

TRANSNATIONAL LEGAL ORDERING OF CRIMINAL JUSTICE

Edited by

Gregory Shaffer

University of California, Irvine

Ely Aaronson

University of Haifa



CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE

UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

One Liberty Plaza, 20th Floor, New York, NY 10006, USA

477 Williamstown Road, Port Melbourne, VIC 3207, Australia

314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre,
New Delhi – 110025, India

79 Anson Road, #06–04/06, Singapore 079906

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9781108836586

DOI: 10.1017/9781108873994

© Cambridge University Press 2020

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2020

Printed in the United Kingdom by TJ International Ltd, Padstow Cornwall

A catalogue record for this publication is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Names: Shaffer, Gregory C., 1958– editor. | Aaronson, Ely, 1973– editor.

Title: Transnational legal ordering of criminal justice / edited by Gregory Shaffer, University of California, Irvine [and] Ely Aaronson, University of Haifa, Israel.

Description: Cambridge, United Kingdom; New York, NY, USA : Cambridge University Press, 2020. | "This book arose out of a series of workshops we held on the topic at the annual meeting of the Law and Society Association in Toronto and a two-day exchange at the University of California, Irvine, in 2018"– ECIP acknowledgements. | Includes bibliographical references and index.

Identifiers: LCCN 2019060069 (print) | LCCN 2019060070 (ebook) | ISBN

9781108836586 (hardback) | ISBN 9781108873994 (ebook)

Subjects: LCSH: Transnational crime – Law and legislation – Congresses.

Classification: LCC K5014.8 . T73 2020 (print) | LCC K5014.8 (ebook) |

DDC345/.0235–dc23

LC record available at <https://lcn.loc.gov/2019060069>

LC ebook record available at <https://lcn.loc.gov/2019060070>

ISBN 978-1-108-83658-6 Hardback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

CHAPTER TWO

WHY DO TRANSNATIONAL LEGAL ORDERS PERSIST?

The Curious Case of Money-Laundering Controls

Terence Halliday, Michael Levi, and Peter Reuter^{*}

2.1 INTRODUCTION

Transnational legal orders (TLOs) proliferate. They offer solutions to economic, social, and political problems, ranging from business and financial regulation to climate change, from human rights to constitution making. They come in many forms, rising and falling at different rates, and cooperating or conflicting as they come into contact with each other (Halliday and Shaffer 2015a; Shaffer, Ginsburg, and Halliday, in press).

This chapter enquires into the case of one of the most comprehensive, far-reaching, most deeply penetrating, and most punitive of TLOs. It is so punitive that we suggest there is value in considering whether it points to a species of TLO that differs in kind from those hitherto identified in the literature on financial regulation, business, environmental, human rights, and constitution making.

Since the 1980s an amalgam of clubs of nations, powerful states, international financial institutions, banking and financial institutions, and emergent “issue professionals” have created a worldwide regulatory order to stem tides of money laundering and thereby attempt to forestall the very many harms that anti-money-laundering (AML) entrepreneurs perceive follows from the flow of dirty money inside states and

^{*} We are grateful for the cooperation of staff at the International Monetary Fund, the Financial Action Task Force, and other international and domestic regulators and nonprofit organizations integral to the AML/CMT international regulatory order. Opinions expressed are entirely our own. We thank Gregory Shaffer, Ely Aaronson, and the participants in the 2018 conference for their valuable insights.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

beyond (Levi and Reuter 2006; Nance 2018). Not only does this order rely on potentially heavy punitive measures against citizens and institutions within states; it also has the capacity, often threatened and occasionally effected, to bring punitive action against states.

This chapter draws on an intensive study of the AML/CFT order¹ at a moment when its governing norms and methodologies of implementation were undergoing revision and expansion (Halliday, Levi, and Reuter 2014), as well as on observation of and participation in AML/CFT activities over three decades. This enables us to bring rich empirical evidence to bear on two theoretical questions.

First, despite its seemingly successful institutionalization, the AML TLO exhibits many deficiencies and imposes extensive costs on the private and public sectors, and harms upon the public. Its benefits are elusive and unmeasured with any serious specificity. Why doesn't it fail? What explains its persistence? Here we seek to contribute to the theory less on the rise of TLOs and more on their persistence and the conditions under which they are likely to fail (Halliday and Shaffer 2015: 500–511).

