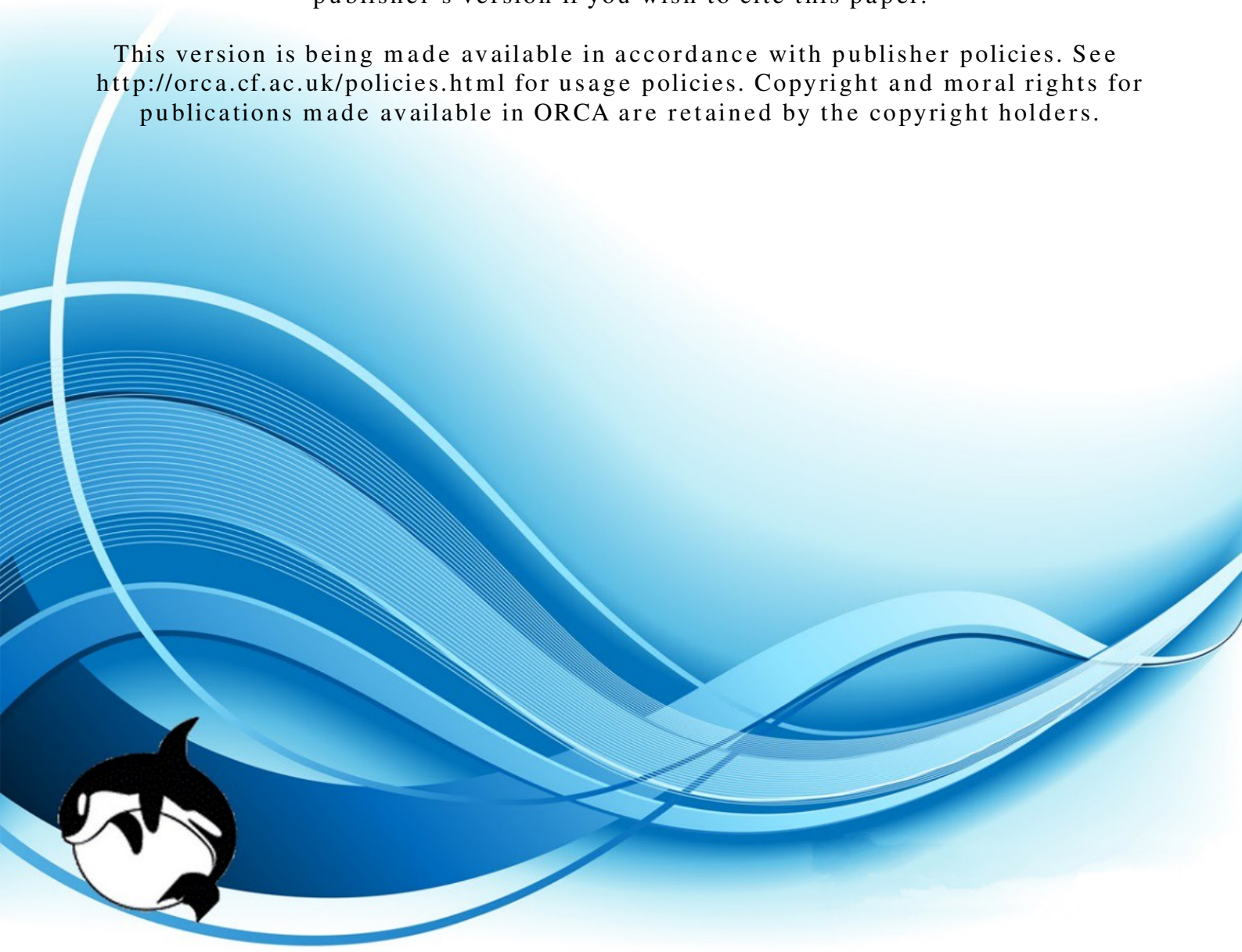

Money for Crime and Money from Crime: Financing crime and laundering crime proceeds

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Abstract

This article summarises briefly what is known internationally about how 'organised crimes' are financed and how this differs from the financing of licit businesses. It shows how illicit financing might and does operate, noting that a key issue is the social capital of offenders and their access to illicit finance which ironically, may be easier if controls make it harder to launder money. It then reviews international evidence on how proceeds of crime are laundered, concluding with an examination of the implications of these observations for the study of organised crime and the effects of anti-money laundering efforts. In money laundering cases internationally, the most commonly prosecuted cases are not complicated. This is not evidence that there are no complicated cases, since the proportion of crime proceeds and crime financing that have been subjected to serious investigation is modest. There is a core contradiction between general economic policy pushed hard multilaterally for liberalization of financial flows and a crime control policy intent on hampering them. No-one could rationally think that AML controls in general or financial investigation in particular will 'solve' organised crime completely or eliminate high-level offending: for there even to be a chance to achieve that, there would need to be a step change in transparency and effective action against high-level corruption along all possible supply chains. However more action (not just legislation) on these could facilitate interventions against the more harmful individuals, networks and crime enablers. The less complex financial activities of local drug-dealing gangs can be intervened against, without needing international cooperation or familiarity with sophisticated money laundering typologies.

Introduction

> 'If money laundering is the keystone of organized crime, these recommendations can provide the financial community and law enforcement authorities with the tools needed to dislodge that keystone, and thereby to cause irreparable damage to the operations of organized crime'.
>
> *The Cash Connection,* Presidential Commission on Organized Crime (1986, p.63)

It is decades since the Reagan Commission used these words to end its call for a new focus on financial measures to attack criminal syndicates. The logic was that by attacking the proceeds of crime, both the means and the motivation to finance future crimes would be reduced (or, in the dramatized thinking of 'wars on crime', eliminated). Thus, financing crimes - terrorism not being a significant problem to Americans at a time when Americans were not targets and it was legal in the US to donate funds to Irish Republican Army fronts – was seen as being solved by anti-money laundering (AML) controls. However there has been little motivation to search for evidence to test and modify this policy, nor even to clarify its propositions (Halliday et al., 2014).

Yet this model of money control leads to crime control contains a paradox. The AML movement has consistently been about opposition to the legitimisation ('integration') of proceeds of crime, and one of its popular moral imperatives has been that criminals should not enjoy the fruits of their wrongdoing. However if crime syndicates are financing future crimes, they are definitely not thereby legitimizing the proceeds of past crimes: rather the reverse, since planning future crimes involves *de*-legitimising any previously laundered funds. So on the one hand, the dominant cultural image of 'laundering' is indeed cleansing 'dirty money'; but on the other, the *offence* of laundering applies in most jurisdictions to whatever anyone does to hide, transfer or transform the proceeds of any crime, *whether or not this actually legitimises the funds or is intended to do so*.[1]

Since the use of tax evasion charges to jail Al Capone,[2] and since the Presidential Commission (1986) under Reagan recommended a national strategy 'to unite a wide range of law enforcement agencies in an effort to strike at the economic heart of organized crime', 'follow the money' has become a law enforcement mantra, even if it has not led to dramatic changes in resources for financial investigation or its mainstreaming into routine policing. However this article is not another review of enforcement efforts (see e.g. Kilchling, 2014; Levi, 2013), or of their impact on crime (Gelemerova, 2011; Halliday et al., 2014; Harvey, 2008; Harvey and Lau, 2009). It seeks to summarise briefly what is known internationally about how 'organised crimes' are financed and how this differs from the financing of licit businesses (and from the financing of 'unorganized crimes'). In doing so, it draws briefly on some ongoing research conducted for the European Commission as well as presenting some preliminary

[1] In addition, there are offences of financing terrorism and the weapons of mass destruction, but these are not germane here except to the extent that this finance comes from proceeds of other, non-terrorist crimes.

