Farid Abilov

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

This monograph provides a comprehensive analysis of money laundering and anti-money laundering policy (AML), describing: the origins of money laundering and anti-money laundering policy; the effectiveness of the AML policy; costs and benefits of the AML policy, as well as the diffusion of the AML policy by power (Blacklisting, Socialization and Competition) all around the world. It serves as an in-depth introduction to the related topics. Furthermore, thanks to thorough analysis of various themes, it may also widen the knowledge of scholars familiar with these subjects.

The book consists of two main parts. However, before introducing them, Sharman provides information regarding money laundering and anti-money laundering policy. According to him, money laundering is the entering of illicit funds from crimes in the financial system as legal funds (Sharman, 2011, p. 15). There are three stages of money laundering: 1) placement – illegal funds enter the legitimate financial system; 2) layering – to distance funds from the original crime; and 3) integration – return of funds to the criminal in a legitimate form (Ibid., p. 16). Anti-money laundering policy intends that, if the majority of crimes are profit-driven, then lessening the profits will lower the incidence of crime. Thus, the ultimate objective of AML policy is not to decrease money laundering, but rather to reduce predicate crimes. Sharman highlights that the end of 1980s witnessed the birth of the international AML regime, most notably the creation of the Financial Action Task Force (FATF) (Ibid., p. 24).

The first part of the book examines the effectiveness of AML policy through the overarching question: "Does anti-money laundering policy work?" (Ibid., p. 36). The examination is conducted through two types of testing: indirect and direct tests. In indirect testing, Sharman tests two alternative views: effectiveness in absolute terms and cost-effectiveness. The author mentions that, in the effectiveness of absolute terms, there is little evidence to suggest that AML policy is effective in significantly reducing crime in developed countries where this policy was originally established (Ibid., p. 37). AML policy is thus much less effective in developing countries where the circumstances are different and the fit is much poorer. In terms of cost-effectiveness of AML policy, Sharman emphasizes that large, complex financial centers gain the most from AML systems (Ibid., p. 37). Costs are heavy for developing countries. Therefore, cost-benefit calculus is less favorable for developing countries than for developed countries. Know Your Customer and suspicious transaction reports are the main costs of the AML policy. The benefits of the AML policy are: to protect the integrity of the financial system; to preserve reputation; and, in developing countries, to fight against corruption.

In direct testing, meanwhile, Sharman examines the effectiveness of the AML regime by rule-breaking, and strives to determine to what extent the AML regime is effective (Ibid., p. 68). Specifically, he endeavored to solicit offers to buy forbidden anonymous corporations and related bank accounts. In terms of soliciting offers, the first step was to draw up a list of service providers to approach; secondly, to choose the mix of service providers to approach and corporate vehicles to solicit; thirdly, to draft an approach e-mail; and finally, to use one's own name and place of residence. After two rounds of testing, Sharman announced that 41 of 102 valid responses agreed to establish a company without an ID (Ibid., p. 86). Consequently, the result for Sharman was that the AML regime is ineffective, since buying anonymous shell companies is easy.

The second part of the book displays the impact of power on the diffusion of AML policy under the question of: "Why has anti-money laundering policy diffused?" (Ibid., p. 96). In terms of power, Sharman emphasizes three means: blacklisting, socialization, and competition. Blacklisting as a centralized power identifies countries and creates pressure on them to adopt AML policy on FATF standards by damaging their reputation and establishing fears of capital flight (Ibid., p. 99). Non-Cooperative Countries or Territories (NCCT) were established by the FATF to compel countries to improve AML legislation. After the NCCT, the International Cooperation Review Group was created by the FATF to identify countries and compel them to adopt AML policy following FATF standards. Blacklisting brought rapid successful consequences, and targeted jurisdictions agreed to meet FATF's demands, especially offshore financial sectors such as Nauru and Lichtenstein.

According to Sharman, in socialization or mimicry, regulators and other officials become drawn into transnational networks, and come to accept the standards of the policy community where they find themselves. Most developing countries adopt AML policy to avoid losing their standing or social acceptance; not for new gains, but to avoid losses. Sharman provides information regarding sites of socialization. The first site of socialization is "evaluations"; here all countries which adopted AML policies are assessed against FATF's 40+9 Recommendations and FATF methodology (Ibid., p. 138). The second site of socialization is "at the plenary"; Sharman mentions that he witnessed some plenary meetings of FATF where evaluations were discussed (Ibid, p. 144). According to the author, competition involves countries adopting AML policy as a symbol for not having fallen behind other countries, and for preserving links with the international financial system (Ibid., p. 132). Here, governments and regulators give the responsibility for assessing a country's AML risk to private firms. As with the standing or social acceptance of regulators, developing countries adopting AML policy as a symbol are doing so to avoid future losses. Socialization and competition are gradual, indirect, decentralized and non-instrumental powers, and therefore do not bring rapid outcomes as blacklisting does.

To conclude, according to Sharman, although AML policy is widely diffused, this policy is ineffective in most countries (Ibid., p. 165). Despite costs and ineffectiveness, most countries adopt the AML policy to: maintain links with the international financial system: avoid reputational damage; not fall behind other countries; and maintain their standing/social acceptance. Although the book’s shortness can result in a dense discussion of the dynamics of the AML policy, it nonetheless provides readers with an extensive and credible analysis of the topic.