SOUND EFFECTS OF FACTORS INFLUENCING AND MACROECONOMIC CONSEQUENCES OF MONEY LAUNDERING

Anshul Agarwal[1]

Abstract

In the present era money laundering is not an isolated case but it is a worldwide phenomenon and its take a grim dilemma between us. Recently, Government of India takes several steps to tackle the problem of money laundering in India. The aim of this research paper is to know what are the influencing factors of money laundering and impact of these factors on growth of emerging economies financial system. It also studies the one of the main reason behind the generation of black money i.e. lack of government policies. The flow of black money can seriously distress the entire economic system of India. India has emerged as more corrupt than three of its BRICS peers -- China (80th), South Africa and Brazil (both ranked 72nd), India ranks 94th on global corruption perception index and it deposited $1500 billion of its black money in Swiss bank. We can control the cohort of black money only by aggressive enforcement of law.

Key words: Definition of money laundering, black money

Introduction

The term money laundering was first used in the 1980s in the U.S. with regard to proceeds from the drug trade to mean transforming illegally obtained money into legal money. It originate from the US describing the Mafia's attempt to "launder", Itis the process whereby the proceeds of crime are transformed into ostensibly legitimate money or other assets.

It is an illegal source of income through drug trafficking, Terrorist activity, tax evasion, Investment fraud, armed robbery, Procuration prostitution, Illegal gambling, Burglary receiving, Economic subsidy fraud, human trafficking, shell companies, corporate mismanagement, Insider Trading and Bribery or other stern sin to avoid detection and the risk of prosecution when they use it. In simply we can say that black money convert into white money called as Money laundering. Anti money laundering efforts which are designed to prevent the ability of criminals to use their corrupted money.Money laundering has a negative significant impact on the macroeconomics but it may be cope up by adopting the anti money laundering measures. Very little studies focus on the crime

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[1] Visiting Faculty, YMT college of Management, Kharghar,

deals with money laundering, although most of the studies written about the hidden, underground economy and tax evasion.

Literature Review

'Money laundering' as an expression is one of fairly recent origin. The original sighting was in newspapers reporting the Watergate scandal in the United States in 1973. The expression first appeared in a judicial or legal context in 1982 in America in the case US v $4,255,625.39 (1982) since then, the term has been widely accepted and is in popular usage throughout the world.

The main motto of money laundering to increasing alertness of the enormous profits which has been generated from this criminal activity (like: drug trafficking, tax evasion and so on) that would divest them of their illegal gains. It is a truly universal phenomenon, helped by the International financial community. Estimates the size of money laundering problem totals more than $500 billion annually world-wide.

As a 1993 UN Report noted: The basic characteristics of the laundering of the earning of crime, which to a large extent also mark the operations of organized and transnational crime, are its global nature, the flexibility and adaptability of its operations, the use of the latest technological means and professional assistance, the initiative of its operators and the vast resources at their disposal. Money laundering is a problem not only in the world's major financial markets and offshore centers, but also for emerging markets. Michel Camdessus, the former managing director of the International Money Fund, has estimated that the magnitude of money laundering is between 2 and 5 percent of world gross domestic product, or at least $600,000 million.

The British Guardian columnist reported that "all the leading world banks dreadfully needed cash reached out towards the mafia money, including a significant portion of the incredible 352 billion dollars of drug trafficking profit placed into the global economy.

Agarwal and Agarwal (2006, 2004), estimated global money laundering amounts to 44,444 trillion US$ in 2006 to be contrasted against an observed figure of US$ 500 billion to one trillion in 2004 within the banking sector only. An amount 1.945 billion Swiss Francs (about INR 9,295 Crore) has been alleged to have been laundered or stacked by Indians in Swiss banks.

As per a study by United Nations (UNODC), it is suggested that all criminal proceeds are likely to have amounted to some 3.6 per cent of GDP (2.3 - 5.5 per cent) or around US$2.1 trillion in 2009. The number of money laundering investigations in India has increased from 798 at the end of 2009 to 1,561 on April 30, 2013. India is among the top

10 developing countries in the world with a black money outflow of $1.6 billion (Rs.8,720crore) in 2010, a report by Global Financial Integrity (GFI) said. The total outflow of black money from India since independence until 2010 was $232 billion, generally in the form of corruption, bribery and kickbacks. The cumulative value of illicit assets held by Indians during the same period is estimated to be $487 billion.

