Economics of Security Working Paper Series

economics-of-security.eu

Friedrich Schneider and Ursula Windischbauer

Money Laundering: Some Facts

February 2010

Economics of Security Working Paper 25

This publication is an output of EUSECON, a research project supported by the European Commission's Seventh Framework Programme.

EUSECON
www.economics-of-security.eu

Economics of Security is an initiative managed by DIW Berlin

Correct citation: Schneider, F. and Windischbauer, U. (2010). “Money Laundering: Some Facts”. Economics of Security Working Paper 25, Berlin: Economics of Security.

First published in 2010

ISSN: 1868-0488

For further information, please contact:

Economics of Security, c/o Department of International Economics, German Institute for Economic Research (DIW Berlin), Mohrenstr. 58, 10117 Berlin, Germany.

Tel: +49 (0)30 89 789-277

Email: eusecon@diw.de

Website: www.economics-of-security.eu

Economics of Security is an initiative managed by DIW Berlin

Money Laundering: Some Facts

Friedrich Schneider[1]

and

Ursula Windischbauer[2]

[1] Professor of Economics, Johannes Kepler University of Linz, Altenbergerstrasse 69, A-4040 Linz-Auhof / AUSTRIA, Phone: 0043-732-2468-8210, Fax: 0043-732-2468-8209, E-mail: friedrich.schneider@jku.at, http://www.economics.uni-linz.ac.at/Members/Schneider/default.htm

[2] Mag. Ursula Windischbauer, jurist, Johannes Kepler University of Linz, Altenbergerstraße 69, A-4040 Linz-Auhof, AUSTRIA, E-mail: ursula.windischbauer@jku.at, Phone:: 0043-732-2468-5790

1.) Introduction

The term „Money Laundering" [3] originates from the US describing the Mafia's attempt to "launder" illegal money via cash-intensive washing salons, which where controlled by company acquisitions or business formations.

Estimated two to five per cent of the global gross domestic product stems from illicit sources.[4] A great deal of the money derives from drug-dealing, with a total revenue of 810 Billion USD in 2003.[5] In 2005 the Austrian Police secured drugs worth 49266800 Euro (drug seizures in terms of street prices), in total 25.892 persons were charged for violation of the Austrian Narcotics Act.[6] (See table 1 and table 2). Most of all illegal transactions are processed by cash since there is the smallest risk to leave one's mark; [7] nevertheless there exists an obvious tendency to misuse the internet in order to undertake illicit transactions in form of Online-Banking, Cyber money and Electronic Purse.

2.) Illegal financial transactions

Apart from the "official" economy there exists an "Underground Economy", which characterizes the criminal economy by trying to evade business environment in order to gain monetary advantage.

This illegal/crime Economy includes all sorts of criminal activity, which conflict with the legal system, e.g. organised crime or drug dealing. These profits generated by criminal operations are the object for the money laundering process. By way of example in 2004 nearly 28 Million EURO of "black" money was frozen by Austrian authorities. [8]

A characteristic criteria of Organised Crime is a tight and disciplined structure of the organization in combination with activities done on a grand scale. In 2004 in Germany for instance, 620 investigations linked to organised crime were made; the total amount of these losses identified reached 759 Million Euro with estimated profits amounting to 1,337,360,125

[3] Compare Ertl, 2002, p. 8 and Courvat/Pless, 1993, p. 171f.
[4] Compare IMF, 1998. However the results are to some extend doubted, since they are irreproducible and not scientifically proven. See Riegler, 2004, p. 90ff.
[5] Own calculations.
[6] These figures only cover cannabis products, heroin, cocaine, XTC-pills and LSD-trips. Compare BMI, 2006, Suchtgiftmittelbericht 2005, p. 4.
[7] Compare Vanempten, 1994, p. 24f. Hereunto the FIU Germany: „..Cash transactions continue to play a significant role in a large number of cases. Evidently, offenders are aware and continue to deliberately exploit the advantage of "interruption of the paper trail" afforded by cash transactions. Particularly significant in this context are the very large amounts involved in some of these cash transactions.." FIU, 2004 p. 42.
[8] Compare BMI, 2005.

Euro, however, provisionally seized assets only added up to a total value of 68 Million Euro in the course of these investigations.[9]

Organised Crime in Middle-Europe is quantified in the following way: The largest part of it is made of drug trafficking (40%), followed by the trade of arms with 20 per cent and the economic crime (15 per cent).[10] (See figure 1)

In order to get back/return the earnings generated by illegal activities into legal businesses, some kind of acquitting has to be done, prior to reusing it again. This process is called money laundering, which is not to be mixed up with tax fraud or flight of capital. (See table 3)

Whereas Unreported/Shadow Economy means (legal) economical activity which is deprived from associated social contributions, taxation etc, and absconds from justice and therefore produces “grey” money (fiscal fraud).

Shadow economy (i.e. in principal legal activities, but with holding tax and social security payments, and violating other labour market regulations) and underground economy are different activities, which can not be summed up as the underground economy (typical crime activities, like burglary, drug dealing, etc.) produces no positive value added for an economy. Hence, they can not be treated as a complement to the official GDP, whereas to the traditional shadow economy can be seen as a complement to the official GDP. For both economies we have overlapping areas.[11]

3.) Necessity of Money Laundering Activities

According to some estimations, the total turnover of organised crime actually reaches figures between 500 billion and 2.1 trillion USD. Indeed, the world-wide volume of Money Laundering obtains due to some studies 400 billion to 2.85 trillion USD. (See table 4)

Money laundering is necessary since nearly all illegal transactions are done by cash; all the more because cash leaves no marks on information carriers like documents or evidence. [12]

An important role is played by Drug-Trafficking, with total revenue of 500 to 1000 billion USD equally to nine per cent of the worldwide trade.[13] The UNDOC World Drug Report

[9] Compare BKA, 2005, p. 14 and 16.
[10] Compare Siska, 1999 and own calculations.
[11] Schneider, p 3.
[12] Compare Vanempten, 1994, p. 24f.
[13] Compare Bongard 2001, p. 55 and p. 181.

