Money-laundering

Pavlov's dog and beyond

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Introduction

Policy makers of various kinds and the famous dog of the Russian psychologist Pavlov have a few traits in common. They are perceptive, obedient and start to salivate as soon as there rings a bell they are conditioned to. There is one difference: Pavlov's doggie was honest to the extent that he could not help salivating because he did not know better. Educated policy makers are supposed not to act on the basis of classical conditioning but on the basis of insight. The more I observe policy making the more I doubt the validity of that assumption. One of the nowadays stimuli which invariably evoke the conditioned response of political salivation is 'organized crime', which may be reinforced by the stimulus 'money-laundering' for an additional barking response. However, I am not a behaviourist but a cognitive psychologist looking for the meaning and contents of the stimuli and the response patterns. Let us therefore look at the stimuli first: organized crime and money-laundering.

The concept of organized crime is not a neutral one. It has a heavy emotional component. This is frequently exploited by what may be called the Threat Assessment Industry. This consists of public agencies, private firms or persons, who are primarily interested in conveying an image of organized crime which suits their purposes. Frequently this image is an apocalyptic one: a huge threat of the sinister forces of darkness. The threat-assessment reports are composed accordingly and sold for not too modest prices. As soon as society gets the desired feeling of being threatened, the Threat Assessment Industry offers protection and in the end we all pay voluntarily legal protection money. There is little irony in the observation that the organized crime industry is a big money-maker indeed, not the least for respectable problem-owners in private or public services, whose social-economic status increases with the size of the problem. Unfortunately policy makers allowed themselves to be conditioned by this Threat Assessment Industry.
Organized crime-economy and money-laundering

What are we talking about? Roughly we are talking about two economic phenomena: on the one hand there is the economic buccaneer, the economic predator, robbing or defrauding the legitimate merchantmen without providing goods or services. On the other hand there are the criminal sellers of goods and services which are being bought by real customers, who are usually not criminals. Some goods are illegal, some are legal but offered fraudulently. Both categories of crime-entrepreneurs, which contain a motley variety of subcategories, do not operate outside the economic system but right in the midst of it, contributing in whatever unsympathetic way to the Gross Domestic Product of various jurisdictions.1)

This sounds like heresy, but let us face the simple fact that the generated crime-money is not exported to the moon, but has to surface finally in the upperworld to be transformed into production relations, assets or services which are the components of the legitimate economy. New legislation aims to stem this undesirable money-flow. I do not question this policy for which I wrote the first report some ten years ago.2) Still I wonder whether we have a clear view on this phenomenon.

When we take a closer look at the phenomenon of money-laundering we face the falacy of the undue broadening of the concept. Almost every act of veiling and concealing the sources of crime-money is covered by the legal definition of money-laundering.3) This broadens this concept so much as to turn it almost into a tautology, because the basis of any crime-trade is concealment and disguise, certainly concerning the proceeds. Money-laundering is not an additional extra dimension of evil, it is just a financial consequence of the success of any crime-trade, whether as an end result or as an ongoing business. A crime-entrepreneur who fails on this point is soon out of business and should certainly not be taken too serious. However, the essence of money-laundering is not the global dragging of money-bags in order to fool the police,

2 *Financiële facetten van ernstige vormen van criminaliteit*, Den Haag, Ministerie van Justitie, 1987
3 The European Union definition of money-laundering is: ‘The conversion or transfer of property, knowing that such property is derived from a criminal activity or from an act of participation in such activity, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such activity to evade the legal consequences of his action.’ Does this mean that giving a stolen car or an antique clock a new identity (disguising the illicit origin) is also covered by this definition?
but the art of false legitimating one's income or the acquisition of assets. Concealed money remains an unlaunched floating underground asset, despite the prevailing legal definition of money-laundering. Therefore, the Dutch legislator has acted correctly in not incorporating the term 'money-laundering' into the Dutch Penal Code, resorting to broadening the concept of fencing instead. This brings me to the second observation. Money-laundering is a link in the huge ramified delta of the underground economy towards the accountable upperworld, covering those moneys which are (a) not consumed, (b) used for the acquisition of registered goods and (c) are needed for upperworld business operations. Money-laundering is a delicate criminal managementskill, in view of the risks and costs involved only applied when needed.

After this introduction the following questions are:

a. how much crime-money is really being laundered in the sense of false legitimation
b. how is this money being used economically and
c. what may be considered the most important criminal policy objectives of the anti-laundering policy?