Macroeconomic Consequences of Money Laundering an Emerging Economy: In today's scenario money laundering problem is gigantic and it has distorted the economic data as well as economic growth. It has been also adversely affected currencies exchange rate and interest rate. They generally invest funds in less productive activities to avoid detection and not the return on investment. The funds involved in money laundering are increasing rapidly. it is extends far beyond hiding drug profits.

In UK this is evidenced in the legislation that has been enacted to counter this crime. For example, confiscation and money laundering provisions are contained in the Drug Trafficking Offences Act 1986 (DTOA), in the Criminal Justice Act 1988 and the Criminal Justice (International Co-operation) Act 1990. These provisions focus particularly on drug trafficking.

The most recent estimate provided by the FATF suggests that the aggregate size of global money laundering is between 2% and 5% of world economic output, or between $590 billion and $1.5 trillion, most of which is gained from illicit drug trafficking, but also from corruption, fraud and organized crime.

As we know financial sectors such as banks, stock brokers, life assurance firms etc are the paradigm of our economic system because it allocates the resources from the different sectors and reinvest it to maintain the equilibrium between demand and supply of various resources.
Can you imagine when the banks become profitable place to cause harm what will happen to our country?

This is exemplified by the case of E.F.Hutton, a US brokerage house that received a fair amount of negative publicity for laundering criminal funds. A lack of confidence in a banking institution is likely to result in declining business as clients take business elsewhere. it will cause country's financial stability and macroeconomic performance, resulting in welfare losses, draining resources from more productive economic activities, and even having destabilizing spillover effects on the economies of other countries due to this economy GDP will goes down. This would be very bad for any country.

Now a days, banks are the doorways to most of this dirty money entering the legal system either intentionally or unintentionally. The money can be used for any purpose, even to

finance terrorist, drug trafficking, investment fraud activities against the nation. In most countries banks put in place anti-money-laundering (AML) systems. These help in knowing who their customers are and where their money comes from, and watch out for "suspicious" transactions. For example-

1. **The Reserve Bank of India(2013) penalised 22 banks for violating Know Your Customer norms** and imposed penalties ranging from Rs 50 lakh to Rs 3 crore. which revealed many didn't adhere to know-your-customer rules, including those related to cash transactions, sale of gold coins and import of gold coins on consignment basis. The RBI has imposed Rs 3 crorefine on State Bank of India, Bank of Baroda, Canara Bank, IOB and Bank of India. Rs 2.5 crore fine has been imposed on Andhra Bank, Punjab & Sind Bank, Punjab National Bank.

2. **The Bank of Credit and Commerce International (BCCI)**was a major international bank over 400 branches in 78 countries had assets in excess of US$20 billion, making it the 7th largest private bank in the world by assets but it was being used to fund criminals and dictators and had become the infested nest of terrorist activities and money laundering. The claims to the amount of damage caused by the BCCI are disputed but certainly amount to hundreds of billions of dollars.

It can be stated that, at the beginning of the 21st century, not the banks are the active participants of the laundries, but in addition global world of general business life, where dozens of companies which are deemed to be unblemished, having seemingly honest business operations can always be found (purchasable, blackmail able, establish able). For example:

3. **ED registers money laundering case in QNet scam case (2014):** Enforcement Directorate (ED) has registered a money laundering case in connection with the alleged Rs 425 crore financial fraud involving multi-level marketing firm. Q Net in which the name of former world billiards champion Michael Ferreira has cropped up. The accused in this case have been charged with cheating and forgery under relevant sections of the Prize, Chits and Money Circulation Schemes (Banning) Act 1978.

4. **India's diamond trade being used for money laundering (2014):**The report by the Financial Action Task Force (FATF) says that India has reported instances where diamond prices were overvalued for purposes of laundering and suspected financing.