2005 found out that during the observation period about 200 Million people- which correspond approximately to 5 per cent of the world's population- consumed drugs at least once. Therefore the extent of the illegal drug-market is enormous: "The value of the global illicit drug market for the year 2003 was estimated at US$13 bn at the production level, at $94 bn at the wholesale level (taking seizures into account), and at US$322 bn based on retail prices and taking seizures and other losses into account. Nonetheless, the size of the global illicit drug market is substantial. The value, measured at retail prices, is higher than the GDP of 88% of the countries in the world".[14] By comparison, in 2004 drugs with an estimated black-market value of 33.333.000 Euro were secured in Austria.[15]

These immense sale volumes and profits of drug-trafficking need to be laundered: One million USD in 20 dollar-notes weighs approximately 55 kg; the same sum in five dollar-notes scales 220 kg.[16]

4.) Definition of Money Laundering

4.1) Legal Definition:

The term „Money Laundering" was firstly used in 1973 during the Watergate Scandal and is therefore no original legal definition but a colloquial paraphrase describing the process of transforming illegal into legal assets.[17]

Based on US-American approaches a supranational definition of money laundering was created by the United Nations Convention on Drugs and an EU-directive, which had to be converted into the national law of all Member States.

4.1.1.) Germany

As an example approximately 100 billion Euros are laundered in Germany per year.[18] Germany's Criminal Code determines in § 261 punishments in case of a statement of facts concerning money laundering:

> *Anyone who hides, obscures the origin of, or prevents or jeopardizes the determination of the origin, the finding, the forfeiture, the confiscation or the seizure*

[14] UNDOC, 2005, p. 5 and p. 127.
[15] Compare BMI 2005, Suchtmittelbericht Österreich 2004.
[16] Compare Siska 1999, p. 28.
[17] Compare Ertl, 2002, p. 8.
[18] See http://archiv.tagesspiegel.de/archiv/18.11.2005/2180342.asp

> *of an object which originated from a felony committed by another person or a misdemeanour committed by another person or by a member or criminal association shall be punished by a term of imprisonment of up to five years or by a fine.* [19]

The object must be due from an illegal act of another person and both concealment and thwarting are punishable. However no punishment is being threatened if assets are disguised which have arisen from ones own crimes or offences. The statutory framework of a maximum penalty is an imprisonment of five years; in case of gang membership or operation on a commercial basis an imprisonment up to ten years can be imposed.

4.1.2.) Austria

> *Anyone who conceals or disguises the origin of property that originate in the crime of another, particularly by giving false information, in legal proceedings, regarding the origin or true nature of those property items, the ownership or other rights to them, the power of disposition over them, their transfer or their whereabouts, shall be punished with imprisonment for a term of up to two years or with a monetary fine of up to 360 daily rates.*[20]

According to the existing law in this country money laundry means the process of converting felonious gained proceeds with the goal to hide their illegal origin. The object of money laundering form all assets resulting from criminal activities, which explicitly contradict the legal code, among them for example terrorist organisations. Though punishable is only a person who veils assets of another person which are due either from a crime or from offences that are enumerated in § 165 StGB, as for instance bribery, smuggling or falsification of documents. As a result there is no penalty for any kind of „white washing“ one’s own criminal assets.

In contrast to other legal systems there exists no separate money laundering law in Austria, criminal offence is regulated in the Austrian’s penal code (StGB), in addition numerous obligations exist in the banking law (BWG), in the GeWO, the gambling law …

[19] English translation of Germany’s penal code. See https://www.imolin.org/amlid/showLaw.do?law=6301&language=ENG&country=GER

[20] English translation of Austrian’ s penal code of 1993. See https://www.imolin.org/amlid/showLaw.do?law=5951&language=ENG&country=AUS

4.2.) Criminological characteristics of Money Laundering

All monetary assets (cash and book money (electronic bank transfers)) or their surrogates as well as non-monetary assets such as moveable goods and real estates which are generated directly or indirectly from a punishable action or are intended for the realization of such an activity are considered as an object of money laundry. The intended purpose of the transformation is to wash illicit assets in a form of legal usability. The proceeding is thereby characterised by a criminal intent to purposefully, systematically transform, mix, transfer, convert and deceive the true origin or nature of incriminated objects.

5.) The stages of Money Laundering by Cash

Money laundering basically shows the following three stages:

First illegal profits are placed (the placement), which means the physical infiltration of cash (coming from crime) into the financial system. This money is then converted into book money (primary and secondary deposit) which is finally followed by a layering process (stacking of illegal funds). These sophisticated acts are used to veil the origin of the money by creating complex financing transactions between different states and piling up several layers of dealings. Reintegration and Parking of this illegal money, which shows no connection to organised crime and is converted into outwardly visible asset, make up the third stage through investments in a business, industrial enterprises, tourism projects.

5. 1.) Placement

At the first initial stage termed placement, ill-gotten gains from punishable preactions are infiltrated into a legal bank/economic system; at this junction there is an increased risk of being revealed.

5.1.1.) Primary deposit

By which one understands immediate placement of illicit revenues into a legal financial system without attracting attention of regulatory agencies. With the help of „structuring“ and „smurfing“ limiting amounts are undermined in order to avoid identification, obligations to report and documentation required. Besides, money is split up systematically in partial amounts as to permit inpayment in several bank accounts below respective identification and declaration borders. In Austria these regulations don’t apply to savings deposits up to a figure of 15000 Euro.

Another method of placement represents the influencing control on institutes of the financial sector in terms of purchasing existing banks or starting-up new banks in offshore countries. („company havens" or „bank havens"). Moreover corruption of co-workers is a commonly used illegal instrument to place incriminated money: Thereby attempts are made to socialise with bank employees in order to allow direct infiltration of money without attracting attention of supervisory authority. Depositing currency to bank accounts abroad provides an opportunity to enter financial or economic cycle as well.