**Estimating the volume of money-laundering**

Unfortunately, the approach of money-laundering has been accompanied more by fact faking than fact finding. No Certified Fraud Examiner would ever accept a yearly report of a corporation if its figures would have been gleaned and glued together in the way of the alarmist first FATF report, which figures were obviously intended for stimulating political action. Nevertheless, bad facts stick like mud, particularly when they are being repeated over and over again by the Threat Assessment Industry. For the Netherlands we had the threat assessment report of McKinsey in 1991, estimating the Dutch crime-industry of drugs, gambling and arms trading at 10 billion guilders. I do not know whether their fee was related to the height of the estimate, but there was a sharp inverse relation between the contents of the report and the price of it. Recently

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5 This is in agreement with Korf and Verbraeck's observation of middle-level hash dealers: some of the wealthy dealers stated that they eschewed money-laundering as a 'headache producing' activity: too much trouble with incomprehensible constructions. Korf and Verbraeck, *Dealers en dealers*, Amsterdam, Criminologisch Instituut Bonger, 1993.
6 In their recent report over 1996/97 the secretariat showed more caution, remarking that 'unfortunately, the vast majority of FATF members lack sufficient data to support any credible estimate'.
the Dutch Central Bureau of Statistics made a more modest and realistic assessment of the illegal production in the national accounts of the Netherlands. Estimating the added value of illegal transactions they arrived at the modest figure of 5 billion guilders, less than 1% of the GDP. Only a part of this money may be laundered. Though their underlying assumptions are debatable, their study is a refreshing and sobering approach.

Of course, fraud examiners (certainly the certified ones) are not naïve and are paid for their capacity to ask awkward questions. The first awkward question is how do we fancy a yearly money-flow of $122 billion dollar as estimated by the FATF being laundered? And bear in mind, this figure from the 1990 report concerns only the proceeds from the drug trade. Finding no evidence that the anti drug policy has had any effect on this market during the last seven years, this figure should at least be corrected for inflation and market expansion. To this sum one should add the profits from fraud and other forms of profit oriented crimes. If properly laundered, this staggering amount of money should year after year surface in the upperworld, together with the all black savings of tax evaders and other owners of hot, but not necessarily criminal money. Assuming for the sake of argument that this is true, we still have to find out where this money is surfacing, finally legitimized and spent in the upperworld.

Looking back at the years which passed after the first FATF report and the continued work of this august task force one may feel some disappointment, particularly because such basic questions have been neglected, starting with the question about the money-flows. This is strange, because one of the most important recommendations of the FATF was to follow and map the cash based cross-border money flows. Although this is a horrendously difficult empirical task, it would shed some light on this shady phenomenon. So what happened with this recommendation? Well, nothing.

The value of this approach is that it could inform us of the financial dynamics of the large scale crime-economy. Just consider the Dutch cannabis trade. The Netherlands are net exporters of this commodity, so they are net importers of currency. For example, before the implementation of the anti money-laundering policy a huge cash flow has been observed between the Netherlands and the British Isles. The police established that one exchange bureau in Amsterdam handled in one month more British and Irish currency than could be accounted for by all the British tourists in one year. I brought this finding to the attention of National Criminal Intelligence Service and the Bank of England, assuming naively that they would have found it out already themselves or would consider this 'criminal trade deficit' a serious phenomenon. The response

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7 R. van der Werf, Registration of illegal production in the National Accounts of the Netherlands, Voorburg, CBS, 1997

If the matter would have been taken serious, one would not only have observed an enormous flow of banknotes from England, Scotland (I have never seen Scottish banknotes in England) and recently from Ireland to the Netherlands, and from there to Belgium, where this currency is changed into Dutch guilders. This means that the Belgian exchange bureaus have to import Dutch currency. Do they? No they don't. I was informed by the Belgian Central Service against Organised and Financial Crime that the Belgian branches of the Dutch banks probably delivered the Dutch banknotes. This is an interbank affair which is not related to this curious money pumping system. The return of the British banknotes to the British, Scotch and Irish banks is not recorded either. Mapping this fascinating exchange mechanism could have provided some partial insight into the magnitude of a sector of the underground economy in Northwestern Europe. One may call it a lost opportunity. How serious do we take money-laundering?

