisdictions and/or tax havens, the manipulation of the concept of legal persons and legal arrangements to shell companies that can operate as covers for corrupt individuals.

The crisis focused our attention on weak implementation of supervision rules, the corruption of authorities, all combined with the consumer behavior of numerous established financial institutions and market insiders in developed economies as in the European Union or U.S.A. has lead in some degree to the devastating effect of the economic crisis.

The description of the problem and critical state-of-the-art

The money laundering phenomenon is extremely important for the adequate operation of nearly every form of international, national or small criminal organizations or semi-legal entities.

After the economic crisis the anti-money-laundering procedures, which are designed to prevent or limit the ability of criminals to use their illegal earnings, must become a demanding and useful element of anti-money laundering plans as a result of high demand for money laundering services.

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Money laundering actions has potentially destructive economic, financial, security, and social weight. It provides the channels for criminals, human traffickers, illegal arms and drug dealers, corrupt public and business officials, and others to manage and enlarge their illegal organizations.

The economic crisis has brought with it, the need to introduce and apply new regulations and measures to protect financial systems, taking into consideration the fact that crime has become more and more global in nature, and the financial aspects of crime after the crisis have become more complex due to enormous demand for liquidity, easy profits and huge financial possibilities of criminal organizations as potential customers for financial institutions. The fast advances in technology and the globalization of the financial services industry offers the opportunity to create new models of covering illicit assets. Modern financial systems, in addition to facilitating legal commerce, also allow criminals to order the transfer of millions of dollars instantly using personal computers and satellite dishes.

Because money laundering techniques are largely based on existing international financial infrastructure and transactions, the organization and execution of money laundering methods are limited only by human fantasy. Money can be laundered through banks, currency exchange offices, brokerage firms, gold and silver dealers, casinos, car dealerships, insurance companies, and trading companies.

A result and a trend of the crisis is also the massive concentration of dirty money in private banking facilities, offshore jurisdictions, shell companies, free trade zones, wire systems, and trade financing that can cover criminal activities. Using these organizations, criminals are using financial tools and economic infrastructure in many countries. Without a proper supervision, regulation and cooperation between authorities, the money laundering as a phenomenon can dissolve the structure and strength of a country's financial institutions. As a result of high consolidation of capital markets, money laundering can also negatively influence currencies and interest rates.

Basically, the movement of laundered assets into international financial arena, can erode national economies and currencies. From this perspective the phenomenon of money laundering is not only a supervision or legal problem, it brings a serious local and global security issue as well.

This aspect is a not only an issue for the world's major financial conglomerates and offshore zones, but also a big dilemma for emerging countries. Undoubtedly, any country integrated into the worldwide financial infrastructure is at threat. As emerging countries open their economies and financial sectors, they become more and more possible destination for financial crimes procedures.

Methodology and data

The procedures of money laundering commonly engage a list of different action used to camouflage the origin of financial flows so that those assets, money or other kind of funds may be manage without disclosing the launders, who are looking to use them. These operations generally fall into 3 steps:

1. **Placement** - the action of placing illegal income or assets into financial organizations through deposits, stock brokers, wire transfers, or other channels.
2. **Layering** - the measures of splitting the revenue from criminal activities from their real origin through the use of layers of complex financial operations.
3. **Integration** - the process of adopting an apparently legitimate transaction to camouflage criminal and illegal profits. Through these stages, money launderers are trying to transform their criminal money or assets derived from illicit activities, into funds with an apparently legal nature.

Undoubtedly, one of the most severe economic influence of money laundering is felt in the private sector. Money launderers and criminals usually use fasade companies, which intermix the criminal nature funds with legitimate funds, to camouflage the ill-gotten profits. In U.S.A, for example, organized crime and a international bank, has used offshore jurisdictions to mask activities from drug trafficking (Corji J, 2015).

These semi-legal entities have large access to considerable criminal money, allowing them to finance fasade company products and services at high levels above the benchmark of other legal companies. In some cases, fasade companies are able to offer products at better prices, compared to other manufacturers. For these reasons, fasade companies have a unique leverage of convenience over legal organizations that get investments from financial or capital markets. This makes it challenging, if not impossible, for legal business to fight against fasade companies with sufficient funding, a scenario that can result in the elimination and rejection of private sector business by fasade organizations or semi-legal companies, which is definitely a post crisis effect.

Apparently, the administration perception of these dirty organizations are not loyal with the classic and common open market ethics of legal business, which results in present and future unfavorable macroeconomic effects. Business and financial organizations that depend on the benefits of crime have further confrontations in appropriately controlling their assets, liabilities, and transactions. For instance, considerable amounts of laundered money may appear at a financial institution, but then disappear quickly, without no reason, through wire transfers as a result of non-market circumstance, such as new regulation or law enforcement measures. This situation can bring to liquidity issues and destabilization of banks. Certainly, illegal and criminal actions has been identified with a series of bank collapse around the world.

Furthermore, we can see how the moral hazard brought to frauds, money laundering, and bribery scandal at HSBC (Brinded, 2015) and the 2016 discredit of Deutsche bank as a risky equity scheme carried out by a trader at a subsidiary unit — had significant criminal or fraud components (2016). The former managing director of the International Monetary Fund, has estimated that the degree of money laundering is between 2 and 5 percent of world gross domestic product, or at least $600,000 million (Camdessus, 2015).

In some emerging market countries, these illicit proceeds may undersize government potential, resulting in a loss of control of economic situation by governments. It is true that in some particular cases, the absolute significance of the acquired assets base of laundered profits, can be used to squeeze markets or even small economies.