5.1.2.) Secondary deposit

Unlike primary deposit, secondary deposit is an indirect infiltration of money supply into the Bank system and thus a conversion into book money through interconnection of a natural or legal person. This happens either by changing the medium, while incriminated money is converted into other assets, or via front men, who are acting on their one's behalf but - without being manifested on the surface – trade for account of a third party or grant the using of their name in order carry out (realise) an account opening, founding of a company or conclusion of an insurance policy.

Indirect Placement can also be accomplished by forward displacement of the money laundering location onto life insurances, financial service provider and exchange offices.

At present many offers are sent via email or quoted at homepages to occupy as a "financial agent", to provide (German or Austrian) banking accounts, which are used to remit illegal proceeds so as to veil transfer ways. [21]

A further technique to launder money is the setting-up of front companies, which are in opposition to front men corporate bodies, that infiltrate black money on their banking accounts and therewith into the fiscal system by means of feigned turnovers. An essential condition is cash-intensive business (e.g. gastronomy, import-export companies, car trade, hotel sector, auctioneers and galleries). Partly no phantom company/dummy company is launched but only respective documents of foundation are being counterfeited.

For example 25 000 customers of life insurances are under strong suspicion of laundering black money by single payments worth of one billion euro.[22]

[21] See http://www.daserste.de/plusminus/beitrag_dyn~uid,7x6o6i1cla2hntlx~cm.asp
[22] See http://archiv.tagesspiegel.de/archiv/18.11.2005/2180342.asp

5. 2.) „Layering“

By dint of the so called layering stage criminals attempt to conceal the source of illegal income through a great deal of transactions by moving around black money. Transaction intensity and transaction speed are increased withal (multiple transfer and transaction); electronic payment systems plus diverging jurisdiction and inefficient cooperation of criminal prosecution often simplify/facilitate the layering processes as well. A legitimation of capital transfer is thereby accomplished by over- and under invoicing at international commercial transactions, by charging fictive goods or services in form of winding up bogus transactions or by back to back loan. In this case money launderers lodge a certain amount of money to a banking account (or plausibly prove securities adequate at value on another bank) in order to subsequently retrieving the same sum as bank loan afresh/again. If so a money launderer raises his own capital and is though in possession of a proof of origin concerning the bank loan. Instead of banks affiliated companies can be lenders alike.

Misusage of financial derivatives and swaps is by the same token occurring commonly among money launderers to cloud the original derivation of incriminating funds. On this occasion two offshore companies, which are merely separate de jure but de facto controlled by just one person, conclude an option contract, by taking each either “long” or “short” position. The loss of one is compensated by the profit of the other. Financial volume of offshore-centres adds up to approximately 10-12 billion USD, furthermore it is assumed that annual growth amounts 15 per cent. [23]

5. 3.) Integration

In this third stage infiltration of transformed and transferred capital into formal economy by means of financial investments (specific deposits, stocks) or property (direct investment in real estates and companies) is primarily completed in countries[24] promising extraordinary short odds.

6.) Identification of money laundering techniques

Identification of incriminated money takes place both at the initial point of the entry of the funds into the financial system and in other stages (layering and integration) of money laundering since infiltrated money is identifiable by paper trail. Reconstruction of these

[23] Compare IMF, 2002.
[24] Riegler, 2004, p. 41.

money trails is obtained with assistance of various methods of cash-flow analysis. Whilst direct analyses examines and compares involved parties and transactions which are already documented, indirect analyses carries out cash flow on the basis of constructing a financial profile of the suspect.

The indirect analysis can be executed in form of an equity capital analysis, by means of which -starting from a base year- changes in net assets are put in relation to known cash inflows and outflows of funds over a several period of time, an expenditure analyses (comparison of cash inflows and outflows of funds) as well as an incoming payment analysis, with which the sum (disturbance variable validated) of all banking deposits is put in relation to known cash inflows.

7.) Quantification/Estimation of money laundering volume

Unfortunately the estimation (table 3) of money laundering volume which is not easy even at land level turns out to be very difficult on a world-wide basis tough and poses fundamental questions: Estimations are afflicted with large uncertainties.

Apart from diverging definitions of the term „money laundering“ on national and international level particularly transaction-intensive layering stage proves due to potential double and multiple counting exceedingly error prone, furthermore many figures are made up of estimates (e.g. drug profits) or based on figures that are wrong quoted or misinterpreted.

Basically there is a distinction made between direct and indirect methods of quantification: Direct methods focus on recorded payment flow statements and hence should provide – at first glance - exact data. However they are often incorrect due to merely estimated numbers of unreported cases (indistinguishability of legal and illegal funds in bank and financial system): for example discrepancy analysis of international balance of payment, changes in cash stocks of national banks. An exception is an adduction of confiscated assets and accordingly money laundering delicts, which were already detected. Since only individual cases are concerned, projection is not feasible. [25]

Whereas indirect methods identify the amount of money laundering by deducing sizes of causally linked fields.

[25] Compare Riegler, 2004, p. 65ff.

7.1.) Econometric technique of estimation

By choosing this technique dependent variables (drug supply (output rated at sale prices)) as well as independent variables (drug demand (demand behaviour of consumers) and extrapolation), drug selling prices and confiscation (drug volume and extrapolation) are considered.

7.2.) 10%-Rule of FATF

On basis of the estimated annual turnovers on retail trade level, the assumption of confiscating 10 per cent of drugs floating around as well as operating cost quota (relating to sales) in amount of 10 per cent, profits of drug trafficking were estimated: Per 1997 this showed a drug-turnover of approx. 300 billion USD, 122 billion USD profits thereof and 85 billion USD were classified as relevantly to money laundering thereby). [26]

8.) Fight against Money Laundering

8.1.) Austria

8.1.1.) Fundamental measurements:

The main component of all existing money laundering precautions is formed by the so called “Know your Customer” principle; the FIU (Austrian Financial Intelligence Unit) has to be informed by all notifiable aggrieved parties as soon as a suspect exceeds standardised limits. By banning anonymous savings bank books, identifying customers and obliging to store numerous documents etc. obligated parties comply with the “Know Your Customer” principle. Besides these, multitudinous reporting obligations exist in case of suspicion as well as the duty to stop transactions immediately. International pressure leads to observance of standards and to an establishment of a money laundering registration office (A-FIU), in addition many attempts are made to cooperate on an international level as far as money laundering is concerned.