The same story of lost opportunities concerns the representative offices which facilitate the transfer of money to foreign banks in Turkey, Morocco or other countries which do not have banking facilities in the Netherlands. This channel was popular for transferring cash to the home countries of ethnic minorities. You just deposited the money in a Dutch bank on the account of the representative office and showed the receipt at the desk of the rep's office. This office handled the rest of the paper work. No questions asked. However, the Dutch authorities started to ask questions, because hundreds of millions of guilders were being handled through this channel: $390\text{ million }$ in 1991 and $460\text{ million }$ in 1992, ranging from honest savings to large suspicious sums. Measures were taken and the turnover of the rep-transfers went down with 37% to $290\text{ million }$ in 1993, a decline which cannot be explained by other economic factors. At present these facilities are covered by the anti money-laundering regulation (though these transfers are strictly no laundering activities). So this money-flow has been stemmed. Has it? As far as I know no such questions were being asked, because everybody sensed a feeling of victory. If it is a victory at all, it is a strange one, however. Where is the defeated enemy? Where is the crime-money? What has been achieved? Has this money-flow evaporated or dried up by the magic of our notification system? We do not know. It is revealing for the level of our strategic criminal policy that no such questions are being asked, let alone answered after the short term objectives have been achieved.
What is needed for a strategic policy leading to a realistic assessment of the volume of money-laundering? First of all a systematic and long term money-flow monitor. Given the huge methodological problems in interpreting the outcomes, it has to be guided by realistic expectations. For example, that more money may be concealed for fiscal than for criminal reasons.

Monitoring and mapping money-flows is certainly not enough. In addition one has to obtain insight into the underground economy. Here too one can make an accusation of negligence. Are the existing data and knowledge which are gathering dust at a wide variety of agencies sufficiently exploited? For example, there is the drugs observatory in Lisbon,\(^9\) disseminating valuable reports about the drug market developments. Is this information connected to financial data? Hardly. Relating general financial information to the flow of forbidden goods is beset by many methodological problems and the danger of overstating the so-called money-laundering threat. In order to prevent inflating the phenomenon it is also required to learn more about the human aspects of the criminal markets: the social-economic side of the crime-trade. Though all illegal money-earners are potential money-launderers, most of them do not even come within the range of this activity.\(^{10}\) The reason is not a shortage of money floating around, but that very floating around of the money itself: the aquarium economy of the underground crime-community. Much crime-money simply remains in the underground economy to be put into the numerous hands of aids, associates, family and the like. Crime-trade feeds many small mouths indeed.\(^{11}\) Another part of the criminal income is used for the well known expensive ostentatious flashy lifestyle, which not only suits the taste of the crime-entrepreneurs, but has also a social meaning: to show one's success. That floating money needs no laundering. What we want to know in the first place is the amount of money which is saved and has to be processed secretly through the official financial channels in such a way that it can be used in the upperworld without awkward questions asked. This requires an analysis of the use of the crime-money in the upperworld.

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9 European Monitoring Centre for Drugs and Drug Addiction
11 See G.R. Otten, J.A. Statema and C.C.P. Verster, *Macro-economische betekenis van de georganiseerde criminaliteit*, Rotterdam, Nederlands Economisch Instituut, 1995, for an intriguing account of the economic spin off of (organized) crime, leading to important income distribution in the crime-economy as well as in the upperworld: why are we paid for?
Crime-money in the upperworld

One of the central questions in the whole laundering issue is the alleged infiltration of crime-money into the healthy fabric of our trade and industry, corrupting and eroding the supposed integrity of our bankers, builders, jurists or whoever touches it. Historically one should realize that the charity funds and institutions of Vanderbilt, Stanford, Carnegie, Rockefeller and some other historical American crime-entrepreneurs would never have been established if these criminal robber-barons would have been plagued by such futilities like clean money. It is quite telling of the cheese-paring narrow-mindedness of our continental or Dutch crime-entrepreneurs that while indulging in their tasteless luxury none of them ever established a foundation for the blind, deaf or cripple, donated to the Red Cross or helped Greenpeace with one of their boats which could not be used for smuggling anyhow, because she has been spotted by the police. I guess they did not even donate to the Princess Diana Foundation!

If we are so afraid of the moral havoc crime-money may create, we have to look at the upperworld sectors which are ‘at risk’ for such unwanted (by the State) capital influx and at the psychological, social and economic backgrounds of the crime-entrepreneurs who are supposed to be eager to invest in the upperworld.