Second, the pervasiveness and penetration of this particular TLO suggests that it has qualities that distinguish it from other TLOs which have been observed in the domains of business, finance, rights, constitution making, and private legal ordering. The chapter asks if the AML TLO, or indeed criminal TLOs, more generally,² are a particular species of a TLO that might be characterized as “disciplinary” TLOs.

We, first, briefly sketch the thirty-year development of the AML TLO and describe how it works; second, we consider its benefits, costs, deficiencies, and harms, both intended and unintended; third, we confront the puzzle of its persistence; and, fourth, we conclude with considerations on its distinctiveness as a disciplinary TLO.

2.2 2 THE RISE OF THE AML TLO

Although the Council of Europe adopted in 1980 a weak measure for banks to develop some vigilance over who deposited or transferred cash

¹ Technically speaking, this regulatory regime or order now embraces anti-money-laundering (AML), combating the financing of terrorism (CFT), and counter-proliferation financing (CPF). We are not arguing that CFT and CPF are unimportant. However, the vast majority of criminal prosecutions and regulatory actions are focused on money laundering. Hereafter we shorten this to the AML TLO.

² TLOs of international criminal justice might include legal orders concerned with human trafficking, corporate foreign bribery, prison standards, sexual violence, the death penalty, crimes against humanity, and drugs prohibition.

(as part of its counterterrorism efforts against left-wing groups, primarily in Italy but also Germany), a sharpening focus on money laundering in the 1980s came principally as a response to the drug trade, organized crime, and domestic terrorism. Money laundering is statutorily defined (with some variation between nations) as actions that attempt to conceal the criminal origins of assets, and generally includes self-laundering by primary offenders as well as by third parties, some of whom are lawyers and accountants.

Initially responses by some states came in the form of domestic legislation to detect and deter money laundering, almost entirely focused on the banking industry (Levi 1991). The UK enacted legislation allowing for bank account access (with prior judicial approval) in crime investigations (1984); drug-trafficking offenses (1986); other crimes for gain, excluding tax fraud (1988); and prevention of terrorism (1989), which strengthened law enforcement's capacity to reach dirty money in the banking sector with police powers. It gave bankers civil immunity for reporting their suspicions of account-holder transactions. The UK set up a Serious Fraud Office in 1987, though it never had any clear role in relation to money-laundering prosecutions other than via its later transnational bribery mandate (from the Bribery Act 2010, whose extra-territorial effect also included money-laundering offenses). For the UK, too, detecting dirty money was part of a strategy to suppress the financing of terrorism, then focused on the Provisional IRA and, to a lesser extent, Protestant paramilitaries in Ireland. For domestic political reasons, prior to the latter stages of the Clinton administration and his role in the 1999 peace agreement, the United States did not play an active role in combating the financing of Irish terrorism.

Following a presidential commission on organized crime that reported in 1986, the United States enacted its Money Laundering Control Act (1986), which criminalized money laundering with sentences of up to ten years for individuals who knowingly laundered dirty money. *Money laundering* refers to efforts to use the financial system to make the fruits of specific crimes ("predicate crimes") appear to be legitimate. In all these cases, government responses to money laundering were seen more broadly as a way of suppressing domestic crimes for gain (particularly drug dealing and to a lesser extent financial crimes) and threats from national and international organized crime groups.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

International legal responses to the financial proceeds of crime and laundering of dirty money³ gathered momentum in the later 1980s and early 1990s. The 1988 UN Vienna Convention for the first time named money laundering as an offense in international law in an effort to deprive illicit drug dealers of their ill-gotten financial gains. For the financial sector, the 1988 Basle Committee on Banking Principles issued principles to increase vigilance over customers who might be engaged in criminal activity. The Council of Europe followed with a 1990 convention on laundering, search, seizure, and confiscation of the proceeds of crime – a law mirrored by the 1991 European Community Directive on Money Laundering (Levi 2006).

The painstaking, time-consuming, and exhausting effort to produce the multilateral Vienna Convention convinced the United States and the G7 that treaties were not the appropriate legal method to handle the fast-moving, sophisticated, and shadowy world of dirty money (Nance 2018). The United States had no interest in lodging new surveillance and enforcement capacities in the UN, which was not regarded as appropriate for efficient conduct of business. Instead the US proposed a task force, subsequently accepted by the G7, that would take one year to review and report on domestic AML laws across the world. Formed in 1989 to focus narrowly on money generated from the illicit drug trade, the Financial Action Task Force on Money Laundering (hereafter FATF) began as a network with eleven members and no standing in international law.