So far credit- and financial institutions are mainly aggrieved parties of the second money laundering EU-directive, however, other affected (exp. liberal) professions are “qualified” to act as middlemen (for instance, notaries, attorneys, accountants, auctioneers, casinos (for example by manipulating gambles or faked profits) and anyone who trades with high-quality goods such as gems/noble metal/art work) as well. Moreover, the EU Directive dictates

[26] Compare FATF, 1999.

various obligations, namely to identify, register, document, store and provide information along with a stoppage of information and activity in case of a suspicious case. However, in June 2005 a new EU-Directive concerning money laundering was passed, which will have to be transposed into national law by 2007. Eventually, in 2007 every salesman will have to fulfil certain obligations these are to identify and store reports, if the payment exceeds 15000 Euros in cash. In 2004 accounts with a total amount of 28 Million Euro were frozen due to suspicion of money laundering activities; Besides there were 373 suspicion reports (90 per cent of these come from credit- and financial institutions, solely 24 reports were made by others), 100 cases brought a charge according to § 165 penal code (StGB); Altogether 147 pressed charges were delivered to crown prosecution service.[27] (See table 5)

In order to systematize criminal proceedings, typologies were developed on a basis of suspicion reports and convictions:[28]

For example, staff members of a US-offshore-company settled various building projects in a Russian Federation, thereby bills were over-invoiced. Thereupon payment of the fraudulent derived surplus amount took place by means of oil deliveries and Russian contractors received “kick-back-payments” via different (partly Austrian) accounts in return.

Even the internet is more and more often the scene of crime and is particularly used for fraudulent transactions:

In one case a profit of up to one per cent a day was dangled on an internet-page in case of paying in a certain amount of equity capital. Admitted disbursement has never been made; the money had all disappeared and was presumably transferred abroad. It is to be assumed that at least 4000 people got victims to this deceitful act.

Another time attempts were made to launder assets which were acquired in a deceptive way with the help of gambling. Several men changed ten thousands of Euros into gambling chips, entered the play hall, drank some beer, thereafter changed the unused coins into real cash again and thus attracted the attention of the gambling company. Investigations showed that these men were in disposition of an agent's authorities of some offshore- companies both at home and abroad and had laundered fraudulent funds reaching 1 Mio Euro through faked gamble winnings. [29]

Moreover, starting from the US, criminals tried to alienate worthless investments via telemarketing; profits were collected on an account of an offshore-company and were

[27] Compare BMI, 2005.
[28] There is no standard of typology so far.
[29] Compare BMI, 2005 and BMI, 9-10/05.

transferred to Spain afterwards. Thus the damage rose up to 100 million USD; more than 2000 aggrieved parties could be elicited.[30]

In 2004 the majority of all money laundering cases in Austria were carried out by means of offshore-companies, money remittance systems or ARS-Systems (Alternative Remittance System[31]).

8.2.) International

The Financial Action Task Force (FATF), an international organization, fighting against money laundering and terrorism financing, consisting of 33 members, tries to shunt those non-cooperative countries with the help of a "name and shame" policy by publishing a "black list". Moreover, it is trying to combat money laundering internationally by means of typologies and 40 recommendations (international standards).

Currently only Myanmar and Nigeria are still quoted on FATF's list.

8.3.) Germany

Germany established a competence centre named „Zentralstelle für verfahrensunabhängige Finanzermittlung" to fight money laundering. In addition, control over financial transactions was extended combined with the establishment of a central database at the "Bundesaufsichtsamt für Kreditwesen" in order to visualize cash flow of terrorism and money laundering organisations. Furthermore, the authorisation of the current supervisory body (eg „Bundesaufsichtsamt für Wertpapierhandel" oder „Bundesaufsichtsamt für Versicherungswesen") was extended. In 2004, 8764 first time hints referring to money laundering offences were brought up in Germany.[32]

The following typologies could be developed in this context:

Contemporary atypical bank transfers to third parties were disposed onto numerous investment accounts, which where kept by members of a certain ethnicity and which were intended to be used for long-time investments. In addition, the fact that attracted attention, was that account opening was done through only one (unique) middleman combined with the foundation of companies without any identifiable business activity (moreover, respective management was taken over by members of this ethnicity).

---

[30] Compare BMI, 2005.
[31] ARS = Any system used for transferring money from one location to another and generally operating outside the banking channels. The services encompassed by this broad definition of ARS range from those managed by large multinational companies to small local networks. They can be of a legal or illegal nature and make use of a variety of methods and tools to transfer the money. FATF/GAFI, 2005, p. 3.
[32] Compare FIU, 2004, p. 47.

Another account, which was kept for a foreign banking customer for the settlement of an offshore-company, was used to purchase gold, after the customer had received a foreign credit note amounting to a six-figure sum of money in Euro. Shortly afterwards resale –involving loss - and bankwire of these sale revenues to an offshore-company (by means of a third country) took place. Paper trail should therefore remain undetected by acquisition of goods and reselling.

In another case, large transfer amounts were repeatedly set down to an account, this money was then transmitted to separate accounts (of the account holder) in offshore-countries, for example, in form of three remittances amounting over one million Euros. This customer, whose domicile lay in an offshore-country and who was a tax counsel and auditor, was - by his own admission – mainly acting for German investors. Thus it was just a flowing collective account, with which a client's money could be transferred by bundle onto accounts in offshore-countries in order to be laundered.[33]

9.) Newest developments

New technologies in the range of payment methods allow economic transactions without any restriction by legal and territorial barriers or by state controls.

9.1.) Electronic purse („prepaid cards“, „smart cards“)

These smart cards, storing money electronically, seem appropriate to money laundering activities, especially the "white cards" since no account is necessary and loading as well as discharging are proceeded completely anonymously. Hence money laundering measures include limitations of the storable money, the transaction volume and the number of cards per person, additionally a card assignment to an authorised account is required.