5. **7 charged in $6B online money laundering case (2013):**This is the biggest money laundering scheme in U.S. history, federal prosecutors charged seven

people with running what amounted to an online, underworld bank that handled $6 billion for drug dealers, child pornographers, identity thieves and other criminals around the globe. The case was aimed at Liberty Reserve, a currency transfer and payment processing company based in Costa Rica that authorities say allowed customers to move money anonymously from one account to another via the Internet.

Country-wise Black money in the decade 2000-2010	
Country	Black Money
China	$2,7240bn
Mexico	$476bn
Malaysia	$285bn
Saudi Arabia	$210bn
Russia	$152bn
Philippines	$138bn
Nigeria	$129bn
INDIA	**$123bn**
Indonesia	$109bn
UAE	$107bn

Source: http://www.hindustantimes.com/business-news/black-money-india-ranked-8-among-150-countries/article1-974147.aspx(Table 2)

Objectives of the Study

The main objectives of this Research Paper are:
1. To study the factors influencing money laundering.
2. To study the impact of money laundering on our financial economic system.
3. To find out the reason by which we reduce black money.

Research Methodology

This study consists of the experiment survey of 70 Respondents in the region of Mumbai and Delhi as per details mentioned below:-

1. **Research Design-** Descriptive Research
2. **Sample Design**
   a) Sampling Frame-Respondents which are expertized/ Non expertized in financial economic sector.
   b) Sampling Unit - Respondents from different industries and different departments like Accounts, Finance and Marketing.

c) Sampling Size - 70 Respondents
d) Sampling Methods **-** Convenience Sampling.

3. **Data Collection Methods**

a) Primary Data Survey Method - The entire schedule is standardized and formalized
b) Secondary data - Data were collected from respondents and journals and from Previous study related to the black money.
c) Type of schedule - Structured questionnaire with suitable scaling.
d) Type of questions - Open ended, Close ended, Like scale.
e) Pre-testing of questionnaire - It was done among selected respondents on judgment basis and corrections were made in the questionnaire, wherever required.
f) Statistical Tool Used- Regression analysis and Percentage method were used.

4. **Research Instrument**

Research instruments, for the purpose of primary data collection were questionnaires. The questionnaire was divided into 2 parts.
a) **Part-A:** questions related to demographic information of respondents.
b) **Part-B:** contained like scale to measure factors influencing money laundering.

5 Analysis and Findings
5.1 Table 2 (likert scale based questions of factors influencing money laundering.)

division * Is tax evasion is a cause of money laundering Cross tabulation
Count

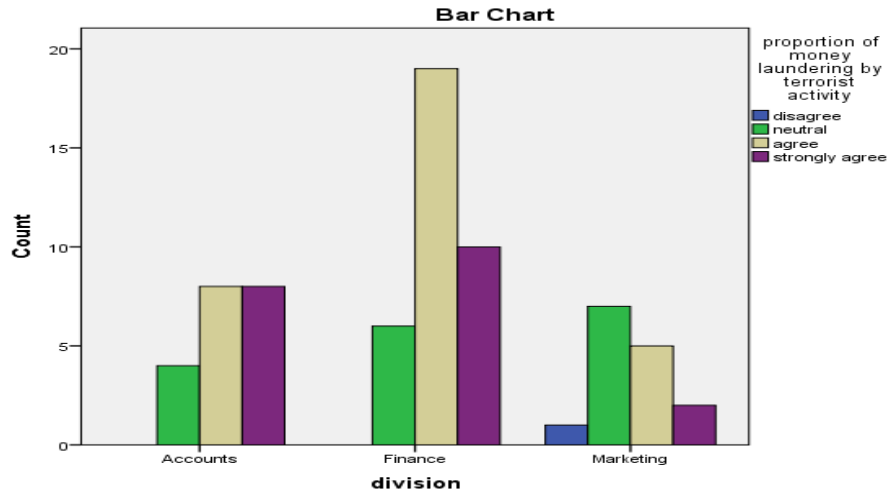| | | Is tax evasion is a cause of money laundering | | | |
		neutral	Agree	strongly agree	Total
Division	Accounts	4	5	11	20
	Finance	5	18	12	35
	Marketing	1	8	6	15
Total		10	31	29	70