[2] If only Capone had paid taxes on his illicit income! It is an open question that should be investigated to what extent contemporary criminals do declare all their illicit and licit income and pay tax on it. If they do not do so, they have not fully legitimized it.

hypotheses about how illicit financing might operate. It then goes on to review evidence from a range of available academic and professional literature around the Anglophone world and present some key themes about how proceeds of crime are laundered, concluding with an examination of the implications of these observations for the study of organised crime and the effects of anti-money laundering efforts. It thus has limited ambitions to present fresh research evidence, but aims to educate the non-specialist reader and help readers to think through a framework for relevant evidence collection on some neglected issues. Indeed, it is proposed that rather than being the preserve of marginal specialists, the financing of crime and what happens to crime proceeds should be mainstreamed into core components of the study of the organisation of crime by academics and by enforcement practitioners.

The Financing of Crimes[3]

There is general information about the level of financing needed for a criminal group's operations in some illicit markets, such as heroin, cocaine and cannabis, though we should bear in mind that the geography and microeconomics of some drugs markets have been reshaped by the growth of synthetic, even artisanal, drugs, hydroponic growth, and by e-markets/cryptocurrencies and their different resolutions of trust in illicit markets generally (Aldridge and Décary-Hétu, 2013; Holt, 2013; Lusthaus, 2012). In some illicit drugs markets, there is a fair understanding of the pricing along the entire value chain from production prices, to smuggling and wholesale prices, to retail distribution, from which we may work out roughly how much finance is required for different components of this business. Few other illicit markets (such as illicit excisable goods, trafficking in human beings, counterfeiting of currency, payment card fraud, trafficking in stolen vehicles, etc.) have received sustained research, but are capable of being analysed in this way.[4]

Financing crime is inhibited by risks both of losing the investment and introducing criminal liability to those who otherwise would not face it. The difficulties (or ease) of financing crimes might be best located within an understanding of 'criminal careers' and the life course, as illuminated particularly by Kleemans and De Poot (2008) and van Koppen et al. (2010). It is moot to what extent finance constrains such careers, in the way that knowledge of receivers of stolen goods does. Perhaps excepting some elite fraudsters, few criminals suddenly arrive at major crimes without spending some time in criminal (and sometimes non-criminal) networks that generate for them a reputation for a varying degree of reliability: indeed that is also how trust in the licit sector evolves.[5] The 'dark market' within the web has begun to evolve a sophisticated mechanism for reliability evaluation that corresponds closely to the public feedback processes that have given millions of consumers confidence in Amazon and eBay, and have extended to an array of other stranger-to-stranger facilities such as Air BnB as well

[3] This section draws on preliminary work done for the European Commission-funded FINOCA project, to which the author is academic advisor. I am grateful to colleagues for permission to use this (Rusev et al., 2015).
[4] For example, Hobbs (2013) and Naylor (2014) show no interest in how crimes for gain are financed.
[5] Though elites and some faith communities may take trustworthiness for granted, focusing on the downside risks arising from low competence and from market conditions rather than low trustworthiness.

as to less directly commercial e-services such as Trip Advisor. The *Tontines* of African communities in France function much like credit cooperatives for illicit tobacco financing but beyond that, we know of no crowd financing equivalents in the wholly illegal sector, though there are scams against investors in that and many other sectors (Naylor, 2014). What may need to be financed includes:

- Time and material resources required for the offence
    - Planning
    - Commission
    - Post-crime risk management (corruption, extortion, risks from other offenders, money movement/concealment/re-investment). Some post-crime costs can be funded out of the proceeds themselves, and thus will not need pre-financing.

The need for new finance is affected by offender savings available from past crimes and licit activities; and existing connections to sources of finance, on a scale from wholly criminal to wholly licit (and therefore needing to be deceived or blind to the purposes of the funding).

'Criminal upcomers' may develop their resources and ambitions over time, and may reinvest the unspent profits from past crimes in new ones. In this sense, they resemble legitimate businesspeople, except that when negotiating with the licit lending market (and sometimes with suppliers of products they might need for criminal operations but who may have public legal duties, like precursor chemicals suppliers who have to report 'suspicious transactions' to the authorities), they need to hide their aims or avoid the activity altogether.[6] To enter a criminal market at the wholesale level, organised criminals may need significant financial resources, including but not restricted to credit facilities. The need for financing though concerns every 'level' of organised crime: from the low/retail level to the high level. While millions may be needed to enter the cocaine market at wholesale level, small criminal groups may need only several tens of thousands of euros to launch an international bank-fraud/bank card skimming business, especially if they can generate early profits from card skimming and therefore require a shorter start-up period. There are different financing mechanisms and opportunities to fund new or existing criminal actors, depending on the risk appetite of lenders and the level of trust and/or pressure that can be exerted by lenders, e.g. on the family and friends of borrowers.

Fairly little has been done in terms of systematically analysing or targeting individuals or structures that are mainly involved in the financing of other criminal networks / organised criminal activities. The financing of organised crime is the type of 'horizontal issue' that threat assessments or the new National Risk Assessments conducted for the FATF (2013) evaluation methodology neglect. The modern financial system, the existing underground networks of individuals / loan-sharks (who in effect function as illegal banking/crediting institutions for

[6] For discussion of precursor chemicals controls, see for example the *International Narcotics Control Strategy Report* (2014), US State Department, and the annual reports of the International Narcotics Control Board. As with money laundering, chemical precursor 'suspicious transactions' are more properly conceived as 'purchases/purchasers that they suspect', since the suspicion is not an inherent property of the transaction.

low-level and mid-level criminals), and established career criminals in search of high returns on investment (Rusev et al., 2015) may all be used to finance organised criminal operations.

Swedish research shows that at least in Sweden, little actual money needs to be paid to criminals because there is high reciprocity of favours between offenders (Skinnari and Korsell 2006; Skinnari et al., 2007; Vesterhav et al., 2007).[7] The lifestyle of many of those involved with organized crime makes pubs, restaurants, car dealerships, apartments, and holiday resorts logical investments that serve as functional assets for criminal reinvestment. Bar visits and high restaurant bills also generate useful information and make contacts, in addition to having fun which may be the primary motivation of many offenders.

Financing legitimate business and financing criminal enterprises: key distinctions

Criminal enterprises, regardless of whether they operate in an entirely illegal market (drugs) or compete in a market with numerous legal players (cigarettes), at some point of their life cycle face many of the same dilemmas and financial limitations that are typical for legal business companies. *Ex hypothesi*, unless they have substantial capital from past crimes or families, criminal entrepreneurs may need *some* external financing under *any* of the following circumstances:

- to start their business;
- to meet recurring financial needs (e.g. purchase of goods, payments to 'employees' and contractors, bribes to political or law-enforcement authorities);
- to cover any unusual, one-time expenses (legal expenses, fines, loss or confiscation of goods – which is not uncommon); and
- to support potential vertical or horizontal expansion of their enterprise, depending on the scale and speed of the expansion and the extent to which it can be self-funded from internal profits.

