

1-7-2006

Combating Money Laundering

Paul R. Rickert

Liberty University, prickert@umd.edu

Follow this and additional works at: https://digitalcommons.liberty.edu/gov_fac_pubs



Part of the [American Politics Commons](#), [Law Enforcement and Corrections Commons](#), and the [Public Policy Commons](#)

Recommended Citation

Rickert, Paul R., "Combating Money Laundering" (2006). *Faculty Publications and Presentations*. 48.
https://digitalcommons.liberty.edu/gov_fac_pubs/48

This Article is brought to you for free and open access by the Helms School of Government at Scholars Crossing. It has been accepted for inclusion in Faculty Publications and Presentations by an authorized administrator of Scholars Crossing. For more information, please contact scholarlycommunications@liberty.edu.

Running Head: COMBATING MONEY LAUNDERING

Combating Money Laundering

By:

Paul R. Rickert, M.S., M.C.J.

Assistant Professor of Criminal Justice

Helms School of Government

Liberty University

January 7, 2006

Underground economies are created when governments criminalize various actions. This is inevitable, as mere criminalization does not dissuade some members of society from seeing the profit potential. The fact that something is criminalized creates potential for enormous profits. Whereas marijuana typically grows in the wild, and absent criminalization, the costs to procure it might just be an afternoon walk in the woods, when governments criminalize it, marijuana becomes more dangerous to grow and distribute, hence procurement costs rise to \$250 an ounce. The same thing happened during the prohibition of alcohol in the United States from 1919-1933. Underground or black-market economies thrive even more when attempts to enforce the laws drive up costs, delivering higher profits (Miron, 2005). Economic cost is not necessarily a reason, though, to refuse to enforce.

Money laundering is an issue that arises when governments regulate or prohibit virtually any activity; typically these activities include drug dealing, illegal gambling, prostitution, trafficking in persons, and other crimes that tend to yield large profits, but if a government decided to prohibit the manufacture of blue nail polish, inevitably, a market for that color nail polish would ensue and reap profits that had to be laundered. Laundering is the process whereby “one conceals the existence, illegal source, or illegal application of income and then disguises that income to make it appear legitimate” (Schroeder, 2001, p. 2).

Interestingly, laundering is also only needed when governments tax incomes. There is no normal reason for a government to legislate financial surveillance (e.g. The Bank Secrecy Act of 1970). The advent of the “war on terror” has brought an element of national security to bear on how persons within the U.S. spend their money. The current crisis adds fuel to the government “need” to know how American citizens and residents spend their money. Since the surveillance exists, it becomes a good tool to use to uncover evidence of other crimes, such as drug dealing.

Llewellyn Rockwell in his article “Know Your Government” quotes Rep. Robert Adams 1894 prediction that the income tax "will bring in its train, the spy and the informer. It will necessitate a swarm of officials and inquisitorial powers" (1999). Taxation becomes the primary tool of a government that seeks to “engineer society and pretends to provide for all our needs” and the result is the omnipresent surveillance state, according to ISI founder Frank Chodorov (as quoted in Rockwell, 1999).

Also, each major advance in monetary praxis makes economic crimes like forgery and laundering more simple. In a herding society it is difficult to steal “money”, as it may involve the conversion a goat, for example, to another’s use. But when coined money became the primary means of exchange, this created more opportunity for fraud (faulty weights & measures), and a primary benefit of coin money, ease of transport, made theft of money easier. The advent of paper money made counterfeiting easier, especially when each state, city, or private business could charter banks to print their own money (Federal Reserve Bank of Philadelphia, n.d., p. 4). It also made theft and transport of the money far easier than the coinage advance had.

The advent of the current national banking system, the Federal Reserve, in 1913, simplified the monetary system making direct income taxation simpler. Income taxation was derided by the founding fathers, but made “legal” under the 16th Amendment to the Constitution (Paul, 2003). One standard U.S. currency then opened up global markets to criminal enterprise and the ability to avoid taxation by placing the U.S. backed income into foreign accounts.

The advent of the Credit Card again made accessing money easy, both to the everyday honest citizen, but also to criminal enterprise. Carrying around a small card can give access to thousands of dollars to the owner, or to the inclined criminal, and is far easier than carrying paper money. More recently, the internet has make money “digital”. Traditional money is

disappearing and opening up a new arena of public and private (such as Paypal) online monetary substitutes. The ability to evade government detection is not solely of interest to criminal entrepreneurs. According to Richard Rahn (as discussed in Terrell, 1999) “paper currency will become obsolete as privacy-seekers turn to secure, instantaneous digital transactions”. This presents an obvious complicating factor. American citizens are shying away from government control of many aspects of their lives. As one considers increases in U.S. cooperation with foreign nations with regard to criminal investigations over the last several decades, the “internet problem” will cause a redoubling of international efforts, perhaps hinted at by the interest in taking internet governance one step up the ladder to UN control, and out of the hands of the U.S. (Political Oversight of ICANN, November 1, 2005).