9.2.) „Online-Banking“

Online Banking designates world-wide financial transactions in the internet; money laundering at the same time can be prevented if orders carried out by the internet are depending on legitimised accounts.

9.3.) „Cybermoney“

Unfortunately the only possibility to identify virtual money units in the internet ("ecash") is given when the change of real cash into virtual money by a cybermoney-emitter takes place.

[33] Compare FIU, 2004, p. 22 ff.

However this "handicap" is avoided by criminals through acquiring cyber-money emitters. [34] By paying with cybermoney there is no linking to an account, consequently no paper trail is left. The danger of malpractice is minimized if the usage of ecash services obligatory depends on an existing account relationship.

Whereas FATF especially names the identification of customers as a major problem when using the internet for money laundering activities. All forms of payment transactions regarding new technology should therefore be carried out through legitimised accounts. [35]

10.) Effects on macroeconomics

10.1 Consequences to the balance of payments

The significant increase of the balance of payment`s positions **„errors and omissions"** (unexplained amounts) covers – according to IMF - in many cases undocumented capital movements; the cash flow with off-shore centres is often registered only by non-offshore countries.[36]

Besides distortion is often caused by back-to-back-loans, bogus transactions and over- and under-invoicing.

10.2.) Effects on the money supply and the exchange rates

IMF and FATF refer to unexplained fluctuations of demand for money in the eighties and nineties.[37]

10.3.) Effects on market prices and volatility

There are no specific studies (concerning money laundering) about these effects; however, the development of money supply aggregates in the eighties and nineties could not be explained sufficiently.

10.4.) Effects on the resource allocation and the economic growth

The capital flow predominantly orients on favourable basic conditions for money laundering activities. The general public has to bear costs as a result of the extra expenditure for prosecution, health care and security.

---

[34] Compare Altenkirch, 2002, p. 63ff.
[35] See http://www.ex.ac.uk/~watupman/undergrad/ron/explosion%20of%20money%20laundering.htm
[36] Compare Couvrat/Pless, 1993.
[37] Compare IMF 1996.

11.) Further effects to the (world) economy

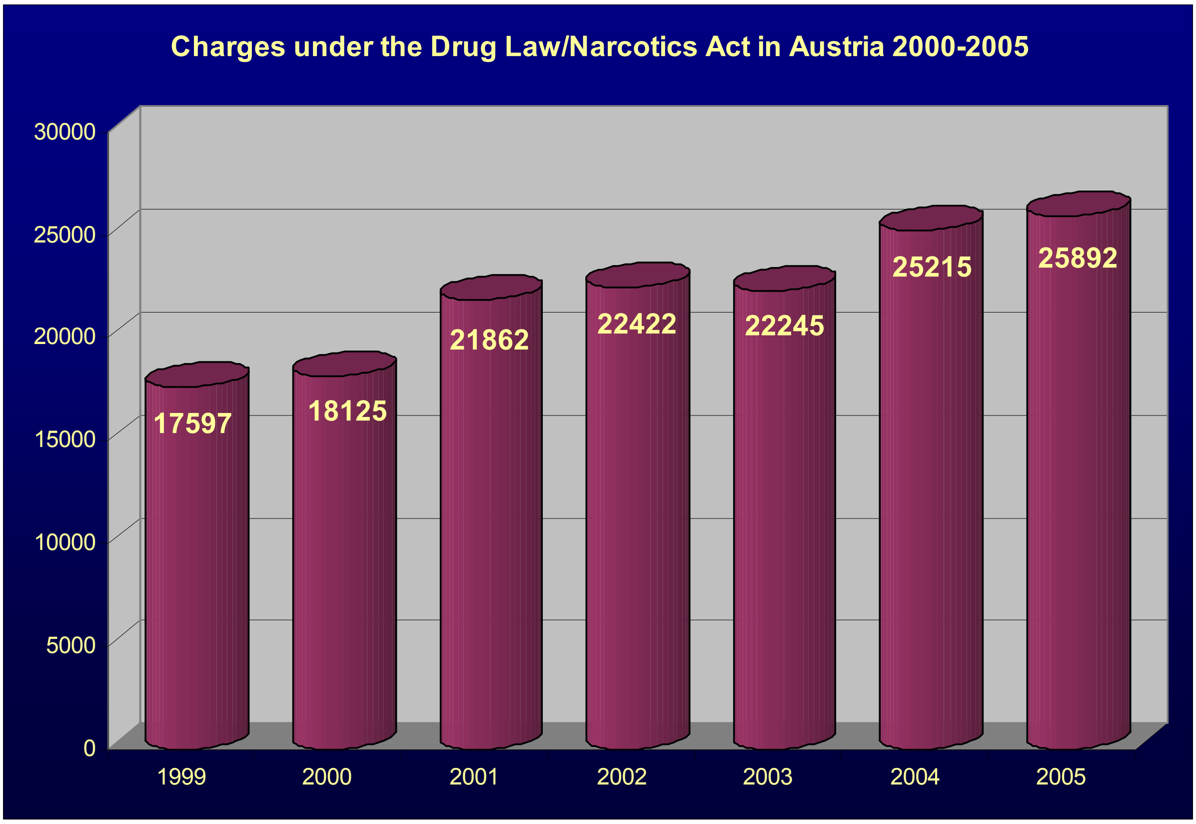
Distortions on capital markets lead to risks in the stability for the world economy: Financial crisis are thereby intensified unless even caused. In addition money laundering amounts to an infiltration of legal economic structures as well as to a crowding out/cut-throat competition. Furthermore the "dollarization" of the economy leads to substantial restrictions of fiscal and pecuniary political scope of national governments and banks of issues respectively. Besides economically weak states, which basically offer financial services, run risk of economical (and therewith political) dependence. Fight measures, necessary to combat money laundering, raise the price of legal activities as well as interfere in them on the capital markets.

For example some German banks spend three-figure amounts of billions on fight measures.[38]

The „Deutsche Bank", for instance, expends 15 billions Euro for sanctions against money laundering.[39] In addition money laundering causes an increase of corruption and criminality rates.