Bar Chart
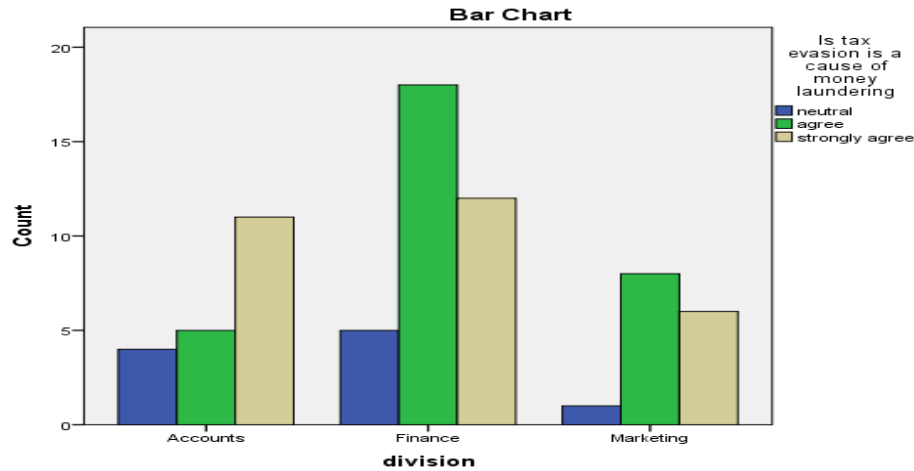
Anslysis: We can observe from the above table that 11% respondents of Account division, 12% of finance and only 6% respondents of marketing division are strongly agreed that tax evasion is the main cause of money laundering.

Table 3 :   division * proportion of money laundering by terrorist activity Cross tabulation

Count

|		proportion of money laundering by terrorist activity				
		disagree	neutral	Agree	strongly agree	Total
Division	Accounts	0	4	8	8	20
	Finance	0	6	19	10	35
	Marketing	1	7	5	2	15
Total		1	17	32	20	70

Bar Chart

Anslysis: We can observe from the above table that 8% respondents of Account division, 10% of finance and only 2% respondents of marketing division are strongly agreed that terrorist activity is the main cause of money laundering.

Table 4: **division * Is burglary receiving a cause of money laundering Cross tabulation**

Count

|		Is burglary receiving a cause of money laundering					
		strongly disagree	disagree	neutral	agree	strongly agree	Total
Division	Accounts	0	1	9	8	2	20
	Finance	1	1	20	11	2	35
	Marketing	0	1	4	8	2	15
Total		1	3	33	27	6	70

Bar Chart
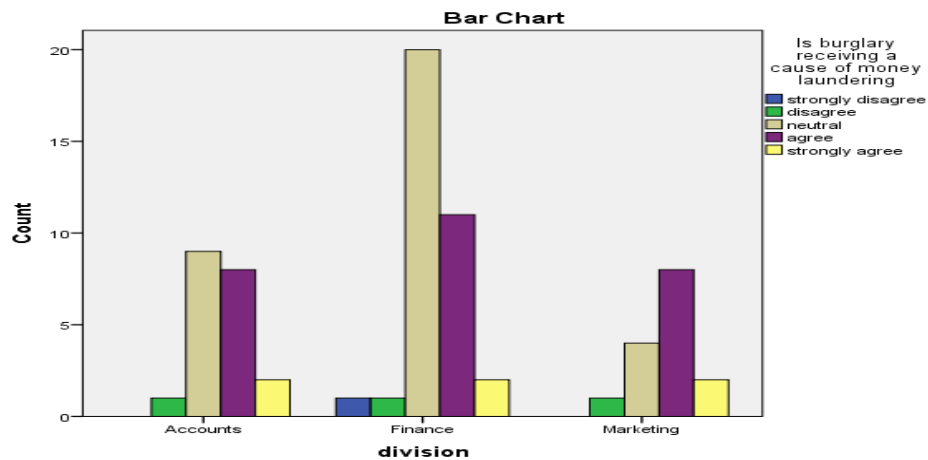
Analysis: We can observe from the above table that 2% respondents of Account division, 2% of finance and only 2% respondents of marketing division are strongly agreed that burglary receiving is the main cause of money laundering.