Criminal market intelligence is less formalised than it is for licit consumer and commercial credit ratings by Dun & Bradstreet or Experian. Financing options are affected by factors like: 1) the level of violence of a given criminal market (e.g. drug trafficking is generally associated with more violence than credit card fraud or illicit cigarettes); 2) the seriousness of crime and respective penalties, affecting community support and law enforcement interventions; 3) the durability and size of enterprises and the experience of their leadership (which may be greater in more cartelised markets but could also survive looser networking); and 4) the transparency of operations. We might aim to investigate the availability of 'underground banks' and black market investors, who may include tax-evading businesspeople in search of higher Returns on Investment and perhaps also a bit of excitement from dabbling in the illicit, as Levi (2008) found was the case for bankruptcy fraudsters and Rusev et al. (2015) and Arlacchi (1986, 1988)

[7] This was also true of the illicit market in the UK during the Second World War, when controls were evaded (Roodhouse, 2013).

noted more generally. Reuter (1985: 13-16) has conceptualized the key distinctions between legal and illegal enterprises in accessing credit, though these might not work so well when illicit networks are more fluid and less like enterprises. The modern firm separates ownership and management, giving legal endurance to the entity which can appeal to the courts for dispute-resolution. In turn this creates the necessary conditions for establishing and existence of external credit markets, which could rely on the fact that even if the individual owner is not in a position to repay his debt, they can claim their payments or collateral from the firm itself (provided it is not insolvent or assets are not removed by unscrupulous financial engineers). The underworld equivalents of this are less procedurally governed and rely on power and connections. Regulation aims to assure standardized and detailed record keeping with some degree of independent audit, which normally provides the lenders with sufficient evidence about the assets and financial flows of the borrower. Except where there is major corporate tax evasion or other fraud, the detailed record keeping also makes it easier to judge the 'market value'. In legal markets in countries operating competent and fair judicial systems – a comparative advantage for some jurisdictions like England & Wales which can be bought by contractors elsewhere agreeing to have disputes adjudicated there - lenders can rely on the existing legal institutions to recover their claim in case borrowers fail to meet their contractual obligations.

In contrast with the media/police image of organised crime as a collective actor, illegal enterprises are practically identical with the individual criminal entrepreneur and therefore his disappearance, imprisonment or death can easily deprive the lender or the equity shareholder from his claim or share of profit: this reportedly was the case following the murder of Dutch broker/launderer Willem Endstra.[8] Wholly illegal enterprises are thought seldom to keep detailed records as this carries risks if they are raided and searched, though some individuals sometimes do, especially if they may be looking for something to trade with prosecutors (Soudijn and Reuter, in preparation). Setting aside any cynicism about the quality of audits in the licit sector, this fact means lenders do not have access to reliable public information about the *capacity* of the criminal entrepreneur to repay his debt, or about the accurate disbursal of profits, creating the scope for tension between lenders and operators. Furthermore, the lack of justice institutions that can guarantee protection of the contractual agreements for the lenders and the shareholders raises the uncertainty and risk in collecting back their money. The exception is where Mafia-type associations are able to perform this function (at a cost) or even combine it with financing crime as a vertically integrated firm – something that makes sense primarily when they can also guarantee freedom from criminal process and confiscation, without which the downside risks of integration become substantial.

All these constraints are supposed to substantially decrease access to external capital for criminal enterprises and therefore, Reuter argues, this makes them rely largely on reinvestment

[8] A famous gangster, Willem Holleeder, served 6 years in prison for blackmailing him, and a Dutch tycoon, Paarlberg, was jailed for 4.5 years and ordered to pay a fine of €25.7 million to the state for tax fraud and laundering the proceeds of Endstra's blackmail (http://www.nltimes.nl/2013/03/19/e25-7m-fine-after-holleeder-cohort-convicted-of-fraud/).

of profits in order to grow. Indeed, an unintended effect of anti-money laundering policies aggravates this tendency, *to the extent that the latter actually prevent the placement, layering and integration of proceeds of crime into the licit economy*. Social network analysis of criminal networks often spots 'black investors' as key nodes in the network (Kenney, 2007; Morselli and Giguere, 2006; Soudijn and Zhang, 2013; Soudijn, 2014a), though we have little information about the mechanisms of financing. Research in Bulgaria suggests strong overlap between legitimate and criminal entrepreneurship, when the so called 'oligarchs' move money between their white and black businesses (CSD, 2012): but this cannot be assumed to happen elsewhere. However, European research shows that trade credit from suppliers, advance payments from customers, and use of grey money were all viable sources of external finance: the critical constraint was social capital (or *guanxi* in China).

To the above conceptualisations could be added a script-type approach (derived from Cornish & Clarke, 1994, 2002) that assesses the amount of money required for different sorts of crime, to examine the demand for criminal capital for different criminal projects. In sum, one could develop a typology of criminal financing along the following dimensions:

1. Criminal commodity trade: mainly prohibited drugs, requires for wholesaling the means of transport, related staff and preparation, plus buying the commodity in the desired amount, which sometimes is loaned by the trafficker for a month or so until the customers pay the wholesaler;[9]
2. Excise evasion on goods: except where the product is merged with licit ones in mixed criminal/licit enterprises, with wholesale smuggling of licit commodities, one needs trucks (as with cigarettes) and funds sufficient to purchase the commodity in whatever level one can afford;
3. VAT fraud and the smuggling/dumping of toxic waste: these sometimes require little capital if the VAT frauds have fictitious commodities, but otherwise require significant credit or cash from the fraud network (Rusev et al., 2015). The frauds may be merged with otherwise legitimate business activities to add to credibility, and the purchase of such businesses requires some capital (unless intimidation is sufficient);
4. Investment fraud: the costs of 'imagery' in smart cars, clothes, and business premises (if not committed remotely with fake/photo-shopped backgrounds). Some of this can be paid off from later income flows in Ponzi investment schemes;
5. Bankruptcy fraud: a few thousand Euros for taking over a debt burdened corporation, or more capital if credit has first to be built up for resale of goods with fraudulent intent not to pay for them (see Levi, 2008).

Then we have:

[9] What is interesting here is that the trafficker is best situated to assess the credit risk associated with the wholesaler because they will tap into the same network of potential informants on credit worthiness. I am grateful to Peter Reuter for this observation. If the wholesaler or intermediaries are busted or the drugs/money forfeited, this presumably would lead to the wholesaler's debt being deferred. But this is not a frequent occurrence.

6. Missing trader frauds: fees for the registration of firms, printing invoices and usually buying some commodity for starting the carousel;
7. Human trafficking: bribes, the cost of counterfeit travel documents, travel expenses and accommodation, which costs are reduced by advance payments from the families of some of the trafficked-but-misled and the 'wages' of those trafficked for sex and labour; and
8. Counterfeiters: means of production, storage and transport.