When we want to make an inventory of the criminal investment areas we again have to ask some down to earth questions. Suppose I have some 20 million bucks of black money to invest productively. What to do? I must find an industry, a firm or a plant capable of absorbing this sum. This means that a plant is capable of transforming this money into increased production which will earn itself back on the market. (It goes without saying that such an influx has to be laundered in the first place.) This is no easy task. Various industrial sectors have been listed as vulnerable for such a criminal influx: the building industry, the real estate market, the haulier branch, the catering industry, the waste processing industry and the stock market. What is the evidence so far? This depends very much on the jurisdiction involved. For Northwestern Europe the evidence is meagre indeed, if we look at the black money-flows from the [underground] economy. Two sectors have proved to be most vulnerable: the real estate market and the catering industry.12

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The underground economy

Investment of crime-money in the real estate market is no novelty. Leaving aside the buying of luxurious houses for own use (as well as for the family and sexual partners), investment in the real estate market has some advantages. In the first place such investments generally do not lose their value relative to inflation. Secondly, they are relatively easy to manage, which can be delegated to specialized estate agencies. Thirdly, they constitute so-called free-price goods, which means that there is a wide price range for individual items compared to bulk goods like food, petrol or gold. Once acquired it is not so difficult to manipulate the prices to suit other than economic purposes. If one can manipulate the price one can easily create phony speculative 'windfall' profits which go untaxed. It goes without saying that the opportunities for money-laundering are wide open. A well known example is the ABC-contract: the house is sold from A to B and then to C for increasing prices. Preferably these are foreign shell companies in tax havens directed by the same criminal(s). The last company in the chain will sell the house on the open market for a lower price than the artificially inflated one. This means that the last selling company has a loss, which may lead to a reduction of the company tax or a tax refund as a handsome legal bonus.13)

There is one disadvantage with real estate: it is a registered good necessarily creating paper-trails. Entering the real estate market requires a successfully completed money-laundering process. If one takes into account that the individual sums involved are frequently of a magnitude of more than a million guilders, the money-laundering construction cannot be carried out in one jurisdiction. One needs several cross-border transfer and transaction loops before one can use the money in the jurisdiction of investment, usually by means of complicated loan-back constructions by which 'loans' wholly guaranteed by crim-moneys are made to the final investment corporation. It is interesting to note that these corporations hardly ever start with capital of their own: if one observes a real estate investment firm with only foreign capital there are serious grounds for raising some penetrating questions. Few accountants do ask such questions. Sometimes it is better to recognize the final product of money-laundering than to start halfway the chain.

Two questions remain to be answered: the volume of the crime-money influx into this market and the unwanted impacts. Both questions are hard to answer because years of law enforcement lamentations and complaints about the real estate market have not

resulted in any major real estate research project to shed light on this complicated area. From what modest amount is known, it appears that most successful crime-entrepreneurs entering this market invest only their own money. My research on Dutch organised crime seldom reveals a fusion of criminal capital to create a consolidated joint venture with a common fund; just a handful and these criminal investors were no small fry indeed.\textsuperscript{14} Such 'cooperatives' consisted of two or three crime-entrepreneurs who were either related or trusted each other just enough to feel safe for a joint enterprise. In some cases, observed by me and Udink (see footnote 13) the entrepreneurs acted already as a joint venture crime-enterprise in the basic trade. If this observation is correct it means that the crime-entrepreneurs tend to operate alone or in small cooperatives, making simple additions hard to interpret. This affects the second question: the social and economic impact on the market. If the investment is intended to be the final act of money-laundering by creating a speculative profit or obtaining a mortgage (with a foreign criminal deposit as collateral) the impact on the market is limited and the crime-entrepreneur may be willing to retire as soon as he has achieved the laundering objectives or has pocketed sufficient money from an investment or mortgage scam. He abuses the market, but he has no intention of becoming a permanent market player. This does not imply that his way of doing business does not create victims, like banks granting too high mortgages based on fabricated and inflated prices.\textsuperscript{15} This means the crime-money is frequently leaving the market again: where does it go?

Do the few crime-entrepreneurs, infiltrating this market by growing into (temporary) market players, amass real estate and power as they expand by investing their cheap dirty money? The answer is 'yes', but qualified as 'some do' and not so very many for that matter. Even then their impact is relative, though socially unacceptable, frequently neglecting the dwellings and forcing the town councils to buy their property for high


\textsuperscript{15} In 1993 three stock exchange registered small real estate corporations have been removed from the Stock exchange for (among others) extensive price manipulations by the majority shareholders. See A.B. Hoogenboom, 'Boy, have I got a deal for you': georganiseerde fraude in het financiële stelsel. In: A.B. Hoogenboom, V. Mul and A. Wielenga, \textit{Financiële integriteit. Normafwijkend gedrag en (zelf)regulering binnen het financiële stelsel}. Arnhem, Gouda Quint, 1995.
prices in order to renovate the decayed and impoverished neighbourhood. However, lack of systematic research makes it impossible to determine whether these criminal estate investment firms operate more unethical than the legitimate speculators, buying old or monumental houses which they refuse to maintain with the sole purpose of tearing them down and replacing them by high priced appartments or ugly office blocks. Big money, whatever its original colour, hardly ever follows the narrow path of virtue.