Table 5: **division * Is drug trafficking a cause of money laundering Cross tabulation**

Count

|		Is drug trafficking a cause of money laundering					
		strongly disagree	disagree	neutral	agree	strongly agree	Total
Division	Accounts	0	1	5	8	6	20
	Finance	0	2	9	9	15	35
	Marketing	1	2	3	8	1	15
Total		1	5	17	25	22	70
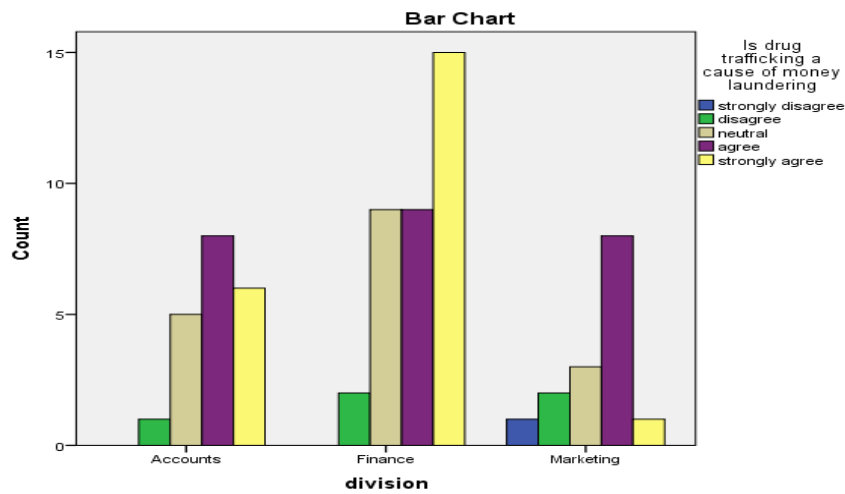
Analysis: We can observe from the above table that 6% respondents of Account division, 15% of finance and only 1% respondents of marketing division are strongly agreed that drug trafficking is the main cause of money laundering.

Table 6 : **division * Is investment fraud a cause of money laundering Cross tabulation**

Count

|		Is investment fraud a cause of money laundering					
		strongly disagree	disagree	neutral	agree	strongly agree	Total
Division	Accounts	0	1	6	8	5	20
	Finance	2	1	12	11	9	35
	Marketing	0	0	2	5	8	15
Total		2	2	20	24	22	70
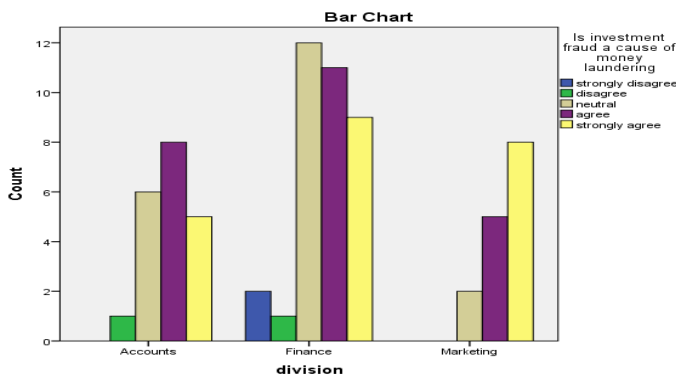
Anslysis: We can observe from the above table that 5% respondents of Account division, 9% of finance and only 8% respondents of marketing division are strongly agreed that investment fraud is the main cause of money laundering.