For all offences, corruption can be expensive. Prima facie, only the trafficking of real commodities requires substantial fixed and working capital investment. The extent to which the above require large upfront capital depends on the individual/network's social capital in underworld and upperworld. The latter can include the sort of people who feel comfortable having Swiss and other banks hide their assets overseas and may be risk-takers in their legitimate roles (e.g. as illustrated by the 'organised' fixing of LIBOR or FOREX rates or mis-selling Personal Protection Insurance in financial institutions, or insider trading). Thus the stereotypical under/upper world division contains some overlapping categories and personality types, and the more elite risk-takers[10] may meet full-time criminals via lifestyle activities including drugs and sexual service venues.

How much finance is needed depends partly on where the profits are made and what the operational business costs are, and this can vary substantially by commodity and also by contingencies. Some crimes are present in many countries; others are much rarer and more unevenly distributed. Studies of the financing of piracy have concluded that this is mostly intra-network lending (FATF, 2011; Percy and Shotland, 2013). However situational prevention factors such as placing armed guards on ships and increased naval presence may alter the risk-reward ratio and deter such financing. The smuggling and/or trafficking of people from conflict zones may generate (presumably unexpected) costs such as the loss of two commercial transportation ships at the end of 2014 carrying large numbers of pre-paid migrants en route for Europe, abandoned by the crew. Drawing on the 150 cases from the Dutch Organised Crime Monitor, Kruisbergen et al. (2012: 300) note the following:

> The skewness of the profit distribution differs per drug market and is related to the logistic nature of the trade chain. In the case of cocaine there is a big distance between the production locations on the one hand and the markets on the other. The successful bridging of that distance constitutes the most important and lucrative step within the total chain of the cocaine market. Therefore, the person who has the contacts and/or the ability to arrange for a successful importation of this drug is the top earner.

[10] Though 'old money' elites persist, it is important not to underestimate the shift in social composition of securities traders and other financial services personnel, now accounting for a substantial percentage of working populations.

> Contrary to the production of coca leaves, the production of synthetic drugs is not restricted to one…region.[11] In addition, in the case of synthetic drugs the distance between production and the (European) market is much smaller. With respect to the synthetic drug trade, the trade chain consists of the following three links: the raw materials, which are much harder to obtain now than in the early days of xtc production; the production, which requires equipment and knowledge; and (international) market channels.
>
> The relation between these links is more equal, making the profit distribution less skewed than it is in the case of the cocaine trade (although the export of for instance xtc is far more profitable than the domestic market is).
>
> The distribution of criminal profits is not a static fact; actors may try to increase their own share at the cost of others. In the context of the drug trade, increasing one's share of the profits often seems to boil down to shutting out, deceiving or robbing one's 'business partners'. In the context of human trafficking and extortion, however, the profit is chiefly added to by increasing the pressure on the victims…..
>
> Thus, we almost never encountered collective 'business reserves' or a collective kitty, while both investments and profits are extremely individualized.

These observations are, of course, subject to changes in market demands and in techniques of production. For example, artisanal drugs and 3D printing reduce transportation requirements.

Money from Crime

We now shift to what is known about money-laundering: though there is more research about this than about the financing of crimes, the amount of systematic knowledge remains small, and it is not clear how (un)representative known cases are of unknown ones. Like smuggling at borders, the risk is that official 'typologies' (to use the phrase incorrectly used by the Financial Action Task Force - or more accurately, 'characterisations') of laundering unconsciously reflect what we have been able to detect in the past, and these can be ossified into routine detection and control practices. The pragmatic approach taken here is to look at studies done in different countries, but this approach has the flaw that we downplay the transnational component, and we risk merely reflecting the national funding basis of research and the parochial interests of national financial investigators, on whose activities our studies are usually parasitic. (This is not to ignore the transnational typologies but merely to be honest in acknowledging the control effort-dependent nature of most criminological research.) It should be reiterated that the launderer only has to be good enough to defeat the sort of enquiry, if any, that the conduct receives. In a sort of arms race, laundering skills need to escalate to match improvements in counter-laundering efforts, or to purchase immunity.

[11] Nor, actually, is the production of cocaine restricted to one region (see e.g. Thoumi, 2003).

Some of what is often described as laundering is used to finance further crimes. This is because although the dominant media and political image of laundering is about cleansing proceeds of crime by clever transnational activities, the term actually contains two quite different constructs: (1) a sophisticated chain of activities which makes it possible to conceal the illegitimate origins of the funds in such a way as to defeat a significant financial investigation by competent professionals (which because of resource constraints combined with secrecy havens is rarely likely to happen in practice); and (2) the minimalist and prosaic set of acts that are sufficient to generate the label of 'laundering' in most common law and civil law countries. 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 offence of laundering even though this comes nowhere near cleansing the proceeds, and the funds could be used for future crimes as well as lifestyle expenditures with no further attempts to hide their origins. (No record is available of how many laundering prosecutions fit this minimalist position, and they are certainly not described in FATF typologies.) Many launderers fall in between these extremes. Data that validly differentiate third party from first party laundering are sparse, though such data are asked for as part of the FATF Round 4 (post-2013) and even in Round 3 evaluations in order to test whether the AML system is handling 'professional' money laundering rather than inflating apparent performance by prosecuting a lot of self-laundering by what one might term 'primary' or predicate offenders.[12]

The logic of routine activities theory suggests that we can understand levels and patterns of crime only in the context of the way the public and private actors behave and offer opportunities to offend; surveillance; and both actual and expected interventions by public and/or private persons. Repayment of those who financed crimes is itself a money laundering offence, as well as – when the funds are knowingly given to assist crime rather than deception of the investor by the primary offender – offences of complicity or conspiracy or participation in organised crime/Mafia-type association, depending on the jurisdiction. Unfortunately, analysing the impact on investigative resources 'on the ground' and then of anti-money laundering (AML) processes on levels of crime and – a separate issue – on *how* crimes are organised[13] has received little attention, conceptually and empirically. As Halliday et al (2014) have noted, there is very little evidence collected or published about such effects.

How are proceeds of crime concealed?

The aim of 'true' laundering is to conceal the derivation of funds from crime and yet retain control over them. This involves trust in a particular person or persons – perhaps a member of one's close or extended family or ethnic/religious group - or trust in an institution, such as a bank or a money service business (MSB) or a lawyer who may be a trustee of a corporate entity, *to an extent sufficient to defeat whatever level of scrutiny will actually be applied*. The imagery

[12] Author interviews, 2013. See further, FATF Methodology (2013).

[13] We can attack criminal organisations without reducing levels of crime – indeed, after disturbances in established organisations, violence may be expected to increase as rivals jockey for dominance.

of money laundering may involve cross-border transfers, but we know little of how often this happens in practice: logically cross-border transfers should depend on the perceived risks and advantages of keeping funds within one's own jurisdiction (and preferences for investing elsewhere, especially for those with extended family abroad). But conceptually, concealment/ laundering can be achieved by transferring *value* by whatever means, including mispricing and mis-description of exported goods (Zdanowicz, 2004) or matching those businesspeople/tourists who want dollars or euros with those who have those currencies as proceeds of crime (Passas, 2003; FATF, 2006, APG, 2012; Soudijn, 2014b). Such financial match-making can be undertaken by banks but it can also be done by semi-legitimate networks, usually (for trust and possible extra-legal recourse reasons) 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 who send money home to their often impoverished families, making it hard to distinguish legitimate from illegitimate-source funds among those sent to those countries, especially given asymmetries in laws between sending and receiving countries, and the fact that in some cases, exchange control evasion is fiscal or administrative, in others criminal. In many countries, the authorities have tried to regulate this market by requiring Money Service Businesses to register and to identify both the senders and recipients of funds. However the scale of this task may be deduced from the immense complexity of directional flows in World Bank 2012 data (http://www.torre.nl/remittances/#menu). Worldwide flows were some $550 billion in 2013, of which $414 billion went to developing countries. So sifting illicit flows within those volumes is a substantial task, even for hi-technology bodies such as AUSTRAC and FINTRAC that process all (official) cross-border financial flows.