Money laundering can also negative affect currencies and interest rates as launderers reinvest money where their methods are less likely to be identify, comparatively than where rates of return are bigger. A significant number of studies show that the crisis has highlighted the fact that money laundering can expand the menace of monetary instability as a result of the misallocation of capital from unnatural distortions in asset and goods prices.

The short term effects of money laundering and other financial crime may result in inexplicable changes in money demand and increased volatility of international capital flows, interest, and exchange rates. The unpredictable nature of money laundering, coupled with the attendant loss of supervision control, may do sound economic framework difficult to achieve.

Rather of preserving their profits money launderers are not interested in profit generation from their investments. However, they are trying to invest their funds in tools, that are not obligatory economically beneficial to the territory, where the money landed. Moreover, to the extent that money laundering and financial crime redirect funds from sound investments to low-quality investments that cover their profits, economic growth can suffer. In some states, for instance, entire sectors, such as construction and real estate, have been financed not because of actual demand, but because of the short or middle term interests of money launderers. When these sectors are no longer interesting for the money launderers and their organizations, they are leaving them, creating a distortion of these industries and big damage to countries that could not stop these damages.

At some level the money laundering cuts the government tax payments and as a result indirectly damaging the rest of tax payers. It also makes government tax collection more problematic. This lack of tax payments usually generates the increasing in tax rates than would normally will work if the untaxed profits of crime were legal in nature.

Money laundering is damaging the work of many countries to introduce reforms into their economies using the privatization processes. Criminal organizations have the financial resources to fight the legal purchasers for old state-owned enterprises. Moreover, while privatization programs are often economically profitable, they can also serve as a tools or assets to launder funds. In the past decades, criminals have been able to buy industrial entities, hotels, energetic companies, insurance companies or banks to hide their illegal profits and to continue their criminal activities (Mauro S. 2013).

Many countries are working hard to maintain their reputations and financial institutions away from being associated with money laundering, especially in today's international economy. The belief in markets and in their central role of profits is compromised by money laundering scandals and financial crimes such as the laundering of dirty money, trans-border financial fraud, insider trading of securities, and theft. The negative and dirty character that results from these actions and behavior diminishes international legal opportunities and sustainable growth, while attracting international criminal organizations with undesirable reputations and short-term goals. As a result, the development and economic growth in damaged. More than that, if a country's financial prestige is hurt, repairing it, is very complicated and it needs enormous government abilities to solve an issue, that could be prevented with proper anti-money-laundering programs, controls, frameworks and proper supervision and law enforcement

Results

It is not a secret that there are important public losses and risks affiliated with money laundering. Money laundering has a central role in legalization process of dirty profits and crime actions all around the globe. It allows drug and human traffickers, corrupt officials, and other criminals to enlarge their influence and transactions. The result of this phenomenon is the permanent increase of government expenditure due to the need of development for law enforcement mechanisms and supervision to fight the large consequences that results. The economic crisis has stopped the overall development of the world economy, in this respect the financial institutions are damaged from many sides, including the absence of stable and permanent cash flows which are crucial for a normal function of this institutions. The lack of flows and liquidity and also the desire for good life, has determine many financial institutions to accept dirty funds or assets from criminals. On the long ride, this process brings to criminalization of financial systems, keeping in mind that the degree of money laundering is between 2 and 5 percent of world gross domestic product, or between $600,000 million and 1.5 trillion.

Among its other negative socio-economic effects of the crisis, the money laundering phenomenon contribute to the switch of economic potential from the market, government, and citizens to criminals. On short ride, it brings the old perception that crime can't be punished. More than that, the absolute potential of the economic power that the criminals win from money laundering, has a corrupting result on all levels of society. In the worst cases, it can bring to the silent control of government and other central authorities.

Per general, the money laundering as a global and long term phenomenon presents the world community with a complex and dynamic challenge. One of the main results of the economic crisis is the fact that deficiency of legal profits in the world economy is extremely large, on the other hand, dirty money are concentrated and ready to be used. To survive many financial institutions agree to use this funds just to stay alive, this perspective is creating an aggressive behavior on the market from both sides (criminals and financial institutions).

It is obvious that international nature of money laundering requires global standards and international cooperation if we want to short the possibility of criminals to launder their profits. (Fabre, 2005).

Conclusions

For the last two decades the interdependence and interconnection between financial markets has achieved the highest level of integration. The globalization process brought to the international community a large range of problems and issues be they economic, social, military or political. From the economic point of view, the world economy has never been so volatile and unpredictable, especially if we are talking about different types of financial crimes. One of the principal trends of the modern world is the fast and aggressive development of the shadow economy. As a phenomenon, money laundering became the main bridge and the joint point between shadow and legal economy. Money launderer and criminal organization, has huge financial potential, as a result of their illegal activities, on the other hand, we see the large number of financial organizations, that are dealing with big financial issues as a result of money flow decreasing. Being in a complicated situation the financial institutions and business entities, are attracted to use ill-gotten dirty money. Indeed, the economic crisis that begin in 2007-2008, has a major influence on governments, largest market, international business and trade. Indirectly crisis periods are the best time for active development of the shadow economy and organized crime. From this point of view money laundering is not an exception because it is a vast, complex and large topic, which requires a flexible and well thought understanding of the financial and nonfinancial mechanisms of the world economy. However, regardless it's complexity money laundering, can bring to the following effects:

- Disintegration of the legal private sector:
- Fragmenting the integrity of financial markets:
- Loss of economic policy control:
- Economic distortion and instability:
- Loss of revenue:
- Risks to privatization efforts:
- Reputation risk:

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