МЕЃУНАРОДНА НАУЧНА КОНФЕРЕНЦИЈА

БАЛКАНОТ МЕЃУ МИНАТОТО И ИДНИНАТА: БЕЗБЕДНОСТ, РЕШАВАЊЕ НА КОНФЛИКТИ И ЕВРОАТЛАНТСКА ИНТЕГРАЦИ

INTERNATIONAL SCIENTIFIC CONFERENCE

THE BALKANS BETWEEN PAST AND FUTURE: SECURITY, CONFLICT RESOLUTION AND EURO-ATLANTIC INTEGRATION

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Александра Тодору
Марија Рашковска Георгиевска

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7000 Bitola
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Dear,

The international scientific conference "International Scientific Conference: The Balkans between Past and Future: Security, Conflict Resolution and Euro-Atlantic Integration" is an annual conference organized by the Faculty of Security Skopje, member of the University Ss Kliment Ohridski from Bitola. The main goal of the conference is to contribute to the clarification of issues related to the security and Euro Atlantic integration of the Balkans region, through presentation of scientific papers and discussions in the context of security, conflict resolution and contemporary Balkan and Euro-Atlantic integrations.

The specific objective of the Conference is the theoretical conceptualization of topical issues, with the task of encouraging and giving impulse to the evaluation of practice, with emphasis on opening discussions on theoretical and epistemological problems of security, conflict management, especially the need for defining the scope and the development of research methodology for security phenomena and security in general, its structure and forms of occurrence and the relationships between them.

The contemporary (global) security is focused on the issues of security and transition, conflict and conflict resolution in the Balkans, risk management, regional co-operation, building democratic relationships, rule of law, smart technology etc., which inevitably requires synergy of science, politics and practice in addressing and solving systemic and acute problems of the contemporary society.

In the last two decades the Balkans has been in the process of defining its reform processes and building institutions and institutional structure able to meet the requirements for Euro-Atlantic integration. The countries from this region have achieved the objectives set by the Euro-Atlantic integration, with different levels of efficiency and dynamics. Bulgaria and Romania are EU Member states since 2007 and Slovenia since 2004. Croatia has finished the negotiations and will become a Member state in July, 2013. Montenegro is in the process of negotiations for membership, Serbia is a candidate country with a good chances to start the negotiations in a near future and Republic of Macedonia is leading a high level political dialog with EU representatives. Bosnia and Herzegovina and Albania are aspirants. This speaks about the commitment of all countries towards Euro Atlantic integrations.

In the last few years, normative conditions were created in the Republic of Macedonia for increasing and deepening the reform process of its security systems, particularly of the police and the sector for internal affairs in general. That is why it is important to consider the experiences from the reforms of the security systems, especially the transformation of police systems and organizations. In this sense, the exchange of experiences in EU member and candidate countries is of great importance. Also important are issues related to risk and crisis management, particularly in the Republic of Macedonia in the period when the country has made a visible step forward in reforming its security systems and has become part of

Euro-Atlantic integrations. Bearing in mind all this, a need has emerged for the analysis of the preparations, the fulfillment of the conditions imposed by the European Union, and especially the definition of the legal framework and the functioning of the political system.

Taking into consideration the fact that the Faculty of Security functions within the system of higher education institutions of the University "St. Kliment Ohridski", as well as its tasks of continuous organized efforts for theoretical conceptualization and re-evaluation of security practice, the organization of the Conference is a serious challenge for contemporary science, whose task is to open dilemmas and debates about security, risk and crisis management, regional co-operation and their importance in the system of science. In this aspect, it is of great significance to evaluate the constitution and the development of security sciences, as organized and systematized knowledge of the security as a phenomenon, its organization and relations, as well as its activities, which impose the need for critical revalorization of scientific and research efforts.

The Conference will host scientists from

Topics of the Conference.

1. Conflicts and conflict resolution in the Balkans
2. The Balkans, national states and EU integration
3. Regional cooperation and/or European and Atlantic integration of the Balkans
4. Security Issues and Risks Related to International Law and Trade
5. Democracy, Rule of Law, Human Rights
6. Security in the Era of Smart Technology
7. Security dilemmas and geopolitical trends in international relations with particular reference to Middle East, Eastern Europe and Western Asia.