At this point we have to return to the sociology of the crime-entrepreneurs and raise the question of the likelihood that a classical underground entrepreneur will rise to this elevated social level. One should bear in mind that such a crime-entrepreneur has to rise from an essentially cash based economy to a higher social-economic level for which he will need other social and intellectual skills. Suppose he succeeds, albeit temporarily. What will happen in the real world of cops and villains? Whatever the myth of the global village, in the small world of the big crim-money one lives in a virtual rural village, characterized by gossip, jealousy and treachery. It is almost a 'social law' that big criminal upstarts become known to the police and subsequently to the media. This entails serious social-economic constraints for the crime-entrepreneur to move his money freely in the respectable circles in order find a quiet place to rest economically as well as socially. Wherever he emerges in the upperworld the media follow his trail penetrating the black clouds of his past. It is not because of the higher ethical standards of the upperworld that big crime-entrepreneurs face a hard time if they want to climb the social ladder. The white-collar establishment has sufficient media problems of its own not to welcome some more from a caddish boor or wealthy clodhopper!

Despite this observation there is no reason for complacency. Some 'respectable' financial advisors are receptive for the big money with a shady origin and aid the criminal investors while shielding them from the prying eye of the tax man or law enforcement. Here again, the economy of scale and hasty transactions deviating from common business practices prove fatal for the combine: they became too visible, their behaviour looked even in the flashy landscape of the slicky jet set too rash and due press attention or even an intervention of the Dutch Central Bank shortened the life time of the spotted real estate cooperatives. In the approximately hundred organised

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16 In the Netherlands the red light areas are popular areas for investments, which is quite common. At present the local authorities are in the process of cleaning up these areas, providing licences to whores (who are recognized as independent entrepreneurs) or whore-house owners if conditions concerning sanity and safety are met. The town councils try to buy the houses from criminal owners who do not comply with the new regulations. This is an expensive operation as the houses are sold 'by the window', which is a real bonanza for the owners.
crime files I have studied I observed only one case in which the cooperating dubious investors (or rather their advisor) showed the due patience and complied with all the requirements of civil law concerning managerial liability which has a time span of three years. Beware of the patient strategically operating crime-entrepreneurs!17)

The catering business has always attracted the attention of crime-entrepreneurs who had saved some money for a rainy day. Like the old-time pirate, retired to his inn to boasts of his exploits, a pub or restaurant is still a favourite possession which carries a high social value. Criminals are almost literally materialistic and a pub is a concrete, tangible, visible property, visited by their pals who can negotiate their deals or just hang out. One can reward someone by making him manager or giving him a lesser job, etc. Even if this appears natural enough, law enforcement has alarmed the politicians that things were getting out of control. Criminals would actually be taking over increasingly more restaurants and pubs in certain areas. Was that a fact? Yes and no. In downtown Amsterdam there was a real threat, so the police said. Alas, this claim could not be checked because the raw database had been thrown away. Research in Rotterdam revealed that the threat in that town was less than has been assumed.18)

In my own research I also analyzed some investments of wholesale smugglers in this sector. I was not so much struck by the scale of investment (a qualitative research would never answer that question) but by the lack of strategic thinking. Property, whether it concerned real estate or catering businesses, was not amassed in a strategic way, such as to make a social leverage in the upperworld. The individual items were scattered all over the country, revealed no geographical planning, while the investigation detected less systematic money-laundering than has always been assumed. As a rule the management was too clumsy for more sophistication than the well known loan back constructions needed for the acquisition of the pubs. The exceptions were always refreshing experiences.

17 Another case, described in Van Duyne (see footnote 12) concerned an international strategic investment in real estate and industrial plants and service industry in Canada, the Netherlands and Poland. The leader was certainly no glamour boy, eschewing ostentatious display and even forcing his co-entrepreneurs to restrict their excesses to other jurisdictions where they would not attract attention.

