Money Laundering and Financial Markets

1. INTRODUCTION

International financial markets are part and parcel of modern life. They reflect all major changes to the economic framework conditions. These markets are both the most important symbol and the key instrument of globalization. Derivatives are particularly important. They encourage deregulation while tempting companies and private persons to avoid paying tax. Derivatives also weaken organized political structures. Some people even believe that these instruments have revolutionized the economic system. Derivatives, like hedge funds, can also be used for money laundering. In the aftermath of 11 September 2001, the US Treasury recently decided to tighten up controls on hedge funds, as it was suspected that terrorists were among those using them to launder money. This is an alarming conclusion, especially as money laundering is one of the core activities of organized crime. With the liberalization, deregulation and globalization of the financial markets, the problem of money laundering has taken on a new dimension. Not only has the scale greatly increased, the concomitant danger to the economy, society as a whole and the world of politics has also grown far greater. Following the terrorist attack on 11 September 2001, the Committee of Inquiry set up on 15 December 1999 by the German Lower House to examine the globalization of the world economy – challenges and responses came to the conclusion in its final report, published on 12 June 2002, that not only did deregulated financial markets increase prosperity in the world, they could also be used to finance organized crime and terrorist networks.

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2. GLOBALIZATION AND SPECULATION

The collapse of the Bretton Woods system sparked off the dramatic rise of an economic sector that may have the greatest influence of all on the destiny of our species: the global financial industry. Banks, investment companies, the financial departments of multinational concerns and insurance companies have turned currency and securities transactions into the biggest trade in the world in terms of turnover. Long before the Internet existed there was already an electronic network covering the whole world. In the cyberspace of global finance billions can be shifted from one currency zone to another and from one form of investment to another in a matter of seconds. By 1999, trade in bonds alone was worth USD 23 trillion a year, 250 times the turnover figure for 1970. In 1999, foreign exchange dealers turned over on average USD 1.2 trillion every trading day. However, these figures do not represent the amount of available liquid capital. The same money is moved in one direction or the other several times a day, as the constant flow of information requires constant activity ('educated gambling'). Nevertheless, the high turnover figures provide an indication of the amount of capital that is not tied to the real economy. The estimated figure is USD 80 trillion. That is more than three times the combined annual GDP of the 31 industrialized countries in the OECD. Some analysts believe this is an unproductive glut of money, the result of an economic vicious circle set in motion by liberalization. They argue that the glut of money entwined the national economies involved, created uncertainty with regard to currencies and drove up real interest rates on capital markets. The consequence was obvious. Capital income rose while wages stagnated and investments actually fell. The financial wealth of companies and private individuals grew far faster than the economy as a whole. The surplus liquid capital that is neither invested nor consumed fuels the inflation of the financial sector and increasingly common phenomenon of speculative bubbles on the stock markets. For a long time, one of the standard explanations offered by operators on the international financial markets was that they made it possible for capital to flow to where it could be most productively and therefore profitably invested. As has already been hinted, that may not even be a half-truth. The interrelationships between global markets have become so complex that even experienced dealers are no longer able to predict the consequences of their actions. The great majority of changes in rates are not the result of real economic developments in the various countries; they reflect traders’ collective prejudices and judgments, the actions of the leading political market traders, such as the President of the Federal Reserve and the US Treasury Secretary, and assessments of the International Monetary Fund (IMF) and private ratings agencies. It does not matter whether the information and analysis in question is actually sound. What the others are thought to be thinking is what counts. The lemming principle applies. Even if traders make rational calculations as individuals, as a group they regularly overshoot the markets, causing prices to develop in a completely irrational manner. This is not the right place to set about even a broad analysis of the odyssey into the age of financial crises, which began straight after the liberalization of capital movements and

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