Number of received abstracts - 142
Number of accepted papers – 111
Number of negative reviews – 10

Participating states: Republic of Macedonia, Serbia, Croatia, Slovenia, Bosnia and Herzegovina, (Republic of Srpska), United States of America, Romania, Italy, Peoples Republic of China, Poland, Albania, Sweden, The Netherlands, Monte Negro.

ORGANIZING COMMITTEE

CONCLUSIONS

The international scientific conference "International Scientific Conference: The Balkans between Past and Future: Security, Conflict Resolution and Euro-Atlantic Integration" annual conference organized by the Faculty of Security Skopje, member of the University Ss. "Kliment Ohridski" from Bitola.

1. Conference is the theoretical conceptualization of topical issues, with the task of encouraging and giving impulse to the evaluation of practice, with emphasis on opening discussions on theoretical and epistemological problems of security, conflict management, especially the need for defining the scope and the development of research methodology for security phenomena and security in general, its structure and forms of occurrence and the relationships between them.

2. The contemporary (global) security is focused on the issues of security and transition, conflict and conflict resolution in the Balkans, risk management, regional co-operation, building democratic relationships, rule of law, smart technology etc., which inevitably requires synergy of science, politics and practice in addressing and solving systemic and acute problems of the contemporary society.

3. In the last two decades the Balkans has been in the process of defining its reform processes and building institutions and institutional structure able to meet the requirements for Euro-Atlantic integration.

4. The countries from this region have achieved the objectives set by the Euro-Atlantic integration with different levels of efficiency and dynamics. Bulgaria and Romania are EU Member states since 2007 and Slovenia since 2004. Croatia has finished the negotiations and will become a Member state in July, 2013. Montenegro is in the process of negotiations for membership, Serbia is a candidate country with good chances to start the negotiations in a near future and Republic of Macedonia is leading a high level political dialog with EU representatives. Bosnia and Herzegovina and Albania are aspirants. This speaks about the commitment of all countries towards Euro Atlantic integrations.

5. In the last few years, normative conditions were created in the Republic of Macedonia for increasing and deepening the reform process of its security systems, particularly of the police and the sector for internal affairs in general.

6. That is why it is important to consider the experiences from the reforms of the security systems, especially the transformation of police systems and organizations. In this sense, the exchange of experiences in EU member and candidate countries is of great importance.

7. Also important are issues related to risk and crisis management, particularly in the
   Republic of Macedonia in the period when the country has made a visible step forward in reforming its security systems and has become part of Euro-Atlantic integrations.

8. Bearing in mind all this, a need has emerged for the analysis of the preparations, the fulfillment of the conditions imposed by the European Union, and especially the definition of the legal framework and the functioning of the political system.

9. In this aspect, it is of great significance to evaluate the constitution and the development of the security sciences, as organized and systematized knowledge of the security as a phenomenon, its organization and relations, as well as its activities, which impose the need for critical revalorization of scientific and research efforts.

10. Security as science and practice spread, and thus the security system and policy must include broad concepts and practices of security.

11. European and Euro-Atlantic integrations of all countries in the region is of a great importance for development of democratic processes and maintenance of stability, peace and prosperity in the Balkans.

12. Failure to resolve the open issues between neighboring countries in the region remains a real threat to peace and stability, and the case of the Republic of Macedonia shows that it can be an obstacle to further integration into EU and NATO.

Organizing Committee
Ohrid, 08 June 2013

MONEY LAUNDERING AS AN ACTOR IN ECONOMY (ECONOMIC APPROACH)

Dr.sc. Snezana Mojsoska
e-mail: smojsoska@gmail.com
Faculty of Security-Skopje
Dance Vrateovska, MA
e-mail: nikolovska_dance@yahoo.com
Public Revenue Office of the Republic of Macedonia

Apstract

Money laundering has a corrosive effect on a country's economy and social welfare and in economic terms violates business decisions, increases the risk of bank failures, undertakes control of the economic policy of the government, in a word damages the reputation of the country. All definitions for money laundering has common word "money".For economists it is not clear exactly what type or form of 'money' its means actually in various definitions. Depending on the definition, it can be a stock or flow, `proceeds`, `wealth` or `income`.

This paper will try to analyze different approaches from different economics researchers about money laundering as actor in economy. There are several negative effects that money laundering make it to economy as effects on the real sector (business activities, on relative prices, consumption, saving, output, growth), influence on the public sector (revenues, privatization efforts),effects on the monetary economy and the financial sector. In this paper also will be provide several conclusions and further movements to improve position of economy in money laundering story as actor.