Another way of thinking about laundering techniques is to analyse them in terms of the problems that offenders have to confront, which include the nature of the detection, reporting and investigative regime that is in place. The identification of 'suspiciousness' by professionals and others with a legal responsibility to combat money laundering is often a judgment that the people and/or transactions are 'out of place' for the sort of account they have and the people they purport to be. Indeed it is difficult to see how they can be anything more, except where (as when financial services firms – as mandated by law - routinely conduct searches against published lists of persons and businesses on international sanctions lists) there is a mere name check against accounts. Thus, as part of the layering process, foreign students may be approached to offer their accounts to run through transactions from 'businesses' via fake job advertisements online for '*Money Transfer Agent'* or '*Payment Processing Agent'*. Financial Fraud Action UK commissioned a survey of 2,000 adults along with separate groups exclusively made up of students, jobseekers and new entrants to the UK.[14] Around 15% had received the suspect job offers, of whom 6% accepted the offers overall: but 13% of the unemployed, 19% of students and 20% of new migrants accepted offers, i.e. 1-3% of the whole population surveyed received and accepted

[14] http://www.financialfraudaction.org.uk/money-mules.asp; http://www.bbc.co.uk/news/business-21578985 (accessed 30/12/2014). No data are available from the study beyond media reports.

money-muling offers, a less dramatic figure than these sub-populations above highlighted in the media as high risk categories ('vulnerable' to corrupt offers). Almost half the students stated that they considered accepting the work: grossed up nationwide, over 47,000 students in the UK might have become unwitting money launderers.

The success of this layering tactic to defeat the AML system relies on inadequate back-office bank monitoring of existing account-holders: but in order to launder very large sums without risking detection and suspicious activity reporting, one would need to find a lot of cooperating students and others, who may have low expectations of any criminal justice or other intervention against them, and may view this as good money for little harm.[15] At a much higher level, if the would-be predicate offenders start out with a business that is being used as a medium for what looks like (or may indeed actually have been) legitimate activity – like Enron[16] or many other major corporate scandals before their collapse – then it may be very easy to place and layer funds: corporate lawyers are unlikely be suspicious of the construction of corporate vehicles, and bankers are not likely to classify the activities as high risk. Unless the funds or products sold are identified as originating from a country on a UN/FATF sanctions list (like Iran or North Korea), professionals will not routinely suspect senior corporate staff of being major criminals, perhaps influenced by hopes of future business. Since many frauds and corporate price fixing would be unsuccessful if they did *not* look like legitimate activity, this gives them a structural advantage over other types of offenders.

In the light of the analysis above, let us examine what is known about patterns of laundering, excluding Grand Corruption which has been examined in World Bank studies. The laundering has been classified by region because that is how the studies have been done, but though – despite the efforts of the Financial Action Task Force to generate a global level playing field – controls (and therefore crime opportunities) may vary regionally or locally or may be concentrated in particular financial institutions, it is open to question whether a national/regional focus is the appropriate one: cross-border physical money smuggling or value transfers of varied sophisticated levels appear to be commonplace. More generic studies can be found in the FATF typologies which are becoming more analytical as the member states are conducting more investigations.

Laundering in Canada

Beare and Schneider (2007) review the techniques used in cases dealt with by the RCMP in Canada in that relatively early period: this is a non-representative sub-set of the unknown set of 'actual' laundering activities of varied levels of complexity. The most common detected technique (in 46.3% of cases) was the use of nominees – usually a relative, friend or lawyer with no involvement in the predicate crimes - to obscure a connection between the offenders and the assets. They give an illustration of a cocaine trafficker who had authority to sign on

[15] We do not know how many 'money mules' then go on to embrace or be blackmailed into subsequent criminal careers.

[16] Though there has never been any suggestion that Enron-related accounts were used for any criminal purpose other than the wholesale looting of its own funds by senior staff.

25 accounts: in 1995-6 he wrote six cheques to his mother totalling C$182k, plus a single cash deposit of C$162k, while also sending cheques totalling $1.2 million to his father in law. What the authors do not discuss is how this could possibly have been expected to defeat investigation if anyone seriously began one: it is technically money laundering but not real cleansing, quite apart from the fact that it has become known to the authorities. The next most popular method is to disguise funds as legitimate revenue, usually in high-cash businesses such as grocery stores, nightclubs, movie theatres, and restaurants. (In fact, these meld nicely with 'night-time economy' roles favoured by drugs traffickers and gangsters and therefore again do not fully legitimise, though unless there is some way of checking the real number of transactions/people using those facilities, it might be hard to prove laundering.) A Canadian cocaine importer ran high-end used car and lumber businesses, rationalizing his need for US currency to his over-credulous (but unsanctioned) bankers by stating that American wholesalers would not accept Canadian cheques, and his deposits of cash into his accounts by their being proceeds of car sales in Canada. Before arrest, he was about to obtain lines of commercial credit which would have allowed him to transfer funds to a US account at his bank and then wire funds to his 'lumber supplier' in the US.

The other category was layering, and a case cited was that of tobacco smugglers who deposited $112,000 in a Canadian bank account, bought a Guaranteed Investment Certificate which was cashed to buy some real estate, which was sold and for which they received a solicitor's cheque, which was cashed at another bank for large denominations of cash as well as bankers' drafts, which were cashed at yet another bank and then the cash was smuggled to Hong Kong. Why this elaborate process was necessary or was beneficial is mysterious to this author, since the original cash could have been smuggled – perhaps the offenders thought that this complexity was necessary to make it into proper money laundering and an unfollowable money trail! [17] Thus far, the cases have not been complex. This applies also to the four cases out of the 149 examined in which there was some sort of 'insider' involvement.

The Canadian study also revealed what the funds were used for (other than reinvestment in crime). Deposit accounts were the most popular, but real estate purchases came next, three quarters of which were residential homes. (We should note, however, that deposit accounts are an interim resting place, whereas buying real estate is purchase of an actual asset that may be non-liquid.) Currency reporting rules here have generated ridiculously large numbers of bank drafts under the reporting requirements: one might have thought that any regulated professional might have considered this suspicious. However, many traffickers also take out mortgages on the properties, some in the names of relatives or companies controlled by them. This might not defeat serious investigation, since these parties might then have to justify the sources of their loans. But it would make forfeiture harder. The most significant cases were the criminally controlled businesses, e.g. the Caruana-Cuntrera 'empire' unravelled in 2000 (pp. 104-6), including fronts for global drugs smuggling and fronts to justify the payment of salaries etc. to the primary offenders' families, even though the scale of this 'empire' was less

[17] A judge and/or jury might see such conduct as obviously evasive, though if the investigators had not in fact been able to follow the trail and show that they had, the evidence would not have been there against them.

than initially thought. Some of the techniques also involved investment in securities fronted by nominees with no significant sources of legitimate income: hardly a method that could survive detailed investigation.