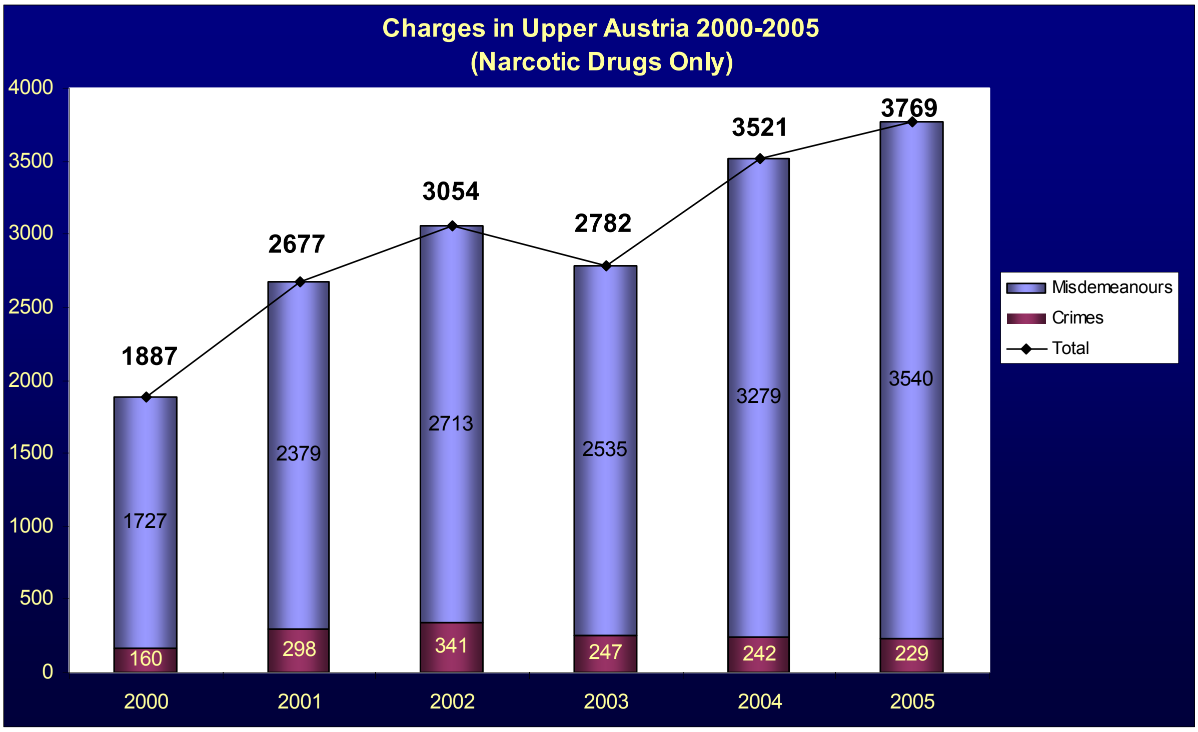
[38] See: http://www.handelsblatt.com/pshb/fn/relhbi/sfn/buildhbi/cn/GoArt!204867,204886,981478/index.html
[39] See: http://www.stern.de/wirtschaft/geldanlage/531574.html?nv=ct_mt

Table 1 Charges under Drug Law/Narcotics Act in Austria (1999-2005)



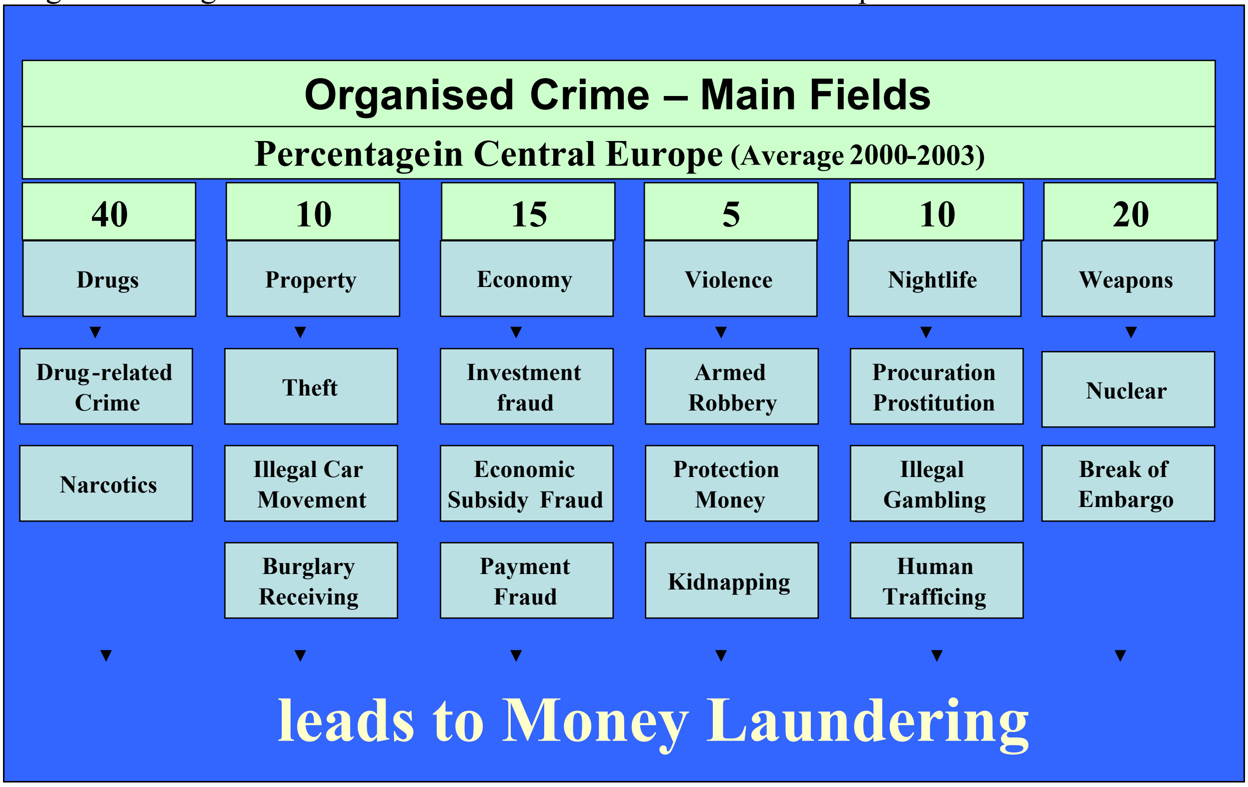
Source: Following BMI, 2006, p. 23.