Key words: money, money laundering, impact, economy

Introduction

Strong globalization wave in which we live, processes of financial liberalization modern and complex financial markets and various financial instruments, differences in national jurisdictions, weak and ineffective regulatory and control mechanisms, off shore banking, e-banking, the rapid development of modern information technology and technology conditions leads to largely perform economic and financial crime. Depending on which international agency filters the data, it is considered that the annual worldwide level of money laundered is between $ 500 and 1000 billion. The IMF had estimated that total global money laundering accounts for one to

two per cent of world GDP and more recently increased this estimate to two to five percent of world GDP (Others 2006).

These striking data speak themselves about social, economic and security erosion that money laundering as damning appearance leaves behind.

From social point of view the system that allowing non-sanctioning of money laundering, in fact indirectly provides encouraging criminal activity, in a way that stimulates the criminals to continue their illicit schemes. It initiates increased levels of fraud, financial fraud, bankruptcies corporations (which entails the loss of jobs and loss of labor pensions when the corporation collapses), increased degree sale of drugs on the streets, increased sales of psychotropic substances, unfair competition and loss of morale on the part of business people who are not breaking the law earn very less amount of profit in relation to the person who acquired the participants in the money laundering.

Economic implications are in a broader scale. Negative effects of money laundering has on the economy, the financial institutions on productivity, real sector, international trade and capital flows can be direct or indirect and difficult to quantify and express in numbers. Although the past decades on a worldwide level, the need to provide economic security takes priority in the national and international agendas, however, money laundering remains burning and matchless problem globally. Developing countries are still in the process of establishing the legal framework and transparency in the fight against money laundering, making them ideal for any combination of damning appear so often bear the burden and consequences of modern money laundering. An illustrative example of the 1990's, when a number of banks in the developing Baltic states ended up with huge deposit potential of dirty money. Bankers in trying to withdraw and protect their own clean money attracted the attention of financial investigators, have lost the right insurance and many of these banks went bankrupt.

Literature review

Speaking in term of economic security many economists are dealing hoe to improve it in order to see how big is problem and what the ways of solving it are. One of the most well known economists is doing macro estimates of the size and development of money laundering is John Walker (2007, 2004 and 1999). His model of global money laundering is based on standard economic theory, in which he tries to develop an international input-output-model. On the other hand, Brigitte Unger (2007, 2006), quite strongly defends the research of John Walker, arguing that since the pioneer

study of Walker (1994), it is possible to create a framework to measure money laundering per country and worldwide. Furthermore, she argues that Walker's model is a positive example for interdisciplinary work of criminology and economics. In her own work, Unger tries to justify the Walker model and tries to give a theoretical underpinning of the Walker model by using Tinbergen's old gravity model. Baker (2007) estimates the illicit money to range between US$ 1.0 and 1.6 trillion a year. This estimate has been adopted by the World Bank. Moreover, Baker estimates that half – US$ 500 to 800 a year – comes out of developing and transitional economies. Another economist author, who is quite critical about the existing estimates and procedures capturing the size and development of organized crime and money laundering, is Petrus C. Van Duyne. In his study, Dobovsek (2007) analyses that those criminal organizations have moved in the past period to the economic sectors in order to strengthen economic power, but he is more and more able to recognize that pressure is moving on state politic through their networks. His analysis shows that persons committing organized crimes had moved into the second phase of development of criminal organizations into the sphere of economy. According to Bunt (2007), Hawala bankers are financial service providers who carry out financial transactions without a license and therefore without government control. Othor authors who are dealig with money laundering story and influence of it on economy or money laundering as actor in economy are (Schneider 2002), (Razavy 2005, Perkel 2004, Paauw (2005 , Masciandaro, D. (2004),Levi, M. (2002). Tanzi, V. (1997).Savona 1997, Boyrie, Pak and Zdanowicz (2005) and others.

Effects of money laundering on economy

Masciandaro defines "money laundering is an autonomous criminal economic activity whose essential economic function lies in the transformation of liquidity of illicit origin, or potential purchasing power, into actual purchasing power usable for consumption, saving, investment or reinvestment". The money-laundering phenomenon can then be studied through microeconomic analysis of the behaviour of the criminals, consistent with the Becker base model and from macroeconomic poin of view with (Masciandaro).

