

Money laundering and its effect on social and political economy in Iran

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Abstract

Today, using the most appropriate financial combination for preventing manipulation of influence and pressure on the structure of the country is one of the most important concerns of every country's cultural-financial policy so that social, political, and financial segments are greatly impressed in all aspects. In this regard, there are many destructive factors which destroy the balance. Money laundering, according to global statistics and facts, could be one of the most destructive one. Money laundering is done through many different ways which leads to the corruption of authorities and financial instability and banking volatility and also reduction of productivity and government's control over economic policies. Step-by-step control and assessment of financial institutions and enterprises and all organizations which somehow affect the flow of money laundering is really difficult and to achieve predetermined goals, highly secure solutions and also development of appropriate culture in society for preventing the flow of money laundering are necessary.

Keywords: Money laundering, social economy, political economy.

Introduction

Money laundering which traces back to half a century ago was focused on by the world political and economic officials after global developments and events and particularly after September 11th events and this question was posed that how the financing networks of global terrorist groups are

working. Consequently, this issue was also emphasized in Iran which has special political and economic situation. Therefore, in 2011 a mandatory 13-item instruction was issued to all banks and financial institutions to fight money laundering. According to Rogovin and Marten(1992), although money laundering is not a new concept it confronted political and economic leaders of the world with this novel reality that how they supply their financial resources all around the world and how their communicative channels are working and the money laundering issue which was formerly discusses regionally and nationally has now changed to a global crisis which has numerous effects on social, economic, and political interactions. Marginal issues associated with drug trafficking has spotlighted Iran in terms of dirty money issues.

Statement of the Problem and the Need to Fight Money-Laundering

A lot of factors are involved in money laundering which deeply endangers endanger the economic structure of every society. Hiding assets and transferring wealth are two examples of it in the past. In his book entitled "Lords of the Rim", sterling talks about Chinese history and explains how the rulers' abuse of businessmen and others led them to finding ways to hide their wealth without being known on confiscated and in this way the money laundering history goes back to 4000 B.C. However, the term "money laundering" has recently entered political and economic concepts and its harmful effects are quite clear and visible (Schelling, 1984)Therefore, all financial transactions whose revenues result from tax evasion or false accounting should be

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more and more monitored and controlled via modern smart strategies and structures to fight financial crimes and terrorism and the only restriction that all experienced experts are aware of is the fact that the criminals imagination has no restriction and therefore it requires the implementation of a powerful system to avoid such global abnormal consequences.

By expressing the harmful economic, political, and social effects of money laundering and the necessity of combating ,it could be said that the neglect of money laundering leads to the corruption of financial institutions of national economy and the accumulation of wealth and power in hands of felons and criminal groups who can expand their criminal activities (Gruner, 1988).

Objectives of Money Laundering

Professional money launderers take measures in the first step to get the money away from its origin and then the most important step is to enter it in financial and banking system. In general, the process of cleaning illegitimate income includes three stages which are done simultaneously and in different forms: placement, layering, integration.

In the first stage, financial institutions have a particular stand since they are the main route and the major place of passing cash and they use various methods such as changing g the money and converting to other financial instruments such as checks and banking drafts or even they open an account in the name of charity organizations while they are themselves the main owner.

In the second stage or layering, it is tried to hide the origin of the ownership of illegitimate income and it is actually aimed to cut illegitimate income and its source so that investigators will not be able to follow the trail and identify the perpetrators (Kraakman, 1984). This is done through vague complicated layers and by leaving the identity of transaction parties unknown; that is they actually try to create a bundle in a quandary so that it will be difficult to fine find its source and origin.

In the third stage, which is called integration after succeeding in the first and second stages the dirty money enters financial and economic system and is used for buying luxurious expensive goods and in-

vesting in profitable projects in some parts of the world which are the most profitable. Lands and properties are bought in different parts of the world and are used for other cycles of criminal activities. In this regard some jobs (banking system, money transmitters and currency exchangers, notary offices, charity institutions and enterprises, insurance companies) are influenced.

Unreal superficial companies are established and recorded and public bids are held to abuse bank exchange services such as :

- Opening letter of credit and demanding a simple receipt for shipment
- Using pre-paid warranty
- Opening domestic letter of credit.

Review of Literature

Different groups are doing their activities in money laundering and are trying to evade taxes or property confiscation. They also try to evade imposed penalties for such activities like arms and goods trafficking, counterfeiting money, stealing works of art, financing terrorism and other kinds of illegitimate income, which is a transnational crime with different dimensions and specific consequences. Even though money laundering is so attractive and profitable that money launderers commit it under any conditions, the conditions should also be provided. For instance, it is committed in countries where the laws related to money laundering are not taken very seriously and financial transactions are done leniently.

Data Analysis

Money laundering is a crime which brings about adverse effects in a long time by destroying the balance in financial markets and volatility funds in banks and financial institutions and by influencing political and economic officials and authorities. Some of its harmful effects are as following:

1. Corrupting officials and influenced individuals so that injecting dirty money and enormous illegible income to political and economic structure of each country could corrupt state officials and economic segments.
2. Instability of financial market via gaining illegitimate income through illegal ways will lead to the escape of capital from productive sector

of economy and the reduction of foreign investment and weakening of the control of money and capital markets and serious fluctuation of interest rate and finally instability of financial markets.

3. Even though volatility of sources in banking system apparently makes the owners of illegitimate incomes such as goods smugglers good clients of the banks, the banking system is actually a passage for cleaning their money which is not very stable and sudden withdrawal of large amounts of their money will lead to many problems in meeting commitments on time.

4. Instability of financial markets leads to the flow of a large volume of sources in a definite time and illogically so that its removal will not be based on any special rules or regulations; as a result, it causes financial instability and the integration between supply and demand will be destroyed and consequently the owners of financial sources could not trust the market anymore.

5. Weakening legal private sector in economy, so that the money launderers by hiding their profits try to offer their products and services cheaper than the market price. This makes competition very difficult for legal companies and firms and forces them away from the markets by criminal firms and organizations and ultimately weakens the legal private sector in economy.

6. Reducing productivity; in one stage of money laundering process, the launderers begin to invest in some segments not for productive purposes and gaining profit, but for providing the ground for their next criminal activities and the movement of some useless economic activities will cause the development of wrong signs for other economic units so that those legal sources will also follow the same useless activities. This process leads to the lack of sources in necessary economic activities and slows down the growth of real sectors of economy (Ayres and Braithwaite 1992).

7. Reducing the government's control over economic policies; In some developing countries these illegal gains might influence the government budget and thus reduces its control over economic policies. In fact, the large volume of accumulated assets based on the profits of money laundering, would sometimes place small markets or even economies under pressure.

8. Developing more crimes and illegal activities which leads to new organized crimes and their increase in a large level.

9. Some other harmful effects of money laundering are as the following:

- Development of criminal activities
- Increase in social deviations
- Decrease in productive employment
- Bribery via polluting transactions

Conclusions and Recommendations

Considering the above analyses, the following conclusions can be drawn:

• Through the criminology of money laundering, related information should be provided for others.

• All activities should be carefully observed such as reporting and recording suspicious operations.

• Auditing the progress of the members in taking money laundering measures

• Communication and application of modern techniques

• Development and adoption of new money laundering standards

• Identifying and recording suspicious transactions and keeping them

• Also, the following recommendations can be mentioned in this regard:

• Increasing awareness among key persons in the United Nations member states

• Training legal and judicial institutions and private sector financial institutions

• Maintaining and analyzing data via a database

• Cooperating with law enforcement agencies all over the world

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