Review of J.C. Sharman, The Money Laundry: Regulating Criminal Finance in the Global Economy

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story to a global one, why have there been so few episodes of civil violence in American cities since the 1970s, especially in light of recent riots in Paris, London, and elsewhere? Some of Katz's answers are predictable to any student of urban politics, such as that political reforms incorporated some African-Americans into visible public positions without altering the fundamental bases of political power—for example, though the number of black big-city mayors has increased, real power has shifted from cities to the state and federal governments. Other answers are less familiar, including his nuanced discussion of the depoliticizing effect of consumer marketing in poor urban areas and the militarization of urban spaces. Perhaps his most interesting argument, although the least developed, is that the incorporation and control of recent immigrants through structural means such as high employment rates also reduces civic violence in U.S. cities.

In the last chapter, Katz turns to the political implications of how the story of America's cities has been told. He argues that conservatives and progressives embraced a similar narrative, describing the history of the American city as a series of failures spearheaded by misguided or nefarious government bureaucracies. This dreary picture sidelined those government policies and programs that sustained vital urban communities; it also ignored the beneficial effects of grassroots urban social movements, many built on vibrant multiethnic and multiracial political coalitions. And it positioned the state as a main culprit and privatization as the implicit, favored alternative. Urban poverty became a problem that only free-market forces could solve. Such a discourse, Katz argues, underlay the host of market-based initiatives introduced in American cities in the past several decades, such as microfinance and asset accumulation. Often based on neoliberal programs abroad, these were meant to change individuals or small groups of people, not society more broadly. They were introduced precisely to foster entrepreneurship as a substitute for government aid or structural change.

Many audiences would benefit from reading this book. Highly accessible and well written, it could be used in upper-level undergraduate or graduate classes on urban studies, race, public policy, and poverty. Katz's work also deserves attention from policy makers, political activists, and sociologists interested in a cogent account of current debates in urban studies and the social conditions of the modern city.

The Money Laundry: Regulating Criminal Finance in the Global Economy. By J. C. Sharman. Ithaca, N.Y.: Cornell University Press, 2011. Pp. xiv+200. $29.95.

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Why have 180 countries around the world, including the tiny Pacific island nation of Nauru, with a population of 11,000, no financial institutions, 90%

unemployment, and a national debt 16 times its GDP, adopted anti-money-laundering policies? Why, when the world's financial elites suspect that these policies are ineffective, and cost more in regulatory and compliance effort than they save by preventing money laundering, would so many countries jump on the bandwagon?

In *The Money Laundry*, J. C. Sharman builds on his earlier books exploring tax havens, corruption, and the recycling of ill-gotten gains to examine the spread of anti-money-laundering laws around the world. He pushes forward the world polity agenda of John Meyer and associates, arguing that money-laundering regulations spread to countries hoping to seem modern, efficient, and transparent. These regulations signal that a country doesn't put up with the sort of criminal financial transactions thought to be commonplace in the backwaters. They are a sure way to show that the eras of Noriega and Gadhafi are over. But Sharman argues that countries do not go down this pathway willingly. Financial professionals in the developed world who have built careers engineering anti-money-laundering regulations blacklist countries that don't join the bandwagon and this brings countries on board without fail.

This lively and engaging book is divided into two parts, the first showing that anti-money-laundering policies are ineffective, the second showing why they diffuse. Sharman not only *posits* that the policy innovation he studies is worthless, as world polity theorists are wont to do; he goes to considerable trouble to prove that these policies may be harmful. To explore the efficacy of anti-money-laundering regulations, Sharman uses two techniques, one conventional, the other novel. The conventional method is to review studies of the efficacy of the regulation, interview key players in the game, and attend closed-door meetings of regional groups overseeing national anti-money-laundering programs. Previous studies show that regulations don't work, experts don't think they work, they impose significant costs on financial institutions in the form of reporting requirements, and villains can still launder money. Regional associations are not sanguine but carry on, trying to promote higher standards.

The second technique for examining the efficacy of anti-money-laundering rules is ingenious, and involves a "direct test," or audit, of the regulations in countries around the world. Sharman solicited offers for anonymous shell companies, with associated bank accounts, which provide the means to launder money. Such offers break the first rule of anti-money-laundering regulations: know your customer. This approach is akin to that reported by Nicholas Kristof and Sheryl WuDunn in *Half the Sky*, in which antislavery laws are shown to be a sham through successful efforts to buy slaves. It turns out to be easy to set up an anonymous shell corporation for the purpose of laundering money. Academics will appreciate this chapter for its method, and aspiring international criminals will appreciate it as a practical guide.

Sharman received responses to 102 requests to establish shell corporations and, in 41 cases, was not required to provide proof of identity. He would be able to launder cash without being identified. Those 41 offers were disproportionately in the United States and other OECD countries. Most contacts in developing countries, and tax havens, required proof of identity in conformity with anti-money-laundering laws. It appears that in those nations, the risk of losing legitimacy either stimulates officials to enforce regulations or leads agents to heed them. The bottom line is that should you want to launder money, you have a lot of options and don't have to go to Bolivia.

We don't really need to be convinced that anti-money-laundering regulations are ineffective to be interested in why they have spread to countries like Nauru, but knowing that they don't work certainly makes that question more interesting. Not only is it easy to set up the apparatus to launder money, but the developed world that built the standards doesn't abide by them. Why do countries use scarce resources on such regulations, creating regulatory bureaucracies and making legitimate firms document compliance? The world polity camp suggests that developing countries copy developed countries in order to gain access to global financial markets, and gain legitimacy beyond their borders. They would be partly right, but in this case, developing nations were coerced. Once the developed world put anti-money-laundering regulations into place, led in the 1990s by the Financial Action Task Force, professionals created a blacklist to get developing countries to join. In the process, they expanded their scope of professional influence, and of course, got to travel to Barbados and Guyana to help craft laws and build compliance systems.

The second half of the book, exploring why developing countries adopt anti-money-laundering regulations, offers a primer on the role of power in the world polity. Sharman argues that money laundering experts used the threat of exclusion from global financial markets to convince governments in the developing world to adopt regulations. He shows that while countries hoped to achieve legitimacy and status in the global financial order, politicians and bureaucrats were acutely concerned about being left out of the game. Their concern with legitimacy was at base a concern about competition for resources from powerful financial agents. Yes, politicians without anti-money-laundering programs feared they would appear to be backward, but what motivated them was the fear that they would be excluded from the global economy.

While *The Money Laundry* speaks directly to world polity theorists, its author relies not on an event study of diffusion, which is the norm, but on an audit of regulatory efficacy, interviews, and analytic narrative. By broadening the world polity paradigm's theoretical toolkit with his theory of power, as well as broadening its methodological palette with experimental and process-tracing techniques, Sharman helps to open up world polity theory to new insights and research strategies.