According all authors and researches we can conclude that there over 30 negative effects that money laundering occur to economy. All negative effects has same negative influence for each country whether its about for underdevelopment or development country. Can we measure negative effects in numbers it is a question? It is hardly to calculate them but that kind of activities has direct and indirect damage but not only the financial

institutions (which damage is direct), but also country's productivity in its various economic sectors, such as real sector, international trade sector and capital flows, among others (as indirect damage). (Services 2011) Many of the effects of money laundering do not occur immediately or in the short run but pose long-term dangers for the economy, the society and politics.

Direct effects

The biggest effect of money laundering is negative effect on economic growth through its erosion of financial sectors, and also has a more direct negative effect on economic growth in the real sector by diverting resources to less-productive activity, and by facilitating domestic corruption and crime, which, in turn, depress economic growth. (Bartlett 2002) The real sector has different approach than those in financial sector. In this sector we can include real estate, goods such as automobiles, arts and anything else that can be called "goods". It is often the case when money is laundered through the real sector of the economy, and most of the time the real estate channel is utilized. When real estate is purchased with laundered funds, it creates artificial demand, which can falsely trigger supply and thus saturate the real estate market. Further, real estate value suffers as a result of money laundering because its prices are usually artificially determined and are below the fair market value. (Services 2011) Money launderers are primarily guided by the desire to escape control and detection rather than by investment return maximizing considerations. However, these investment choices can be detrimental to the economy because they lead to a redirection of funds to assets that generate very little economic activity or employment. (Bartlett 2002) Money launderers tend to opt for investments that afford them the largest degree of concealment even if this entails lower rates of return and move away income from good investments to risky and low-quality investments. Money laundering causes a misallocation of resources due to distortions in relative assets and commodity prices arising from money laundering activities ((McDonell 1998).

Launderers have an incentive to invest their illegal proceeds in an attempt to disguise their illegal origin. Consequently, they are willing to pay for particular assets more than their actual worth as well as to purchase otherwise unappealing property or enterprises simply because it gives them the possibility to increase their share of a particular market and gain stronger foothold in a particular economy (Keh 1996). Similarly, investments in the capital market could work the same way leading to an artificial increase in share prices. Holding on to illicitly obtained cash is incriminating for offenders. Consequently, they will attempt to convert it into assets (i.e. real estate, business), which are less conspicuous and can give the appearance of

legitimate wealth. To achieve this aim, money launderers engage in extensive purchases and due to their large availability of funds, they will be able to outbid potential honest buyers (Walker 1995, p. 33). Furthermore, since their interest in the respective asset does not stem from its actual value but rather from the benefits that accrue to them in terms of concealment, they are willing to pay far more than the true value of the asset. This will artificially drive purchase prices up and make them unaffordable to honest buyers. (Walker 1995) Moreover, if launderers acquire and operate a business and use additional criminal funds to subsidize it, this provides them with a competitive advantage over legitimate ventures to the point where they will drive them out of business (Keh 1996). This assertion can be substantiated by the study conducted by Arlacchi (1986) on the anti-competitive business behavior of the mafia. It appears that "the considerable capital sums acquired in the course of the mafia's illegal activity did in fact tend to be transfused into its legal entrepreneurial operations. The mafia had access to a reserve of its own finance capital that far exceeded the firm's own present dimensions and far exceeded what was available to non-mafia firms, which often found themselves squeezed by lack of credit and therefore subordinated to finance capital." (Arlacchi 1986)

The external sector as another direct influenced sector from money laundering holds in itself things like trade (imports and exports) and international capital flows. These become affected when proceeds from an illegal activity are used to purchase imported luxury goods with the intention to launder funds. When imports are purchased with these funds, economy suffers because no fair economic activity is generated: employment is not created and competition is not supported due to usually artificially set prices for the purpose of laundering, etc. Such activities, therefore, can depress domestic prices, damage natural competition between domestic and international companies, and reduce profitability of domestic companies. (Laundering 2008) Money laundering activities can also bring about a distortion of a country's imports and exports. As mentioned above, money launderers tend to engage in (often imported) luxury consumption. As a consequence, there will be balance of payments problems. Such imports do not generated domestic economic activity or employment and can depress domestic prices, thus reducing the profitability of domestic enterprises. This appears to be particularly the case in developing countries (Barlett 2002, p. 20). Furthermore, money laundering affects imports and exports in terms of prices. One of the most common tactics used for laundering money and generating illegal flight capital is to overprice imports and to under price exports. (Baker 1999) For example, an importer of particular foreign machinery could make an agreement with the seller that the purchase price be increased by a considerable margin (e.g. 30 %). The purchaser can pay the