18 B. Hoogenboom and P. Hoogenboom-Statema, Foute kroeg, horeca en criminaliteit in Rotterdam, ’s-Gravenhage, SDU-uitgevers, 1996. The authors demythologize some myths surrounding the catering. In general: there is more black money floating around than there is money-laundering, some underworld investments, particularly by gambling machine exploitants and less forced protection than assumed.
The upperworld economy

The above descriptions apply to the crime-entrepreneurs from the cash based underground economy: the lombroso-heads on their way to the big money. What are the prospects of the organized fraudsters? Do they swamp our society with their crime-money, and if so, how do they do that? Again we have to look at the human aspects of the business crime-entrepreneur and create some hypothetical order.

First we have the category of the social-economic 'nomads'. This is not the white collar version of the criminal motorbike club, but a characteristic of the predatory fraudsters who thrive by making victims: they cheat either by not paying or by offering only dream-gold and fata morganas. Technically this implies that the economic life span of their scams is limited. Victims start to complain, go to the police, file for a bankruptcy and the crime-entrepreneur has to move again. Whatever his ill gotten gains (which are often huge), he is and remains a homeless entrepreneur with homeless money, irrespective of their laundering techniques.

The next category consists of smart business crime-entrepreneurs who know one is better off if one is a sedentary market player. But then one has to offer real goods and services, made cheap by defrauding the public finances. This strategy increases the economic lifespan, though eventually the scam becomes known and the fiscal police or other special supervisory agencies come into action, as is usually the case with large scale import and export scams. Although the scam and sometimes even the entrepreneur himself becomes known, it does not mean that law enforcement is able to penetrate through the smokescreens of his numerous front firms, which he juggles skillfully. Despite this skill, the front firm juggler as I call him, still has a drawback for social integration: he also has a too murky history to move his criminal surpluses freely around in the upperworld to transform them into productions relations. In my research I found that the upperworld market (a) often knew these crime-entrepreneurs and (b) profitted highly unethically from the low priced goods while not granting these market players more than a social and economic fringe status. While the front firm juggler is a sedentary crime-entrepreneur and a serious threat to sound market relations, though tolerated and used by sections of the upperworld, the economic outlets of his big money still remain restricted.

Where do we find safe outlets and a stabilized precipitation of crime-money in the production relations in the upperworld? We find it right in the legitimate corporations where money-laundering is not an external transaction, in a way outside the administrative processes of a firm, but incorporated in the very way of doing business. How do we represent such a legitimate but criminal firm? It is often a firm, thriving in a market
characterized by many small or middle class firms, low profit margins and a high turnover. If the management succeeds in mixing 5 to 10% of fraudulent transactions with the flow of normal transactions, it will just have the extra margin needed to be creditworthy to any financial institution. Therefore I call these crime-entrepreneurs *mixers*. Although they 'only' commit tax fraud, if we adopt the strict criterion that a firm which cannot exist or make profits by fraud or other economic crime is a crime-enterprise, I see no reason why we should not equate the responsible managers with the crime-entrepreneurs I described above. Socially these crime-entrepreneurs have all the advantages of being in the position of reinvesting their crime-money in hardly viable enterprises: they are respectable (and often remain so, despite publicly established tax-fraud); they have the administrative processes in their own hands and they do have their economic production factors in their own courtyard in which they can plough their crime-money back. Economic sectors where these mixers were found were the HiFi trade, meat industry, trade in high taxed goods (alcohol, tobacco), waste processing industry, and the catering business (big motel holdings).

*Global flows for big and small*

Of course we should not look only at the criminal economy of the industrialized world, though we sympathize with the presumably 'victimised' wealthy countries 'struggling' with so much crime-money in their Gross Domestic Products. We should also look at the countries which are major exporters of forbidden goods, mainly drugs or recipients of steady flows of corruption moneys, frequently connected to deals with respectable western industrialists. As a rule these are developing economies with a fragile infrastructure and a limited investment potential. Let us again look at the supposedly astronomical volume of the crime-money floating around the globe and repeat the parodied question of Marlene Dietrich: ‘*Frag mir wo die Billionen sind, wo sind sie geblieben*?’ The answer could be ‘*junge Nationen pflückten sie geschwind*’, making these countries not only exporters of criminal products but also investment havens for crime-money earned in the consumer countries.\(^{19}\) Is that *Wahrheit oder Verdichtung*?

\(^{19}\) For the linguistically uneducated English readers the translation of these phrases is: ‘Ask where the billions are, where have they gone?’ and ‘Young nations picked them quickly’. (Do not dare to delete this insult against the British! I need one insult per paper, otherwise I develop withdrawal symptoms, like sallivating. And you known how much I like insulting (in arbitrary order): the Brits, police, civil servants, prosecutors, Americans, judges, Germans, Jews and Arabs (to remain neutral), European Commission . . . . . just add who I may have forgotten).
(truth or imagination)? As a matter of fact we do not have any valid knowledge, let alone some overview. Of course we have to differentiate according to the economic state of the countries and the direction of the yearly money-flows which are supposed to swamp these nations, bringing their dirty, but fertile silt to their arid economic soil, like the river Nile fertilizes the desert. Look at it step by step.