Contrast this tentative moment of origin with the global enterprise described in the 2014 report to the IMF on *Global Surveillance of Dirty Money*:

10. The FATF has accomplished a remarkable feat of global standard-setting since its founding in 1989. From a world in which there were no global standards on anti-money laundering and few national standards, FATF has forged a single global standard for AML, then CFT, and now financing of proliferation of weapons of mass destruction. The Standard comprises a set of Recommendations which were first issued by the FATF in 1990 and revised in 1996, 2001 (where eight provisions were added on terrorism), 2003, 2004 (where a 9th recommendation was added on terrorism) and 2012. To guide assessments of countries, the

³ Note these are not identical. Although proportions are not empirically established, there is considerable evidence that except for more elite offenders, most proceeds from criminal activities are spent immediately on lifestyles and relatively less is laundered for future consumption.

WHY DO TRANSNATIONAL LEGAL ORDERS PERSIST?

FATF created an assessment Methodology in 2013 for all AML/CFT assessor bodies, namely the FATF, the eight FATF-Style Regional Bodies (FSRBs), the Fund and the World Bank.

11. Since its founding, the FATF has forged a global network of states and non-state bodies. It has created an amalgam of thirty-four member jurisdictions and two regional organizations, nine regional bodies, and 22 observer bodies, including the International Monetary Fund and World Bank. The FATF-led standard setting and assessment program has produced substantial convergence on core elements of a universal AML/CFT regime which in turn has facilitated international communication and cooperation in the efforts to prevent money laundering and terrorism, to freeze and recover proceeds of crime, and ease financial investigation and prosecution of offenders. This is a significant political achievement. (Halliday, Levi, and Reuter 2014: 10)

2.3 HOW DOES IT WORK?

The AML regime utilizes assessments of country compliance with the FATF standards as a mechanism of surveillance and control. They are conducted in two ways: by teams from other nations and international organizations (IOs), including the FATF, IMF, and World Bank; and by peers from other countries who appraise one of their regional neighbors. In both instances, the result is a Mutual Evaluation Report (MER).

For the IO evaluations that occurred in the Third Round of evaluations between 2004 and 2012, certainly those involving the IMF's dedicated Financial Integrity Group, the process generally proceeded through the following steps. The IO would conduct a "desk analysis" of a country's financial and legal system to provide background. The IO would then send an extensive questionnaire to national authorities asking about aspects of their financial and legal systems that relate to the FATF Standards. After reviewing the responses in the questionnaire, the IO would send a team of about four to six specialists for a two-to-three-week on-site visit with state and non-state stakeholders. Based on the accumulated documentary and interview materials, the IO would prepare a draft report, including recommendations and provisional ratings on a checklist of key factors. In draft form these were shared with state officials, invariably leading to several rounds of informal comments and responses as the assessors and country officials moved towards a final, agreed-upon text.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

The final text would then be reviewed by the FATF Secretariat as a quality control and consistency check. If the country being assessed was a member of FATF, the report would come to one of the periodic FATF plenaries, where all FATF members and IOs convened in a general assembly, for confirmation (or rejection) of recommendations and ratings. There might be some amendments made to the report at the plenary, sometimes after very vigorous discussion. After FATF approval, the report would be made public. Sometimes countries with compliance problems would go through several rounds of reform and assessments until the FATF considered the country was sufficiently compliant and could exit the reporting process (CLG Final Report 2014: 27).

Since the implementation of a new 2013 methodology, there have been some small changes in this process,⁴ reflecting modest rethinking about issues that were working better or less well, along with the integration of FATF and FSRB processes. For mutual evaluations conducted by regional FATFs, there were some variations in the process, but these have now been harmonized, at least formally.

2.4 COMPLIANCE LEVERS AND MECHANISMS

The AML TLO is built upon an architecture of positive inducements and negative sanctions. There are four principal inducements, although they are not explicitly stated. Countries that perform well in the assessments are publicly affirmed. There is no direct evidence that such affirmations provide tangible benefits to their economies, although they are welcome politically. Countries that face challenges or criticism may be eligible for technical assistance by the IMF or other bodies in order to strengthen their institutions and governance capabilities. Countries may believe that AML regulatory measures strengthen their capacity to control domestic and imported crime more generally, and help strengthen Financial Intelligence Units in their bid to obtain inter-agency support for creating a more compliant AML system. And, as an unanticipated by-product of enhanced executive powers in AML regimes, authoritarian leaders obtain new tools to monitor and perhaps more efficiently suppress opposition, for example

⁴In February 2013 (R.37, R.40); October 2015 (Note to R.8); June 2016 (R.8); October 2016 (R.5 and definition of “funds or other assets”); June 2017 (R.7 and glossary definitions); November 2017 (R.18, R.21); February 2018 (R.2) (www.fatf-gafl.org/publications/fatfrecommendations/documents/fatf-recommendations.html#UPDATES).

via corruption and/or money-laundering charges, most easily via a compliant police and judiciary.