seller the whole sum in cash on the understanding that the addition in price (*i.e.* the 30%) be placed on his account in the foreign country. Clearly, if these activities are conducted recurrently and on a large scale this can artificially affect import and export prices. Money laundering has a significant negative impact on growth rates. Since in the context of this activity, funds are redirected from sound to risky ventures, from productive to sterile investments and crime and corruption are facilitated, economic growth can suffer (Bartlett 2002). When a particular venture or industry is no longer appealing to launderers, they tend to simply abandon it, potentially causing the collapse of these sectors and serious damage to the respective economies (McDowell 2001). Moreover, through its damaging effect on financial institutions, which is crucial for economic growth, as well as through its distorting effect on the allocation of resources, laundering further dampens economic growth.(Tanzi 1997) These assertions appear to be corroborated by the empirical study conducted by Quirk in 18 industrial countries for the period 1983-90, which found that reductions in annual growth rates were associated with increases in money laundering activities(P. J. Quirk 1997).Money laundering can also have positive effects on growth. For example, if a country is a transfer country for criminal money flows, additional value added is then created for financial services without the countries having to bear the costs of crime. Money is simply flowing through.

According Bagella, Becchetti and Lo Cicero also is important transferring the money earned abroad and in countries with less strict anti-money laundering regulations than neighboring countries because less strict regulation can have a positive effect on the capacity of attracting illegal capital. The stricter the anti-money laundering regulations, the more the country will suffer from a negative externality effect, i.e. the inability to attract illegal capital.

Money laundering also reduces output and employment by diverting resources, as mentioned above from sectors with high additional productivity (*i.e.* clothing, footwear) to sterile sectors (i.e. dwelling properties, jewelry, art). The multipliers for the latter are the lowest in terms of output, income and employment thus, resulting in a net loss to the total economy regardless of where the money would have otherwise been spent. Walker tries to measure these effects by means of an input output model and he estimates that if $1 million of laundered money is invested in dwelling properties rather than in more productive sectors of the economy this would result on average in a net loss to the Australian economy of $ 1.126 million of output, $ 609, 000 of lost income and 25 lost jobs (J. (. Walker 1995). Once these figures are multiplied by the actual amount of money laundered, the effects become stark indeed.

Money laundering can have a detrimental effect on government revenues by decreasing government income from tax. Money laundered, also represents income that evades taxes ((P. J. Quirk 1997) and Alldridge 2002, p. 315). Misreporting or underreporting income is one of the most common methods of conducting money laundering. Consequently, money laundering negatively affects tax collection efforts. At the same time, an increase in predicate offences and money laundering demands public enforcement expenditure; this further draws on public revenues. (McDonell 1998)

Money laundering can have extensive detrimental effects to privatization efforts. First as discussed above in the context of unfair competition, money launderers can outbid honest purchasers for formerly state-owned enterprises (J. 2001). This will result in a large-scale criminal presence in the economy. Criminals are driven by other considerations than conventional business entrepreneurs and react to different stimuli. For example, "the criminal proprietor will occasionally shift output and pricing patterns according to non-economic factors: like feeling a police crackdown or changing investment locations because of the passage of constraining legislation" (Keh 1996). As a result, significant sectors of the economy could become insulated from market-oriented stimuli, which can further prolong the readjustment process of the newly privatized economy. Additionally, it will also bring about a speculative and anti-competitive approach to conducting business in these sectors. Furthermore, as a result of structural economic change, these economies become highly susceptible to informal and illegal lending arrangements conducted by money launderers. Such developments have been extensively documented in reforming economies, Russia being a notable example ((Keh 1996). As part of the process of economic reform and liberalization process, governments liberalize prices. This brings about an increase in consumer and producer prices. Faced with a continued rise in producer prices and an associated decrease in consumer expenditure, firms lack the ability to finance production or alternatively are swamped in accumulated inventories of unsold output and increasing debt. As a result, firms display a stringent need to resort to credit. However, banks of reforming economies have serious difficulties in meeting credit needs. Their portfolios are burdened by the extensive volume of debt of weak state enterprises and thus, will tend to cut back on lending as well as increasing lending rates (Keh 1996). Unable to obtain the much-needed credit from the formal lending system, firms struggling with liquidity problems will seek credit in the informal system. Criminals and money launders do not face similar lending problems as domestic banks. The criminal lender has a great availability of funds and is not burdened by high transaction costs (i.e. repayment delays) (Keh 1996). Consequently, they have a competitive advantage over domestic banks. They can afford to provide slightly lower