First, the foreign currency flows in and has to be changed in local currency. This foreign currency will eventually repatriate, the speed of which depends on the country of origin. Italian lires return quicker than the speed of light, while Deutschmarks or dollars may be hoarded as hard currency. Secondly a part of the money must be used to keep the local branch of the crime-industry going, being spent on wages, fees, bribes and consumption. This flows directly into the Gross Domestic Product of the exporting country and needs no laundering. Thirdly there are the net profits, the 'savings' or surplus free capital available for (laundered) investment in production factors or assets. The questions are; to what extent are these exporting countries capable of absorbing these huge savings without negative economic side effects; how this is accomplished, and how much money crime-entrepreneurs are actually willing to invest in their own countries, often plagued by galloping inflation and political instability. They may rather follow their compatriots in their capital flight.\(^{20}\) If that is the case, where does the crime-money go in that case? We pretend not to know, but we should seriously consider the plausible hypothesis, that that money may pop up clean and snow white in the banks of the equally snow white western bankers complying conscientiously with the anti-money laundering regulations at home. This is no absurd hypothesis, if we take account of some aspects of the solution of the international dept crisis as described by Naylor in his book `Hot money': no dollars were better than coca dollars in helping the western banks regaining their bad loans. Money-laundering may very well be a bigger problem for developing countries than for the rich ones.\(^ {21}\)

The story of crime-money is not only one of the glamorous criminal jet set, but also of the small non-criminal starters, receiving a loan from his criminal relatives. Two years ago I raised the hypothetical question, whether the development of a thriving new ethnic minority middle class in the working class areas in the Netherlands might be partly based not on loans from risk eschewing banks, but on the cheap savings from some odd uncle somewhere in the home country. It was a dangerous hypothesis, exposing me to suspicions of racial discrimination. Some weeks later I did not only get informal

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\(^{20}\) The phenomenon of flight capital may economically be more threatening to these countries than money-laundering. See I. Walter, *Secret money; the shadowy world of tax evasion, capital flight and fraud*. Unwin Paperbacks, London, 1989.

confirmation from some police investigators, but I was also visited by a delegation from one of the large police forces which wanted to start an investigation into the obscure origins of the starting capital of many licit ethnic minority entrepreneurs. Unfortunately the idea of a broader strategic investigation was abandoned in favour of a typical CID suspect targeting project. Nevertheless it is socially and economically most interesting to pursue the idea of a hypothetical uncle Murat, sitting in his rocky village, having bought and invested all he wanted and still possessing a surplus of criminal savings. So there comes an equally hypothetical nephew Ali, knowing his uncle is rich, only faintly knowing the origin of it. 'Dear uncle' he says, 'I want to enlarge my bakery. I work day and night, go by the law, but the Dutch banks are very reserved and actually mean to our sort of people. Can you help my family with some money? The family will repay you'. Uncle feels pity and loans him two hundred thousands guilders, having a nice feeling and receiving respect. Ali enlarges his bakery and is proud of being a straight businessman, his children go to a good school and the local social service department admires the gentrification of the neighbourhood thanks to such industrious ethnic entrepreneurs. Do we object here, where we acquiesce in the solution of the debt crisis by coca or smack-dollars? Of course, where there are winners, there are losers: the nearby bakery burdened by mortgages feels the pressure of expensive white money and fails to fulfil his obligations. He is squeezed out by the bank and his shop is eventually taken over by Ali's brother-in-law who also makes his financial pilgrimage to Anatolia or the Riff-mountains.

**Criminal policy objectives of the anti laundering policy**

It has been stated repeatedly that one of the main aims of combatting money-laundering is to maintain the integrity of our financial institutions. In addition there are some pious prayers mumbling something about 'hitting the criminal where it hurts most', 'crime should not pay' and other old adages. I do not question the wisdom of these objectives, but I do have some doubts about their effects.