Table 2 Charges in Upper Austria 2000-2005 (Narcotic Drugs Only)



Source: Following BMI, 2006.

Figure 1 Organised Crime and their main areas in Central Europe



Origin: Siska, 1999, p. 13 and own calculations

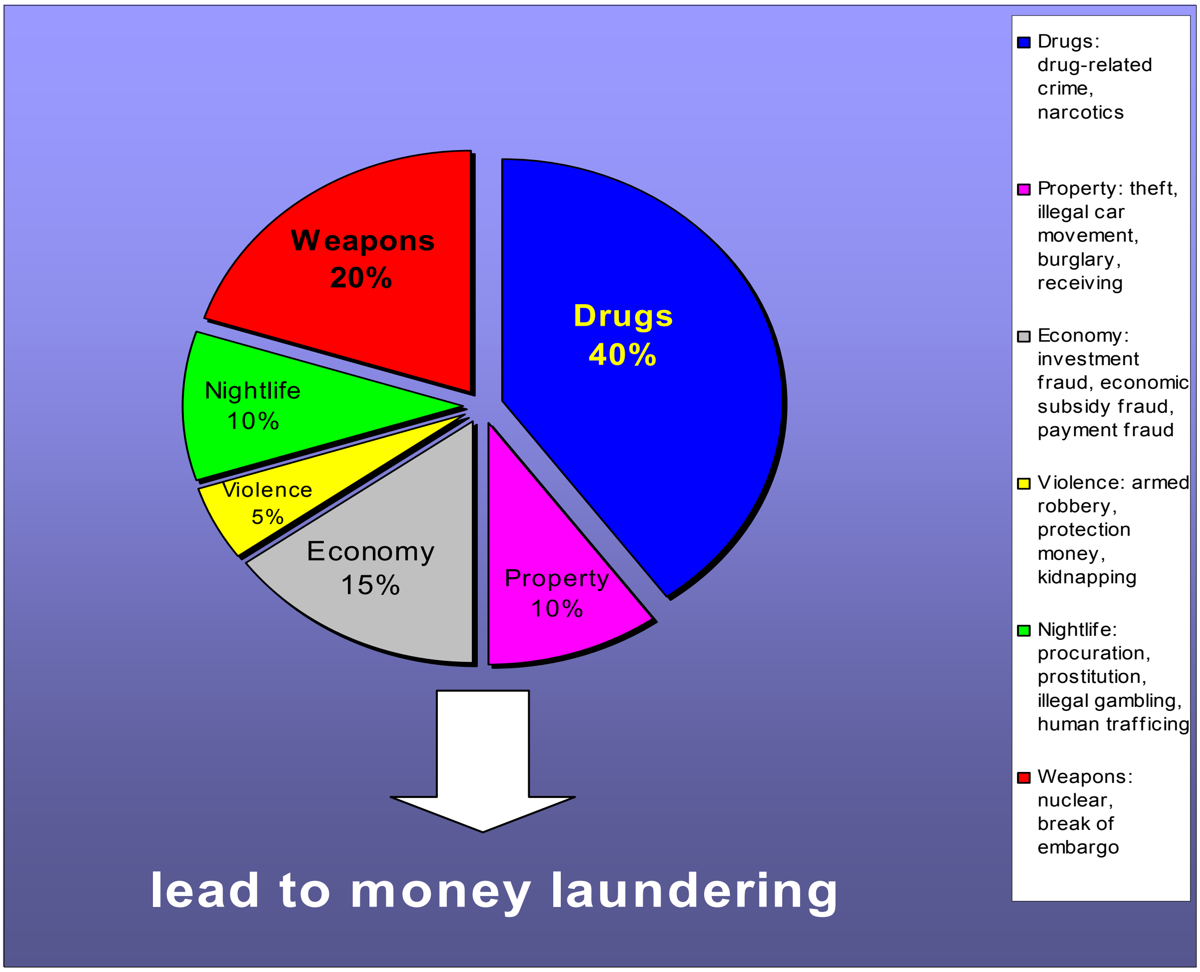


Table 3 Difference between money laundering/tax fraud/capital flight

	capital flight	money laundering	tax fraud
money acquisition investment (country of origin)	legal	illegal	illegal
transfer	illegal	illegal	legal
investment (country of destination)		illegal	legal

Source: Compare Altvater, 2002/2004.

Table 4 Quantification of Money Laundering Volume

Origin/Study	Year	Volume (worldwide)
Worldwide turnover of Organised Crime: Range: 500 billion USD - 2,1 trillion USD		
National Criminal Intelligence Service (NCIS; Washington D.C.; USA)	1998 2001 2003	1,3 trillion USD 1,9 trillion USD 2,1 trillion USD
UN-Estimates (New York; USA)	1994/98	700 billion to 1 trillion USD
International Monetary Fund and Interpol (Washington D.C; USA)	1996	500 billion USD
Schneider (University of Linz)	2001 2002 2003 2004 2005	800 billion USD 960 billion USD 1,2 trillion USD 1,4 trillion USD 1,5 trillion USD
Worldwide money laundering turnover, as measured by drug total revenue: 400 billion – 2,85 trillion		
The Economist (London)	1997 2001	400 billion USD 600 billion USD
Schneider (University of Linz)	2001 2002 2003 2004 2005	700 billion. USD 750 billion USD 810 billion USD 915 billion USD 1,039 trillion USD
Kerry	1997	420 billion -1 trillion USD
Schuster	1994	500-800 billion USD
Walker	1998	2,85 trillion USD

→ Estimates are afflicted with great uncertainties.
→ Problems due to an ambiguous classification and a small databases regarding direct methods.
→ Dubiously potentiated estimates concerning indirect methods.