lending rates as well as more attractive deposit rates and, thus, even drive legitimate lending institutions out of the market. To sum up, informal lending arrangements provided by money launderers and other criminals can prolong the adjustment process of privatizing economies. They particularly impact the banking system and its reforming process. With criminal lending alternatives in the economy, commercial banks remain a marginal source of credit (Keh 1996).

Money laundering also affects the money demand. The IMF found that a 10 % increase in crime results in a 6% reduction in overall money demand (P. J. Quirk 1997). A 10% increase in crime, will, furthermore, discourage the demand for this country's currency equally by 10%. Money laundering can, therefore, have a negative impact on the demand for money, on the exchange rate and on interest rates. Traditionally, money laundering would bring about an increase in money demand but this trend has lately been inversed due to changes in money laundering methods from cash and the banking system to non-monetary instruments and barter (P. J. Quirk 1997). Needless to say, these shifts in money demand and capital flows from one country to another are unanticipated and not related to economic factors and to this extent they bring instability to the world economy. In other words, they "could have internationally destabilizing effects because of the integrated nature of global financial markets. The destabilizing effects could arise because these capital movements would not be seen to reflect differences in economic fundamentals across countries. Thus, they send confusing signals to the world community." (Tanzi 1997)

Money laundering leads to volatility in exchange rates and interest rates due to unanticipated inflows and outflows of capital. Tanzi points out a large inflow of laundered money can result in the appreciation of the exchange rate and/or an expansion of the country's monetary base. An increase in exchange rates is associated with a reduction in exports and a heavier reliance on imports whereas an expansion of the monetary base would bring about an increase in prices (Tanzi 1997). Additionally, as mentioned above, interest rates are also affected because launderers invest funds where their schemes are less likely to be detected rather than where lending rates are lower or rates of return are higher. Moreover, due to the unpredictable character of such choices impacting economic fundamentals, the soundness of economic policy is also affected (J. 2001).

As a result of money laundering through banks, they will have more deposits, which will require greater availability of loan funds and they could potentially lead to the greater availability of credit even for legitimate businesses. Increased deposits will make decreasing of interest rates. Money laundering can channel funds into financial institutions or countries in which money can be easily installed without too many questions. This could lead to

an outflow of capital from countries with sound economic policies and higher rates of return to countries with less efficient policies and lower rates of return. Money launderers can channel funds towards financial institutions or countries in which the money can be most easily placed without too many questions asked. This can lead to capital flight from countries with sound economic policies and higher rates of return to countries with less efficient policies and lower rates of return (Tanzi 1997). Thus, as Tanzi points out, "because of money laundering, the world capital tends to be invested less optimally that would be the case in the absence of money laundering activities." Money laundering could have a reverse impact on economic policies recommended by the IMF, aiming at fighting inflation by means of a reduction of the money supply. In such circumstances, a strong influx of illegally obtained hard currency in the economy can conceivably be beneficial for employment by serving to increase the country's foreign reserves, decreasing its foreign debt as well as alleviating some of the difficulties associated with policies aimed at reducing expenditure (Keh 1996). The anti-inflation policy however will be ineffective. Furthermore, "drug money could be a potentially stabilizing force, as a source of capital without the strings of conditionality attached." (Keh 1996) However, one should not be too quick in proclaiming the benefits deriving from money laundering. There are always a multitude of costs attached. The problem inherent in a heavy infusion of illegal hard currency is that they escape government control. As a result "spending behaviour becomes influenced not only by the official money supply but by the infusion of informal credits as well. In turn, the demand for money in the official banking system reflects only a part of domestic economic activity. Interest rates become less useful as a barometer of money demand."