Drugs and Laundering in Europe

Although European research on laundering is patchy, it is more extensive than in the US and on a par with the Canadian work: the relative lack of American academic research is a curious contrast with the fact that the U.S. has been the policy leader on anti-money laundering, though the US Financial Intelligence Unit FinCEN's quarterly reports regularly present information on patterns of detected laundering (http://www.fincen.gov/). Van Duyne and Levi (2005) review what was then known about money management by European offenders. (See elsewhere in this volume for more recent efforts.) It is important to re-evaluate these and other studies and not to assume they still apply, because any dataset of this kind is the product both of laundering behaviour and of the resources and efforts of the regulated sector and public officials in detecting and pursuing the money trail. Thus while van Duyne and Levi (2005) rightly juxtaposed official claims about the complexity of laundering with prosaic evidence from convicted cases, it would be wrong to infer that there is no sophisticated laundering: the absence of evidence is *not* evidence of absence. We will begin by discussing Dutch money laundering because that is the most developed country for research.

Dutch Money Laundering

The classification in the table below aims to map (from cases that were final) the ways Dutch drugs dealers and traffickers attempt to hide from government the crime-money itself, or the illegal ways of acquisition. The categories are not mutually exclusive, since more than one way of handling proceeds of crime may be employed in the same case 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 help 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, an alleged banker for the underworld whose murder in 2004 supposedly left some serious criminals uncertain of where 'their' assets were (Nelen, 2008). Little is known about how offenders get their proceeds into those property purchases, though some notaries have been suspected as conduits (Lankhorst and Nelen, 2005), even if 'ordinary' lawyers crop up more often in organised crime investigations as assisting criminals (Kruisbergen et al., 2012).

Table 1 Methods of disguising and laundering crime-proceeds

Forms of concealment/disguise	Frequency
Export of currency	31
Disguise of ownership	10
False justification	
(a) loan back	3
(b) Payroll	2
(c) Speculation	1
(d) Bookkeeping	7
'Untraceable'	4

Source: Van Duyne and Levi, 2005

Convicted Dutch (and British) drug wholesalers were only modest users of exotic financial havens for depositing drug money (van Duyne and Levi, 2005), though this may reflect the difficulties of getting financial data in that period. In the Dutch case, the frequency distribution over the foreign countries clustered around *neighbouring* countries, and other jurisdictions were infrequent. Dutch drug-entrepreneurs favoured Belgium and Luxembourg; the Turks and Moroccans favoured their own countries. A Dutch-Thai couple held bank accounts in Thailand because of the nationality of the partner. Unless unprosecuted launderers are different, it seems that the choice of banking jurisdiction is largely determined by proximity to the drug-entrepreneur's 'economic home'. The second report of the Dutch Organised Crime Monitor substantiated this (Kleemans et al., 2002), and this is confirmed in some later studies, e.g. van Duyne and Soudijn (2010) and the bigger 4th report of 150 cases by Kruisbergen et al. (2012), who concluded (301-2):

> In the cases we studied, we found almost no examples of strategic investments in the Netherlands that would result in the acquisition, on the national level, of a position in large companies or projects, or in other kinds of influence in society. We did find examples, however, of offenders who, through investments in real estate and/or companies, obtained a certain position on a local level.
>
> Offenders usually stay close to home with their investments. Familiarity with an investment destination seems to play a role, that is, offenders invest in goods or sectors they are familiar with in their everyday lives. A frequently occurring investment is in real estate. This often involves a house in which the offender lives, but in a number of cases the investments are more large-scale. Furthermore, we relatively often encounter investments in catering businesses and other companies that could be used for the purposes of money laundering, logistics or legitimization. To conclude, offenders

frequently make investments in their country of origin. The distance between the offender and his investment thus is often small, literally as well as figuratively; the investments are functional to the criminal process and/or are made in an environment familiar to the offender.

British Money-Laundering

Imprisoned human traffickers in the UK stated that transferring money abroad was not difficult (Webb and Burrows, 2009). The proceeds from facilitation of the trafficking were often returned to the home country, possibly via bulk cash transfer (see also Soudijn and Reuter, in preparation), where land and property were then bought. Facilitators based in the UK kept the bulk of the money there for disposable income and for investment in property and businesses such as shops, hotels, restaurants and sweatshops. *How* they invested in those high value properties is unknown, but they could also continue to serve as laundering vehicles and even functionally in crime planning and commission.

A British interview-based study of drugs dealers suggests the following pattern of expenditure and laundering (Matrix Research and Consultancy, 2007: 39).

Table 2 Uses of profits by U.K. drug dealers

Use of profit	Often	Sometimes	Never	Non-response	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

Some dealers stressed that they "did not do anything flashy with their earnings", e.g. "just spending the money on the kids…and paying the mortgage" (p.39). 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 (ibid.). However a very large drugs trafficking operation might require a substantial number of such slips and 'runners', thus presenting the offenders with organisational and information flow risks.

Bulgarian Money-Laundering

The Bulgarian Organised Crime threat assessment (CSD, 2012: 63-65) noted that most Bulgarian organized criminals did have licit businesses – more so than in other European

studies – and that In 2010, investment of funds of illicit origin was mainly focused on four distinctive sectors: 1) trade (including dealing in real estate property) – 31%; 2) construction – 27%; 3) gambling – 18%, and 4) tourism – 10%. "The majority of the complex money laundering schemes involve notaries, accountants, lawyers, and financial experts. In larger criminal groups bosses may assign the control of such operations to particular persons. There are no specialist money launderers who provide money-laundering services to other criminals."

German Money-Laundering

Suendorf's (2001) German-language study of laundering in Germany contains 40 examples of money-laundering in the broad juridical meaning of the word: i.e., 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 is set out below:

The *Bosporus 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. In eleven of the forty cases there was an attempt to make an investment in the upperworld, though with variable success and degrees of professionalism. Most of the other examples concerned only the channelling of funds into accounts, not full integration of suspected moneys. Overall, the sophistication and professionalism displayed was modest, but there may have been changes subsequent to this study.

Italian Money-Laundering

There has been much research on how Italian organised criminals obtain their profits and where the proceeds are invested in recent years. However both the financing of crimes (other than via recycling the funds from past crimes) remains obscure and there has been little research on how people make their 'Mafia investments'. Riccardi (2014) outlines five reasons for Mafia making investments in business:

1. Concealment of criminal activities;
2. Profit maximization;
3. Social consensus (by which he means criminal corporate social responsibility);
4. Control of the territory;
5. Cultural or personal reasons.

Not revealed by statistics on confiscations, but equally important, is the interest of Mafia groups for emerging and profitable businesses such as renewable energy, especially biomass and wind power, logistics and express couriers, call centres and the retail trade in gold. The

analysis of about 2,000 companies confiscated in Italy since 1983 to 2012 shows that Mafia groups seem to prefer those markets, business sectors and types of companies that allow them to maximize their territorial control, to benefit from and expand their political relationships, to distribute jobs and sub-contracts and that are close to their personal and cultural background. Since the Italians have sought to explore and expose corporate fronts for organised crime more vigorously than other European countries, these data are relatively good, but of course they still may not guide us that well about the undetected organised crime investments and internal financing of crime. Nor, in a sense, do these investments in vehicles for corrupt contracting and laundering represent full integration in the sense that the classic model of legitimation conceives it.