The inducements are complemented by three sets of negative sanctions. Diffuse diplomatic and social pressure, significantly through shaming for low ratings, comes from the influence of both “peer” states and powerful states to comply. Financial pressures can follow from low ratings; money center banks may charge more for providing correspondent banking services because their own regulators require enhanced due diligence for transactions involving that country, or they may even “de-risk” large sectors of the low-rated economy by refusing to process their dollar or other transactions.

Much more serious in its consequences is blacklisting by the International Cooperation Review Group (ICRG). According to IMF and country officials, even the threat of blacklisting through ICRG was a “very good driving engine” to get countries to push for reforms. No country, except for the occasional microstate such as Nauru, along with Iran and North Korea, has stayed on the list for long. But its effects on access to affordable international finance produce tangible impacts ranging from a reduction or withdrawal of correspondent banking privileges for a given country to increased difficulty and higher costs in raising capital on international financial markets.⁵ The combined risks of these two alone can galvanize governments to react vigorously, initially in efforts to upgrade the ratings they receive from assessors and subsequently in legal and institutional reforms. Even in a country such as Germany, which was at no real risk of being put on the ICRG list, our research found how seriously its senior officials reacted to the draft IMF report’s criticisms, even to the extent of bringing a delegation to Washington to confer with IMF officials.⁶ The “folk memory” of poor ratings can stimulate them to do better in the next review, many years later and, for those placed on the ICRG list, stimulates remediation in follow-up meetings that are reported back to the FATF or FSRB.

The combination of inducements and sanctions has led to a remarkable degree of formal compliance in the adoption of laws and regulations, the creation and enhancement of state institutions, and at

⁵ It is currently difficult to estimate with hard data how long these impacts persist.

⁶ The sanctions regimes are often concatenated with AML but have their own processes. Among the large literature on this subject, see *Targeted Sanctions: The Impacts and Effectiveness of United Nations Action 2016*, by Thomas J. Biersteker, Sue E. Eckert, and Marcos Tourinho (Cambridge University Press). Sanctions on both countries and individuals have increased in popularity in the current decade as a tool of political and economic pressure, but this is outside our remit in this chapter.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

least a measure of conformity by domestic economic and civil society actors. However, one effort to assess the performance of rich countries (OECD members) at the end of the third round of evaluations (OECD 2013) showed that many countries were seriously deficient in their compliance. For example, not one out of twenty-nine members fully complied with Recommendation 24 concerning Regulation of Designated Non-Financial Businesses and Professions; only three of the countries were Largely Compliant and thirteen were judged as Non-Compliant. Not all the Recommendations carry the same weight in the eyes of the member countries.

When we apply conceptual criteria to empirical evidence, it is evident that the AML/CFT governance regime constitutes a well-institutionalized TLO (Halliday and Shaffer 2015b). First, its architects have created a certain kind of normative *order* that seeks to solve a “problem” in predictable ways through laws and regulations, and their regulatory accompaniments such as financial supervision. Second, it is *transnational* insofar as its norms are produced ultimately by social organizations that transcend the state. Third, it is *legal* not so much because its norms are expressed in recognizably legal forms, but insofar as those norms are directed to legal institutions and legal regulation within the state. Fourth, it can be said to be institutionalized on three interrelated criteria: (a) there is an alignment, even if partial and contested, between underlying issue areas (e.g., illicit drug trade, organized crime, transnational crime, financial instability, security) and the order created to govern them; (b) the norms are well settled in the governing transnational recommendations and their adoption in national laws, regulations, and institutions, and somewhat settled in local norms that infuse the mentalities of police or bankers or professionals; and (c) there is recognizable concordance in the norms at global, regional, national, and local levels of adoption and internalization.