The first question concerns our coveted integrity: do we have a cleaner financial conscience after the implementation of the money-laundering legislation? The answer is 'yes'. Wherever you obtain reports from banks or agencies involved, you can learn that despite all the costly efforts they have persevered. The bankers avoid the aint of drugs so much that they even refuse the honest earnings of the officially tolerated hash-

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22 See B. Hoogenboom and P. Hoogenboom-Stateman in footnote 17 for a confirmation of this hypothesis.
shops, thereby creating a new or stimulating an existing underground money-processing system.\textsuperscript{23} There are a lot of complaints about the notification system, but these are directed to others, like the police or the Office for the Disclosure of Unusual Transactions.\textsuperscript{24}

However, having fine innerfeelings is no answer to the next question: do we successfully impede the work of the crime-entrepreneurs? This depends on the nature of the crime-markets and the nature of the crime-enterprises. The answer is a mixture of ‘yes’ and ‘no’, and I am afraid more ‘no’ than ‘yes’. Technically the handling of crime-money has become more difficult indeed. But this applies mainly to the cash-based underground economy. This impediment has been partly alleviated by more professionalism in the criminal money-management. Every rooky economist could predict, that the anti-money-laundering legislation would create a new demand for financial secrecy, of course followed by supply of such services. Thus the costs of doing crime-business have increased. Money-laundering may cost you about 20% of the laundered sum. Have crime-entrepreneurs been put out of business because of this cost increase? Has there been a price increase in the underground market? The answer to both questions must be negative. The prices of most forbidden goods have fallen or remained at the same price level. So what do we end up with? Well, with the same primary underground market and a derivative crime-market of money-processing services and an expanded law enforcement budget to fight all this mischief. Isn’t organised crime a fantastic money maker?

When we look at business crime-entrepreneurs operating in the upperworld market, we witness little effect either, for the simple reason that fraudsters do already process their crime-money in the upperworld of financial institutions. Their problem is to get the money out of the visible flow by interrupting the papertrail. However, this applies mainly to the nomadic economic buccaneers and the front firm jugglers. Some have problems in commingling their crime-money with legal money-flows, are spotted, and subsequently reported by the banks to the ‘financial cells’. (Unfortunately we hardly

\textsuperscript{23} As a matter of fact the problem is simpler and derives from drug related empiricism: as soon as they learn that any foreign bank would accept money from hash selling coffee shop, whatever their officially tolerated status, they threaten to withdraw the licence of any branch residing in the U.S. unless ‘higher political considerations’ prevail. These higher political considerations do not apply to the Dutch banks, so they refused the hash profits from the semi legal coffee shops.

know what the results of these notifications are.) This observation applies much less to the respectable mixers, because their craft consists of intertwining the administrative cover-up with the legitimate part of their paperwork. As soon as their fraudulent accounts have been approved of, the money has been laundered!

So what are we doing all this for, when we hardly affect the crime-markets, while creating a new secondary crime-market of secrecy services? Maybe it is time to rethink the organized crime policy, based on a market orientation. Given the high degree of autonomy of the criminal demand market of forbidden goods like drugs, it may be a sobering conclusion to accept that the police is an integral part of its price mechanism while fighting individual entrepreneurs. The police does not fight (the) organized crime (market), but organized crime-entrepreneurs. If one does not pretend more, there is nothing wrong with this conclusion. It is a proper police core task. In such a policy the police will focus particularly on established crime-entrepreneurs who appear to have consolidated their market position. This is important, because even if one cannot fight the market itself, one can have an impact on the structure of the market by targeting established market positions. Such a policy would fit nicely into market-oriented anti-laundering policy objectives. It is nice to rip the criminals, but that is an after-event-policy targeting the financial endproduct: the criminal savings. In addition to this policy one could also concentrate on rupturing the logistics of the wholesale traders. The results may be less spectacular, but a properly applied anti-laundering policy may fulfil an important preventive function for the simple reason, that it affects the working-capital of the crime-entrepreneurs and his potential of maintaining or developing a wholesale business. A crime-entrepreneur can only consolidated by developing an economy of scale, which is hardly feasible without entering the financial upperworld and being a part of it. He needs juridical persons, registered capital goods for transport and business assets. It is difficult to manage all these common business transactions without creating paper trails which have to be veiled as normal business transactions, for example by means of false paperwork.

It is at this point that the role of the accountant and the financial investigator comes to the foreground. He is the one who first sees complicated business structures deviating from normal business practices, firms stuffed with too much foreign capital covered by funny loans, expenditures skimming the profits to unknown foreign consultants, strange ownerships by other limiteds and all other wellknown tricks. By early detection he does not act as crime-fighter or Eliminator. He is not an administrative Schwarzenegger, but a quiet strategic disruptor and fragmentator.

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