Table 5 Fight against money laundering in Austria and Germany

	1994	1995	1996	2001	2002	2003	2004	2005
Suspicious transaction reports under § 41/1 BWG Austria	346	310	309	288	215	236	349	417
Suspicious transaction reports pursuant to the Money Laundering Act Germany	2873	2759	3019	7284	8261	6602	8062	9126
Other suspicious transaction reports Austria							24	50
Sum cash flow Austria	189 Mio €	80 Mio €	102 Mio €	516 Mio €	619 Mio €	692 Mio €	735 Mio €	843 Mio €
Sum cash flow Germany	3.590 Mio €	3.740 Mio €	4.120 Mio €	4.430 Mio €	4.957 Mio €	5.520 Mio €	6.177 Mio €	7.239 Mio €
Sum of "frozen money" Austria	22 Mio €	27 Mio €	6 Mio €	32 Mio €	8 Mio €	2,2 Mio €	28 Mio €	99,3 Mio €
Charges Austria (§165 StGB)	20	50	13	74	115	-	100	70
Charges Austria (§278a StGB)	34	27	19	-	-	131	159	
All other charges	32	14	35	-	-	-	47	39

Origin: Own calculations (indirect analysis on basis of estimates on shadow economy and class. criminal activities) ; Siska, Josef, 1999; BMI, 2003 and 2005; FIU 2005 und 2006.

Literature:

Altenkirch, Lars (2002), Techniken der Geldwäsche und ihre Bekämpfung, Frankfurt/Main 2002.

Altvater, Elmar (2002/2004), Schattenseiten der Globalisierung, verfügbar unter: http://www.polwiss.fu-berlin.de/people/altvater/B10Schattenglob.pdf.

BKA (2005), Bundeslagebild organisierte Kriminalität 2004, Juni 2005.

BKA (2005), Annual Report 2004 Financal Intelligence Unit (FIU) Germany, Wiesbaden 2005.

BMI (2005), Bericht der Bundesregierung über die Innere Sicherheit in Österreich (Sicherheitsbericht 2004), Vienna 2005.

BMI (2005), Jahresbericht 2004 d. Bundesministeriums für Inneres zur Suchtmittel-kriminalität, Vienna 2005.

BMI (2006), Jahresbericht 2005 d. Bundesministeriums für Inneres zur Suchtmittelkriminalität, Vienna 2006.

BMI (2005), Jahresbericht 2004 der Geldwäschemeldestelle (BMin für Inneres, A-FIU), Vienna 2005.

BMI (2006), Jahresbericht 2005 der Geldwäschemeldestelle (BMin für Inneres, A-FIU), Vienna 2006.

BMI (9-10/05), Geld der Gauner in: Öffentliche Sicherheit, Das Magazin des Innenministeriums, Bundesministerium für Inneres, Nr. 9-10, September-Oktober 2005.

Bongard, Kai (2001), Wirtschaftsfaktor Geldwäsche: Analyse und Bekämpfung, Wiesbaden 2001.

Couvrat, Jean-Francois und Pless, Nicolas (1993): Das verborgene Gesicht der Weltwirtschaft, Münster 1993.

Das Handelsblatt (29.10.2005), Anti-Geldwäsche-Kampf behindert Geldverkehr, verfügbar unter: www.handelsblatt.com/pshb/fn/relhbi/sfn/buildhbi/cn/GoArt!204867,204886,981478/index.html

Der Stern (27.10.2004), Das Geschäft mit dem schmutzigen Geld, verfügbar unter: http://www.stern.de/wirtschaft/geldanlage/531574.html?nv=ct_mt

Der Tagesspiegel (28.11.2005), Geldwäscher im Visier, verfügbar unter: http://archiv.tagesspiegel.de/archiv/18.11.2005/2180342.asp

Ertl, Birgit, Working Papers 4/2002, „Der Kampf gegen Geldwäscherei und Terrorismusfinanzierung“, Vienna 2004.

FATF/GAFI (10.6.2005), Money Laundering & Terrorist Financing Typologies 2004-2005, 10 June 2005.

IMF (1996), Macroeconomic Implications of Money Laundering, prepared by Quirk, Peter J., International Monetary Fund, Monetary and Exchange Affairs Department, Paper prepared for the Plenary Meeting of the FATF, Washington 1996.

IMF (2002), Caribbean Offshore Financial Centres: Past, Present, and Possibilities for the Future, prepared by Suss, Esther C./Williams, Oral H./ Mendis, Chandima, IWF Working Paper, Washington D.C. May 2002.

Meins, Anna und Onneken, Peter (11.10.2005), Kontoplünderung - Wie Jobsuchende in die Fänge der Russenmafia gelangen, 2005.

Riegler, Wolfgang (2004), Die Quantifizierung der Geldwäsche, Linz 2004.

Ronojit Banerjee, Money Laundering in the EU, verfügbar unter
www.ex.ac.uk/~watupman/undergrad/ron/explosion%20of%20money%20laundering.htm

Schneider, Friedrich (2000), Schattenwirtschaft – Tatbestand, Ursache, Auswirkungen, Beitrag zur Tagung „Die Arbeitswelt im Wandel" vom 4.-6.5.2000 in Mönchengladbach, Linz 2000.

Siska Josef (1999), Die Geldwäscherei und ihre Bekämpfung in Österreich, Deutschland und der Schweiz, Wien 1999.

UNDOC (2005), World Drug Report 2005, 2005.

Vanempten, Jean und Verduyn, Ludwig (1994), Le Blanchiment en Belgique. L'Argent criminel dans la haute finance, Bruxelles 1994.

Walker, John (1998), Modelling Global Money Laundering Flows – some findings. Verfügbar unter: http://members.ozemail.com.au/~john.walker/crimetrendsanalysis/mlmethod.htm