2.5 SUCCESS?

If one measure of success is the formalization of norms, the institutionalization of a global regulatory apparatus, and the construction of domestic monitoring and enforcement agencies, then the AML regime has been highly successful. Almost all states, and tiny jurisdictions

⁷ *Formal compliance* refers to legal authorizations for a country to comply with FATF standards by placing substantive and procedural laws on the books, issuing regulations, and passing enabling law that authorizes the setting up or reform of agencies.

ranging from the Vatican and the Cayman Islands to Nauru and Turks and Caicos Islands, are now either members of the FATF itself or one of the FATF-style regional bodies. Put another way, if we evaluate outcomes of this TLO by the GAO criteria of *formal compliance* and *program implementation*,⁷ then the outcomes can be counted as substantially achieved. States submit themselves to the MER scrutiny and have already put in place much of the legal and institutional structure that FATF requires – all this without FATF being either a treaty body or a UN agency.

If, however, we apply the stricter standards of program effectiveness and outcome effectiveness,⁸ then the verdict is very different. Our research concluded that the FATF efforts have almost entirely been focused on formal compliance, and “very little emphasis, if any, was given to program effectiveness and outcome effectiveness” (Halliday, Levi, and Reuter 2014: 5). In spite of the claims made in the revised FATF methodology 2013 that they were shifting toward real-world effectiveness evaluations, the fourth round MERs show little evidence of serious measurement of effectiveness. For example, the AML goals were specified in a way that made operationalization impossible, mixing outcomes with hortatory statements.

Many of the grander claims made for the efficacy of the regime are not sustained by empirical evidence and are belied by media headlines the world over.⁹ Major international banks in prominent financial centers, such as London, Frankfurt, and New York, continue to astound with the scale of money laundering over extended periods that involve

Program implementation refers to practices that put into effect the authorizations of formal compliance. There are two aspects of program implementation: (a) the setting up, funding, and staffing of agencies, creating educational and reporting obligations for state and non-state bodies, designing reporting protocols and procedures, among others; and (b) the operation of these agencies and programs in the public and private sectors through activities such as obtaining and analyzing STRs (suspicious transaction reports) and/or SARs (suspicious activity reports), investigating and prosecuting crimes, freezing and confiscating proceeds of crime/terrorist finance, sanctioning criminals, exchanging information between countries on money laundering and terrorist financing and predicate crimes, as well as instituting actions by the private sector (Halliday, Levi, and Reuter 2014: 13–14).

⁸ *Program effectiveness* refers to the extent of actual attainment of the goals and objectives of a particular AML/CFT regime as indicated by activities and behaviors that display a *net* effect of formal compliance and program implementation. That is, these are effects of formal and program compliance whose impact would not have occurred without the AML/CFT interventions.

Outcome effectiveness refers to a country’s attainment of ultimate AML/CFT objectives whether or not those objectives were met through the FATF AML/CFT tools and regime.

⁹ Cf. “The Ghost Companies Connected to Suspected Money Laundering Corruption, and Paul Manafort,” *Buzzfeed*, August 23, 2018. www.buzzfeed.com/janebradley/shell-companies-money-laundering-uk-paul-manafort.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

tens of billions of dollars. The most recent of these – Denmark-based Danske Bank's alleged laundering of Russian-origin funds via its small Estonian branch – shows that even apparently small countries scoring well in the Transparency International corruption indices can be the conduits for vast sums of illicit monies. Levi's (Levi 1997) conclusion in 1997 remains largely true today: "there is little evidence that stripping offenders of their profits has had much impact on levels or organisation of crime."

It is doubtful that any AML monitoring would have picked up the \$500,000 or less that entered the United States to fund the 9/11 terrorist attacks, and certainly not the 1998 attacks on US embassies in East Africa or major European terrorist attacks this century (Levi 2010).¹⁰ And the report on Global Surveillance of Dirty Money concluded that "no credible scientific evidence has yet been presented that there is a direct relationship between installation of effective AML/CFT regimes and the IMF mandate to produce domestic and international financial stability" (2014: 5). Despite considerable investment from international donors and a growing number of cooperation initiatives, the World Bank/UNODC Stolen Asset Recovery (StAR) Initiative has managed to collect – or even to freeze – only a negligible quantity of stolen assets compared with the estimated size of the problem.¹¹ The most recent consolidated review in 2014 found that there had been an increase in assets frozen (though – we would add – not confiscated) to US\$1.398 billion in 2010–2012, up from US\$1.225 billion in the period of 2006–2009. A total of US\$423.5 million was returned for the entire period of 2006–2012, with an increasing percentage of the assets going to developing countries in the more recent period (compared to earlier data showing most returns from OECD countries went to developed countries).¹²

Just as striking as the lack of evidence for effectiveness is the lack of sustained interest in that aspect of the system. Neither the individual nations driving the system (such as the United States, UK, and France)

¹⁰ It should be noted that one-off attacks may be low cost, but maintaining terrorist organizations that sustain them over a long period can be costly.