Money laundering is comprised of three activities; placement, layering, and integration (Schroeder, 2001, pp. 2-3). Placement involves taking the physical proceeds and putting them in an inconspicuous place. Layering typically involves numerous transactions between banks and accounts (in and out of country) designed to confound the audit trail. More layering means more difficulty in uncovering the source of the money or that it is illegitimate or untaxed. The final stage, integration, is the process whereby the actual proceeds are brought into use by a person or organization often through generating false or exaggerated paperwork to give the appearance of legitimacy (ibid).

The government of the United States investigates money laundering on several fronts. The Federal Bureau of Investigations conducts criminal investigations of persons and organizations. Criminal activity is usually accompanied by profits that must then be laundered, so often the FBI continues investigation persons on suspicion of money laundering subsequent to other criminal acts. The Internal Revenue Service (IRS) investigates tax evasion, and other

financial crimes to include money laundering where the underlying charge is violation of income tax laws (IRS Criminal Investigation webpage). Immigration and Customs Enforcement (ICE) also conducts laundering investigations specifically with reference to money coming in and leaving the country (ICE Financial Crimes webpage). The main emphases in U.S. enforcement are criminal investigations, financial investigations, and import or customs investigations. Tools used to assist in these methods include bank reporting of certain transactions, import declarations and monitoring, law enforcement cooperation, interagency task forces, international efforts to eliminate terrorist financing, and laundering groups.

Many of the attempts at cooperation though mandated by the National Money Laundering Strategy Act (NMLSA) have not been as successful as hoped, according to Richard Stana, Director of Homeland Security and Justice Issues in the U.S. General Accounting Office (2004). The NMLSA requires the cooperation of the Department of Justice, Department of Homeland Security, and Department of the Treasury in conducting investigation into money laundering and terrorist financing, but the organizations are not set up to operate in the prescribed manner.

The task of combating money laundering will only get larger, as governments tend to increasingly criminalize or otherwise regulate activities that incentivize underground market creation. The profits of those underground markets to avoid detection will increasingly employ internet technology to digitize financial transactions with overseas institutions or otherwise communicate with affiliates of criminal networks to accomplish their goals. The only true method to combat the growth in financial crimes is stricter control of banking institutions, personal freedoms, and the internet, all culminating albeit slowly perhaps, in the slow removal of constitutionally guaranteed rights.

References

- Miron, Jeffery. (June 2005). *The budgetary implications of marijuana prohibition*. Marijuana Policy Project. Retrieved January 7, 2006 from <http://www.prohibitioncosts.org/mironreport.html>.
- Federal Reserve Bank of Philadelphia. *The Fed today, lesson 1*. Fed Today lesson plans. Retrieved January 7, 2006 from <http://www.phil.frb.org/education/lesson1.pdf>.
- ICE Financial Crimes webpage. Retrieved January 7, 2006 from <http://www.ice.gov/graphics/cornerstone/financialcrimes.htm>.
- IRS Criminal Investigation webpage. Retrieved January 7, 2006 from http://www.treas.gov/irs/ci/tax_fraud/moneylaundering.htm.
- Paul, Ron. (30 January 2003). *Liberty Amendment proposal before Congress*. Retrieved January 7, 2006 from <http://www.house.gov/paul/congrec/congrec2003/cr013003c.htm>.
- Political Oversight of ICANN: A briefing for the WSIS summit. (1 November 2005). Retrieved January 7, 2006 from the Internet Governance Project website at www.internetgovernance.org.
- Rockwell, Llewellyn. (May 1999). *Know your government*. The Free Market, vol. 17, no. 5. Retrieved January 7, 2006 from http://www.mises.org/freemarket_detail.asp?control=28&sortorder=articledate.
- Schroeder, William. (May 2001). *Money laundering: A global threat and the international community's response*. FBI Law Enforcement Bulletin, vol. 70, no. 5. Retrieved January 7, 2006 from <http://www.fbi.gov/publications/leb/2001/may01leb.pdf>.
- Stana, Richard. (11 May 2004). *Investigating money laundering and terrorist financing*. Testimony Before the Subcommittee on Criminal Justice, Drug Policy, and Human

Resources, Committee on Government Reform, House of Representatives. Retrieved January 7, 2006 from <http://www.gao.gov/new.items/d04710t.pdf>.

Terrell, Timothy. (Summer 1999). Book review of *The end of money and the struggle for financial privacy*, by Richard Rahn. The Quarterly Journal of Austrian Economics, vol. 2, no. 2. Retrieved January 7, 2006 from http://www.mises.org/journals/qjae/pdf/qjae2_2_9.pdf.