Nordic Money-Laundering

One reason to conclude that money laundering by many offenders is of modest quality is that little money from organized crime ends up on the gambling tables and in the slot machines in Swedish international casinos (Skinnari and Korsell 2006). There are few criminals of sufficient stature to generate income that is not used or recycled within the illegal economy (Skinnari, Vesterhav, and Korsell 2007). The few who have money to launder can quite easily invest it abroad without questions being asked. In Norway, a large case unveiled substantial investments made in Brazilian resorts by Norwegian criminal entrepreneurs from the Pakistani gangs. It is also documented that money has been invested in hotels and real estate in Thailand and Pakistan. There are similar examples from Finland and Sweden with investments in businesses and real estate in Spain and Thailand. Not much money from organized crime seems to be laundered in the Norwegian securities markets, because there is no easy access to the securities markets for most organized criminals, their knowledge of these markets is at best limited, and they have few acquaintances who work on the inside (Korsell and Larsson, 2011).

Spanish Money-Laundering

The most significant study of money laundering in Spain to date notes (Steinko, 2012: 914-6):

> [I]n most cases, the 'international dimension' means not much more than a zig-zagging transfer between several financial institutions. We have found 23 quite sophisticated cases in which ten or more different institutions had been involved in laundering an average of €20 million per case. The activities involved in these cases show a medium to medium-high degree of 'professionalism'…. The social and political profile of the offenders is also medium to medium-high. These are the 'big cases' of money laundering that used to appear as 'typologies' in the publications of the FATF. However, they are not representative of the whole: they are only 6 per cent of the cases, even if they have laundered 40 per cent of the money…. the higher the social profile of the accused, the riskier his investments. Fixed-rate bank accounts and insurance policies are preferred by

> those of the accused with the lowest social profile…. The higher the social profile of the person accused, the less conservative are the financial products they buy.

After some careful analysis of those laundering cases investigated in Spain, Steinko goes on to note (p.920): "money laundering and productive business activity have very little in common and…launderers prefer companies with no activity at all to those that are at least formally capable of developing a regular productive business activity." Furthermore, few of those investments in actual trading companies are conducted in an economically rational way, and pose little competitive risk to legitimate companies.

Discussion

In money laundering cases internationally, the most commonly prosecuted cases are not complicated. This is not evidence that there are no complicated cases, since even the most sceptical appreciate that the proportion of crime proceeds and crime financing that have been subjected to serious investigation is modest. Let us place laundering and the financing of crime within the context of efforts to control it, since it is implausible that there is no iterative effect, even if that iteration is seldom observed and analysed. With the exception of terrorist finance, little effort has been made *specifically* to control or even to analyse the financing of crimes. As noted earlier, this was merely implicit as an assumption within the control of laundering, even though one plausible shot term consequence of reducing or stopping laundering would be to create a larger reservoir of criminal reinvestment finance. The Italians might claim that their efforts to get banks to record cash deposits to deal with crimes to finance the *brigate rosse* began the process in the 1970s, but theirs was a model developed to deter and pursue the armed bank robberies that were occurring for this purpose. The theories underlying the expected impact of financial crime controls usually assume that drugs traffickers and dealers exercise rational choice (narrowly defined) and that broad situational prevention and targeted enforcement can reduce opportunities and motivation. More broadly – and setting aside other penal principles such as punishing criminals for bad actions because they *deserve* punishment – AML controls rest on five sorts of mechanism (Halliday et al., 2014; Levi and Reuter, 2006):

1. ***Individual prevention*** relies on due diligence by business, and on the passing on to criminal authorities of (a) 'objective' data such as Cash Transaction Reports (CTRs) (in some jurisdictions) and (b) the suspicions of bankers and other regulated persons (Suspicious Transaction or Activity Reports - STRs or SARs) in all jurisdictions to stop criminals from longer term saving from the proceeds of crimes. The theory is that they will be unable to open accounts or that *repeat offending* will be reduced because there is too high a risk of identification from account-monitoring processes before they have got away with their crimes and/or with the proceeds thereof.
2. ***Individual incapacitation*** occurs by freezing and confiscating the illegitimately acquired assets of suspects and convicted offenders, which in turn deprives them of capital to commit further crimes, thereby reducing their criminal capability. *Properly enforced*, the criminals must repay their gains – whether from laundered funds, licit

funds, or by any other means. This is in addition to any incapacitative impact of custody or even of conviction *per se*, i.e. people and companies requiring professional licenses as 'fit and proper persons' can no longer practice legally upfront.[18]

3. ***Individual deterrence*** occurs when criminals fear a high risk of exposure if they open up accounts, and/or, if they use corporate fronts or buy other assets from the regulated sector, or if enablers fear sufficiently the loss of other assets they value, e.g. freedom, legitimately acquired assets and reputation. Consequently, they limit the commission of crimes beyond their capacity for personal/group lifestyle consumption and physical storage, or avoid crime altogether if higher status persons. This overlaps with individual prevention. However in the classic rational offender model, it also reflects their fear of prosecution and sentence, including collateral damage.
4. ***Group deterrence*** occurs when AML punitive sanctions suppress organised crime, partly because a sufficient number of individuals who might otherwise act as enablers are deterred. Collectively, if there is a level-playing field, this reduces their ability to use different national regimes or institutions within a national regime to find a weak link.
5. ***Community support for the rule of law and government*** can be engendered when an AML/confiscation system enhances 'just deserts' by stripping offenders of their ill-gotten gains and is seen as lessening the attractiveness of certain crimes to others, e.g. drug dealers or generalist crime entrepreneurs are no longer seen as role models. The public face of AML (and of civil asset recovery) may reduce public anxiety about the impunity of evil-doers and contributes to the public's sense of justice. The public sentiment that crooks should not be allowed to benefit from the fruits of crime is an important policy driver and a motivation for financial investigation (alongside generating better evidence against offenders).

Very little is publicly known about how difficult drugs traders or other offenders nowadays find it to launder money, let alone about their detailed risk perceptions of different modes of laundering.[19] British research based on interviews with imprisoned traffickers (of drugs and/or people) suggests that those offenders had modest money laundering sophistication and did not find the system problematic to bypass; likewise some Dutch research based on file analysis (van Duyne and Levi, 2005). The downside risks of being rejected when opening accounts may

[18] Though criminal record flows across borders are often uneven, and the reluctance to prosecute corporations even in those jurisdictions that have corporate criminal liability means that there are often only administrative records of 'corporate criminal careers'. Flows of administrative records across jurisdictions are also uneven. As recent scandals involving the takeover of some English soccer clubs (e.g. Birmingham City, Leeds United) shows, the actual application of 'fit and proper person' rules can be quite problematic.