The damaged integrity of the financial sector as a result of its association with money laundering and the entrenched presence of organized crime can negatively impact foreign direct investment. Once a country's commercial and financial systems are perceived as being under the influence of criminal elements, this may compromise the jurisdiction's reputation and undermine investor's trust. Thus, appearing on the black lists published by the FATF and OECD can have serious detrimental effects for foreign direct investment (Boorman and Ingves 2001). At the same time however, if perceived as a lax regulatory environment and a tax haven, the respective country will increasingly attract capital of an illegal nature and can draw significant benefits thereof especially if the money is directly invested in the economy rather than simply transiting through the country (Boorman and Ingves 2001).

Illegal transactions can contaminate legal ones. According to Quirk, certain perfectly legal transactions involving foreign participants are reported

to have become less appealing as a result of alleged association with money laundering. However, logically given that association with money laundering or even just the possibility of such an association leads, as discussed above, to erosion of other economic agents' confidence. On the other hand, it is also likely that such transactions and enterprises will become more appealing in launderer circles. By gaining a reputation of willingness to co-operate with launderers, they could potentially attract illegal capital (Alldridge 2008).

Indirect effects

Financial sector includes financial institutions such as banks, non-banks financial institutions, such as private lenders, and equity markets. These institutions are important because they represent the concentration of capital resources for the country and their allocation by means of investments which in turn generate self-sustainable economic development. The reason for this preference lies in the efficiency that financial institutions can provide for the money launderer: just as financial institutions are a critical component in the financing of the legitimate economy, they can be a low-cost vehicle for the illicit economy to launder funds. (Naylor 2001) Financial institutions are at the forefront of the battle against the money launderers. It is not only their institutions that the money launderers target to use in their various nefarious schemes but under current legislation they are responsible for policing the financial dealings and reporting any suspicious transactions and also transactions over a reporting limit of £10,000 (In the UK). Financial institutions are affected by money laundering; in a legal sense because of the obligations placed on them by legislation; financially because of the need for compliance. The Money Laundering Regulations 1993 (Hereafter called Regulations) require financial institutions to put in place systems to deter money laundering, and to assist the relevant authorities to deter money laundering activities.The money-laundering phases of greatest concern when considering the impact on a developing country's financial institutions are the placement and layering phases, wherein the illicit funds are being laundered but have not yet been fully integrated into the economy for use by the funds' claimants as consumption goods, or as investments in ostensibly legitimate businesses (Bartlett 2002).

Pervasive money laundering through developing-country financial institutions according Bartlett erodes these institutions in 3 broad ways: by increasing the probability individual customers will be defrauded by corrupt individuals within the institution; by increasing the probability that the institution itself will become corrupt or even controlled by criminal interests, again leading to customers being defrauded; and by increasing the risk of financial failure faced by the institution as a result of the institution itself

being defrauded. Such dangers come under the formal heading of operational risk, and can contribute significantly to reputational risks faced by banks. These 3 factors can emerge separately or together indeed, they can reinforce each other and they are particularly likely to increase operational risks, particularly via fraud, and reputational risks faced by banks. Of course, any operational (or other) damage caused by money laundering also worsens reputational damage and vice versa: a sudden loss of reputation can threaten the institution's substantive financial position with, in the extreme case, a run on its deposits (Bartlett 2002). Another consequence faced by economies bubbles that are created in the financial system as a result of injection of dirty money in the economy and in specific sectors and industries that are eligible for money laundering. When it comes to increased demand, the country's economic authorities act in the direction of economic policy adjustment. When the laundering process reaches a certain critical point or when politicians begin to manifest greatly increased interest in the observance and enforcement of the laws, it will pull a sudden outflow of dirty money and venture capital without a clear and predictable economic cause which in turn will leave a kind havoc in the financial and real sector economy.

About tax we can say that there are two moments when money laundering involves in economy. The first moment is increasing tax rates and the second is tax evasion. The first one indirectly impact to honest taxpayers by bringing increased tax rates. Also is that money laundering can also increase the revenue of the public sector. Criminals want their money to be "legal". To pay taxes on income is a way of doing this. Non-existent high turnovers from restaurants with no clients in them are sometimes voluntarily declared to the tax authorities. This way, the illegal money is turned into taxed legal money. Tax evasion is common in companies through which running money laundering causes unfair business competition. Legitimate small businesses can not be competitive enough to compete with the money launderers who can afford to sell products and / or services with dumping prices, because their primary goal is to bring dirty money into the system and not to exercise profit. Of the underlying forms of illegal activity, tax evasion is, perhaps the one with the most obvious macroeconomic impact. Although the small business sector is an important nexus of tax evasion, it also drives economic growth. It is therefore possible that many countries at a relatively early stage of economic development will be especially prone to tax evasion and the associated money laundering. (Quirk 1997) Once money laundering happens in a financial institution, and it becomes known to its customers, customer trust is damaged as the perceived risk grows and the institution is now viewed as corrupted. Once customer trust is gone, the financial institution becomes victim of its own reputation and its whole purpose for