Table 7 : **division * Is armed robbery is a cause of money laundering Cross tabulation**

Count

|		Is armed robbery is a cause of money laundering				
		disagree	neutral	agree	strongly agree	Total
Division	Accounts	2	5	13	0	20
	Finance	1	11	14	9	35
	Marketing	0	8	7	0	15
Total		3	24	34	9	70

Bar Chart
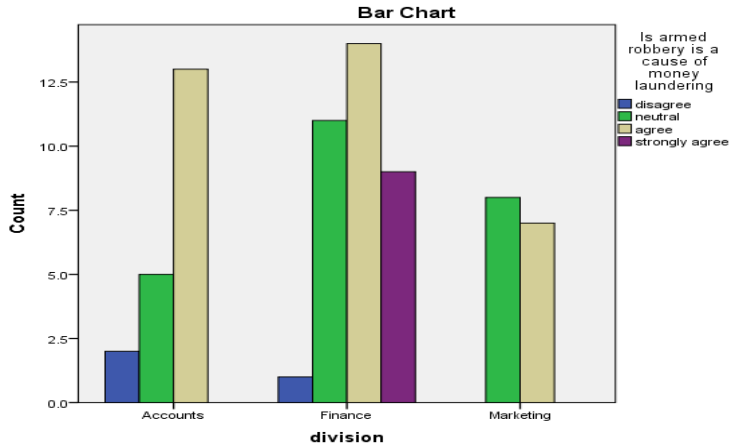
Analysis: We can observe from the above table that only 9% respondents of finance division, are strongly agree that armed robbery is the main cause of money laundering.

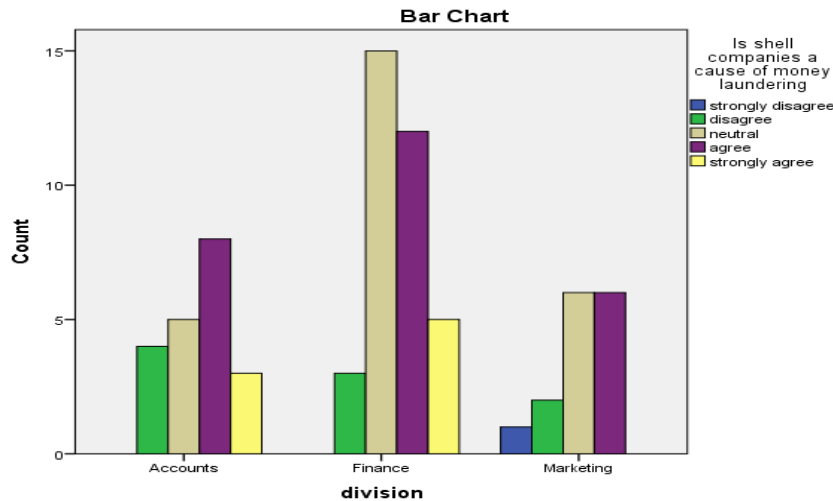**Table 8 :** **division * Is illegal gambling a cause of money laundering Cross tabulation**

Count

		Is illegal gambling a cause of money laundering				
		disagree	neutral	agree	strongly agree	Total
Division	Accounts	0	5	12	3	20
	Finance	2	15	13	5	35
	Marketing	3	7	1	4	15
Total		5	27	26	12	70
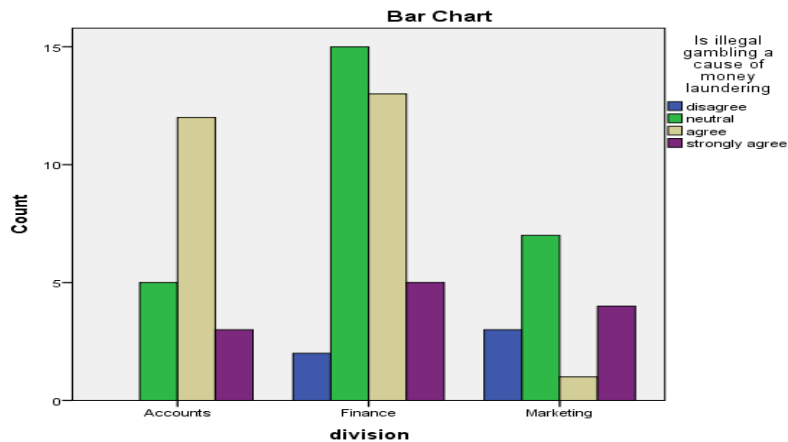
Bar Chart

Analysis: We can observe from the above table that 3% respondents of Account division, 5% of finance and only 4% respondents of marketing division are strongly agreed that illegal gambling is the main cause of money laundering.