[19] This does not mean that others were undeterred, but the scale of such deterrence is unknown. Research on the *impact* of suspicious transaction reports, financial investigation, money laundering prosecution and even asset recovery/confiscation is sparse and is not cited or relied upon in AML assessments by FATF and FATF-style bodies. A rare exception is the March 2012 *Proposal for a Directive of The European Parliament and The Council on the freezing and confiscation of proceeds of crime in the European Union*. This did contain an Impact Assessment to which this author contributed – see: Matrix Insight (2009). For an interesting study of Italian Mafia Investments based on case files, see: http://www.investimentioc.it/

be low, since unless they suspect that they are aiming to defraud the firm itself, regulated firms seldom report to Financial Intelligence Units those who fail their Know Your Customer 'onboarding' tests - these failed applicants are never customers.[20] Historically, normal risk perceptions of relevant parts of financial institutions have not been nearly high enough to deter *all* serious non-compliance to AML regulation, though without increasing perceived and/or actual detection risks and reducing the elapsed time to action, raising sanctions alone may not work.

Indeed, without doing compliance 'mystery shopping' *internationally* to examine the true state of due diligence and reporting – which this author proposed two decades ago in the UK – it is difficult to single out particularly reckless institutions except in the aftermath of scandals that, for example, engulfed Wachovia and HSBC for their role in laundering proceeds of drug trafficking on the Mexico-US intersection, and some Swiss banks (Wegelin – which was closed down; UBS; and Credit Suisse) for allegedly actively soliciting American clients for covert offshore tax avoidance and evasion schemes (presumably largely involving legal-source income).[21] Differential association among bankers and Gresham's Law may have produced greater pro-criminal conformity among bankers in the long run – as it appeared to do among Forex and LIBOR market-makers - but the extent of this is not yet known. Thematic inspections by the UK's former Financial Services Authority and by World Bank funded experimental exercises have revealed the poor state of compliance in the UK and among some financial intermediaries elsewhere, at least as regards 'Politically Exposed Persons' who may be involved in corruption or other offences (FSA, 2011; Findley et al., 2013a, 2013b).

From an official perspective, although infiltration and undercover work by 'cooperating witnesses' have been used, 'Sting operations' have not been tried against elite mainstream financial institutions. The German intelligence services have sought to create a natural experiment by paying bank employees for mass copied data on account holders in major offshore banks in Liechtenstein, and arrests of Swiss bankers and of lawyers with data on computers have revealed widespread facilitated or actively promoted tax evasion. The US organised a 'sting' against Mexican banks in the DEA's Operation Casablanca in 1998, but the selection of foreign rather than domestic banks by the US authorities for serious sanction may owe more to politics than to relative harm caused or future dangerousness. Subsequent international investigative journalism and US Senate Permanent Sub-Committee on Investigations reports have generated significant public information about elite banking misconduct.

Otherwise, reliance on convicted cases excludes those cases that are undetected or that, though in a sense 'detected', are problematic to prosecute, whether in Europe or elsewhere. Internationally, there is much variation in patterns of laundering and in the markets for laundering services, which do not appear to be dominated by hierarchical 'Mr. Bigs' or

[20] Author interviews with convenience-sampled bankers internationally, 1998-present.

[21] The extent to which other banks behaved differently to Mexicans or actively solicited non-Americans for tax evasion is unknown, but it is not a reasonable assumption that they all behaved the same – competitive pressures notwithstanding, there may be individual bank and sub-unit cultures in the pursuit of new clients.

'criminal masterminds'. However the skills involved in getting multi-millions in Euros in Value-Added Tax and other frauds to disappear beyond the reach of well trained and financed forensic accountants tells us something about the sophistication of some launderers and about the opacity of the world of international finance, despite the efforts that have been made to increase transparency and mutual legal assistance since the anti-money laundering movement developed.

Conclusions

The terms 'money laundering' and even 'criminal finances' conjure up an imagery of criminal financial exotica requiring specialist skills for very serious cases of major crimes and transnational crime syndicates. Yet due to the extension of money laundering legislation globally to cover self-laundering and to almost anything criminals do with proceeds of crime except spending it modestly in immediate consumption,[22] it is in legal though not yet criminal investigation terms a ubiquitous part of the criminal landscape. Prima facie, it sounds contradictory that financing future crimes from reinvestment of proceeds of past crimes still counts as money laundering, but that is the case. Indeed, it is a paradox of the attempts to stop criminals from legitimising their crime proceeds that more criminal reinvestment capital may be made available due to the difficulties and risks of 'real' laundering. Such difficulties might constitute an intermediate performance measure for the AML 'system', assuming that we could find sufficient 'price points' to measure them systematically.[23]

The scale of criminality for gain and the forms in which proceeds are generated generate specific problems for those who want to store, transfer and use them without fear of generating legal intervention beyond the original predicate crimes. Using real or even front businesses to generate explanations for financial or value transfers confers protection from routine detection, and notwithstanding the major enhancements in mutual legal assistance over the last two decades, jurisdictional rules and parochial preoccupation with domestic cases mean that once out of the country/countries in which primary offences occurred, cross-border investigations and asset recovery are expensive and often slow except where EU processes, for example, make them simple. The enormous volume of cross-border cash smuggling, after which the trail often goes cold, shows the limitations of the preventative and criminal justice components of AML in combating crime. Most outsiders presumably are reluctant to finance illicit enterprises, so finance must be secured via internal reinvestment, from parties in the criminal supply chain (as credit in barters) secured against the future life of borrowers and those close to them, and from others in the trust circle. This is not likely to be transformed by crypto-currencies or digital 'dark markets', which tend to be directly transactional so far, though Aldridge and Décary-Hétu (2013) have noted the significant rise in trade on Silk Road before its (temporary) closure.

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[22] In US Federal law, even spending for immediate consumption can constitute money laundering if the party has the requisite knowledge that the funds and proceeds of crime.

[23] The history of illegal drug price and availability measurement gives ground for caution on the likelihood of empirical adequacy. Indeed, the rise of synthetics and artisanal production makes finding price points even harder.

There is a core contradiction between general economic policy pushed hard multilaterally for liberalization of financial flows and a crime control policy intent on hampering them. No-one could rationally think that AML controls in general or financial investigation in particular will 'solve' organised crime completely or eliminate high-level offending: for there even to be a chance to achieve that, there would need to be a step change in transparency and effective action against high-level corruption along all possible supply chains. However more action (not just legislation) on these should facilitate interventions against the more harmful individuals, networks and crime enablers. The less complex financial activities of local drug-dealing gangs can be intervened against, without needing international cooperation or familiarity with sophisticated money laundering typologies. Many criminals 'offend to spend' and this needs to be factored into the realism of the large guesstimates of national and global money laundering *and savings from crime* as measures of what financial measures against drug dealing/trafficking are capable of achieving (though see McFadden et al., 2014, for a more optimistic view of enforcement). As for the financing of crimes, we have yet to develop more than a commonsense logic that examines this in terms of ambitions, credit facilities from underworld and other sources, and cash resources to purchase the precursors of crime and any marginal professional and lifestyle costs incurred in the preparation and commission of crime. To pursue this, we might develop an empirical logistical approach that takes up crime in terms of the cost of the routine activities needed to develop it at different operational levels in different contexts, for example differential levels of corruption, the availability of the tools of crime, vulnerability to asset seizure and confiscation, et cetera. It is to be hoped that the National Risk Assessments being undertaken under the aegis of the revised FATF (2013) Money Laundering Methodology will yield greater insights into these risks in more countries, though this cannot be created by magic but by more theoretically informed collection mechanisms which may develop over the longer run, to make the challenge of outcome-focussed anti money laundering a closer reality than it has been in the past (Halliday et al., 2014).

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