existence is shaken because it becomes unable to effectively collect and invest capital resources. (Services 2011) Money launderers are not looking for the highest rate of return on the money they launder, but for the investment that most easily allows the recycling of the illegally obtained money. Money may move from countries with good economic policies and higher rates of return to countries with poorer economic policies and lower rates of return. This implies that the world capital is invested less optimally than would occur in the absence of money laundering (Tanzi 1997).

The opposite argument could also hold true in certain circumstances. Banks, investment funds etc might actually regard launderers as desirable customers. As long as they are ensured secrecy, launderers will not be very picky about threats of return provided. In other words, "they will not care whether or not the highest interest rates are available. They will be happy to receive a lower or even a negative rate. The bank need not make any risky investment with their money and it can conform easily to any liquidity requirements." (Alldridge 2008) The great majority of authors are concerned with the effects of ML on the reputation of the financial sector. Organized crime can infiltrate financial institutions (FATF 2002a). Money laundering impairs the development of the financial sector for two reasons: First, it erodes financial institutions themselves; there is a correlation between money laundering and fraudulent activities undertaken by employees. Second, customer trust is fundamental to the growth of sound financial institutions. (Bartlett 2002).

Once a financial institution becomes involved in money laundering operations and this is subsequently detected, it will lose credibility and customer confidence (Bartlett 2002). Due to the perceived risk of fraud and corruption associated with money laundering, economic agents will choose to avoid such institutions and conduct their business elsewhere. This negative effect is not restricted solely to the institutions implicated. In the context of smaller countries, the involvement in money- laundering operations of several of its financial institutions can result in the loss of reputation of the financial system or simple damaged financial credibility (McDonell, 1998).

To the extent that money demand appears to shift from one country to another because of money laundering - resulting in misleading monetary data - it will have adverse consequences for interest and exchange rate volatility, particularly in dollarized economies, as the tracking of monetary aggregates becomes more uncertain. The income distribution effects of money laundering must also be considered. To the extent that the underlying criminal activity redirects income from high savers to low savers, or from sound investments to risky, low-quality investments, economic growth will suffer. For example, there is evidence that funds from tax evasion in the

United States tend to be channeled into riskier but higher-yielding investments in the small business sector, and also that tax evasion is particularly prevalent in this sector. Fraud, embezzlement, and insider trading seem likely also to be more prevalent in rapidly growing and profitable businesses and markets, because "that's where the money is." Money laundering also has indirect macroeconomic effects. Illegal transactions can deter legal ones by contamination. For example, some transactions involving foreign participants, although perfectly legal, are reported to have become less desirable (Quirk 1997).

Conclusion

This paper analyses a part of scientific literature in order to explain what the role of money laundering phenomena in economy is. Conclusion leads at following points:

Money laundering has studied many economists because of the negative effects and direct negative impact on economic growth. There are over 30 negative effects that money laundering occurs in economy.

There are direct and indirect effects of money laundering in economy. Each of them it is hard to compare which is in the hardest position or how much is damaged each one in numbers because of impossibility to measure negative effect of money laundering. Money laundering can make it legal investment flows to be diverted to less productive, also will indirectly impact to honest taxpayers by bringing about an increase in tax rates, money laundering can also increase the revenue of the public sector, it damages the financial institutions that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, and can distort the economy's international trade and capital flows to the detriment of long-term economic development. Money laundering can cause macroeconomic instability and inhibit the implementation of the country's macroeconomic policy to affect inflation in the national economy, unemployment, the extent and quality of the process of privatization, affect on increasing level of crime and corruption etc.

As recommendation we can say that in fight of the world with money laundering in order to protect the economies there is need to bring up good regulation, to strengthen state and private capacities specially participants in the financial system as part of the economy. Responsible FIU needs to keep abreast of economic trends, the economic system and the economy in general is just step behind the criminals.

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