Table 9 :   division * Is shell companies a cause of money laundering Cross tabulation

Count

|		Is shell companies a cause of money laundering					
		strongly disagree	disagree	neutral	agree	strongly agree	Total
Division	Accounts	0	4	5	8	3	20
	Finance	0	3	15	12	5	35
	Marketing	1	2	6	6	0	15
Total		1	9	26	26	8	70

Anslysis: We can observe from the above table that 3% respondents of Account division, 5% of finance division are strongly agreed that tax evasion is the main cause of money laundering.

Table 10:   division * Is economic subsidy fraud a cause of money laundering Cross tabulation

Count

		Is economic subsidy fraud a cause of money laundering				
		disagree	neutral	Agree	strongly agree	Total
Division	Accounts	1	6	12	1	20
	Finance	0	13	12	10	35

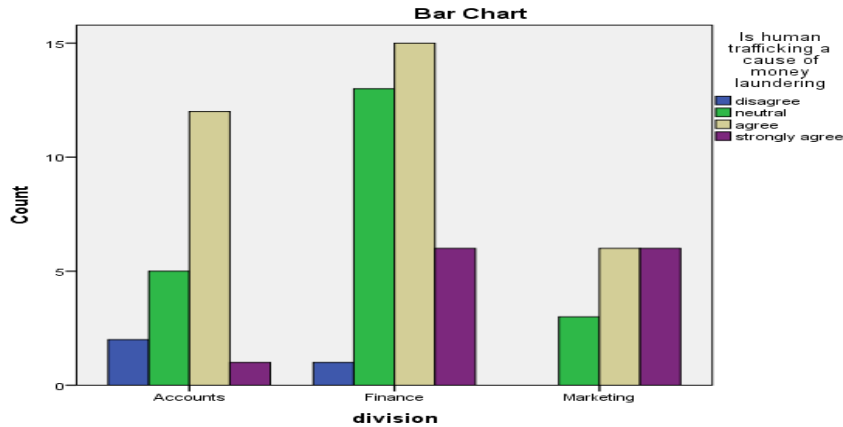|	Marketing	2	2	6	5	15
Total		3	21	30	16	70
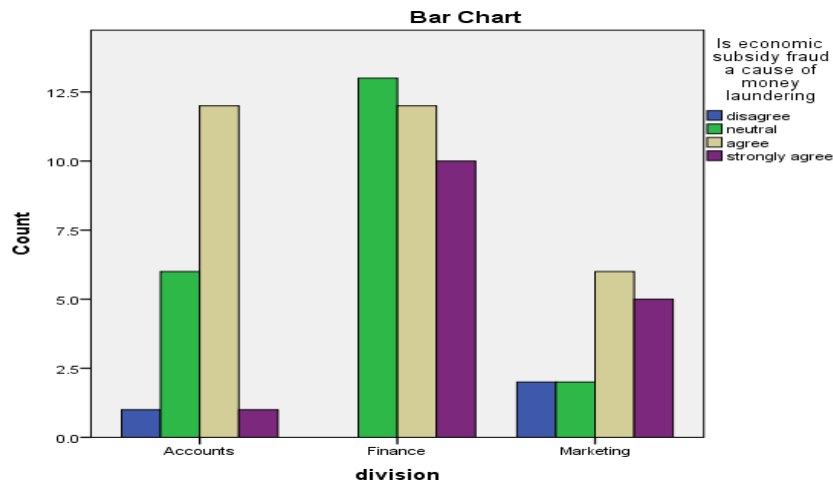
Bar Chart

Anslysis: We can observe from the above table that 1% respondents of Account division, 10% of finance and only 5% respondents of marketing division are strongly agreed that Subsidy fraud is the main cause of money laundering.

Table 11 : **division * Is human trafficking a cause of money laundering Cross tabulation**
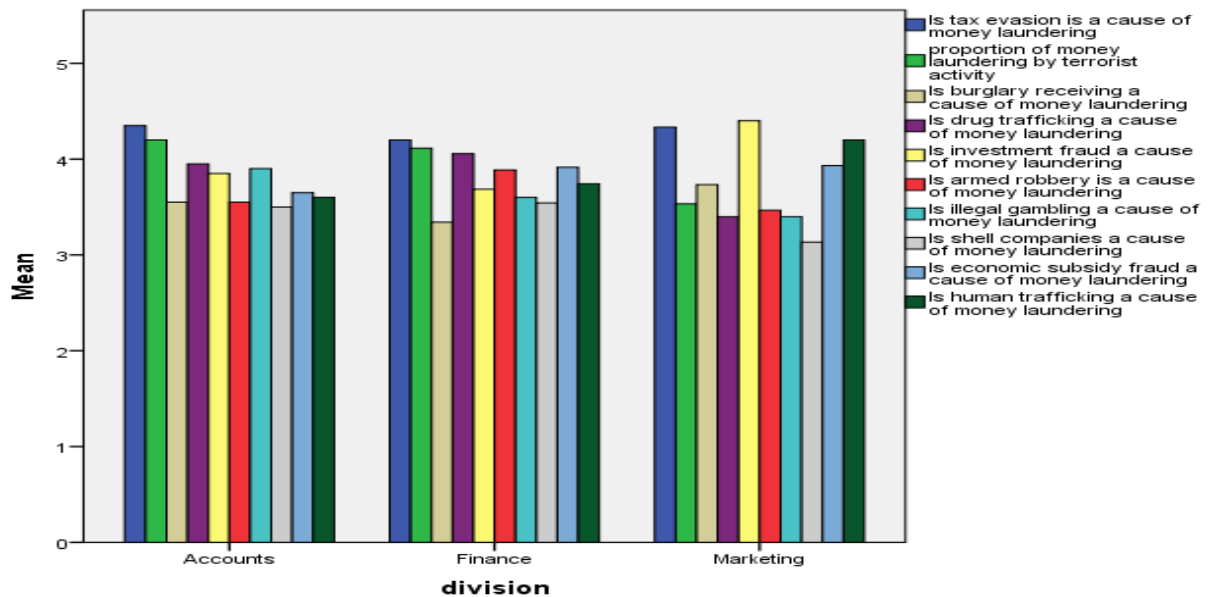
Count

		Is human trafficking a cause of money laundering				
		disagree	neutral	agree	strongly agree	Total
Division	Accounts	2	5	12	1	20
	Finance	1	13	15	6	35
	Marketing	0	3	6	6	15
Total		3	21	33	13	70

Bar Chart

Anslysis: We can observe from the above table that 1% respondents of Account division, 6% of finance and only 6% respondents of marketing division are strongly agreed that Human trafficking is the main cause of money laundering.

Table 12: Factors mean * Division

Anslysis: With the help of above table that both division (accounts and finance division) are strongly agreed that tax evasion is the main cause of money laundering but marketing division saying investment fraud is the main cause of money laundering.

Suggestions

1. At the time of cash deposit or withdrawal, there should be some legal policies by which tax deduct automatically and we reduce black money.

2. When we purchase anything, we should use such types of cards like debit card, plastic cards, instead of cash transactions. But we use only cards, in which we have sufficient balance. Credit cards are used to launder money or commit fraud, like if someone use the

credit balance and never paid back. While in case of debit card or plastic cards, we have already paid the tax amount applicable on the purchased item.

3. Government should take some strong decision to reduce such fraud or money laundering like U.S government. In USA, every individual is liable to pay tax at the rate of 30% of his/her income and government will provide free education to his/her children upto 14 years.

4. Therefore, the government of India should take proper steps to prohibit money laundering from its roots.

Conclusion

Money laundering is an autonomous criminal economic activity by which we consume, save, investment and reinvestment our money for getting higher profit and tax evasion. Now a day's tax evasion is done by every individual on mass scale. However, to minimize the negative impact of macroeconomic consequences an emerging economies government should care on the hard and fast rule to eliminate such types of criminal activities.

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9. For example, M. Glenny, an expert on international organized crime, estimates the share of the drug trade at 70%.