¹¹ <https://star.worldbank.org/sites/star/files/networks-15.pdf>. The World Bank budget to StAR in 2017 was US\$650,000; UNODC's budget to StAR in 2017 was US\$489,466; and Disbursements from the Multi-Donor Trust Fund in 2017 were US\$1,015,5000: <https://star.worldbank.org/sites/star/files/star-annual-08.pdf>, p. 30. The StAR annual report presents a cogent narrative but little evidence of short-term recovery effectiveness.

¹² https://star.worldbank.org/sites/star/files/few_and_far_the_hard_facts_on_stolen_asset_recovery.pdf.

nor the International Financial Institutions have undertaken any substantial evaluation effort or put resources into developing a methodology for this very difficult evaluation task. Yet the IMF, World Bank, and major nation treasury departments have substantial research units that contribute to many aspects of agency missions on other issues. There is a curious lack of concern about AML. Much of the final section of this chapter is devoted to understanding why this state of affairs persists.

2.6 COSTS, DEFICIENCIES, AND HARMS

Not only is there limited evidence that the return on investment in the AML regime has been effective in pursuing its many putative goals; there is growing attention to what had previously been manifestly ignored by the states, IOs, and entrepreneurs that drive the AML order. It has very considerable deficiencies, and it cannot be taken for granted that it produces only public goods, and no public or private “bads.” There is growing argument and evidence of internal fragilities that might render this invasive and pervasive regulatory order vulnerable.

First, its objectives are eclectic, unclear, and potentially in conflict. In their report to the IMF, Halliday, Levi, Reuter (2014) judge that it remains “very difficult to articulate clear objectives” for this “regime,” as they call it. The array of objectives has been astonishing in its expansiveness. A good AML regime, promised an IMF Guidance Note,¹³ might be to prevent or act as a palliative for “threats to financial stability and macroeconomic performance,” “loss of access to global financial markets and destabilizing inflows and outflows,” undermining “the rule of law,” a “corrosive, corrupting effect on society,” “tax evasion” and “budget deficit shortfalls,” “bank fraud,” “Ponzi schemes,” as well as suppressing crime and denying criminals the fruits of their illegality or terrorists the fruits of their violence. It is true that while the FATF did not articulate clear objectives in its 2003 standards and methodology, it did make an attempt to produce a three-level more systematic hierarchy of objectives in its 2013 Methodology. Even here the objectives are diverse and reach to suppressing underlying predicate crimes, lessening money laundering and financing of terrorism risks, detecting proceeds of crime, keeping proceeds of crime out of the

¹³ International Monetary Fund, “Anti-Money Laundering and Combating the Financing of Terrorism Inclusion in Surveillance and Financial Stability Assessments – Guidance Note,” December 14, 2012, pp. 5–6.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

financial system, depriving criminals and terrorists of illicit funds, and preventing terrorist acts, “thereby strengthening financial sector integrity and contributing to safety and security.”¹⁴

Some of these concepts are not clearly defined. Relations among objectives are unspecified (2014: 13–19), and there is no “logic-model” or coherent causal theory that indicates what levers of public policy might be pulled that plausibly will reduce crime, money laundering, or terrorism. While this multiplicity of goals and definitional weaknesses are not uncommon in the global governance of crime, it is especially problematic when certain objectives conflict with others. For instance, if sanctions were to apply to a country that was not considered adequately compliant with global norms, then that in turn might destabilize a country’s financial system, precisely one of the goals that the AML TLO supposedly is designed to prevent. Indeed the best interpretation of the few national crises that are usually identified as caused by money laundering (namely, Latvia and Estonia in 2018/19, Nauru in 2000, and the Dominican Republic and Serbian bank crises in 1993) is that they are crises triggered by concerns that major financial fraud and country takeovers by criminal kleptocrats would lead to international AML sanctions as well as to a run on the bank(s). Except in EU member states or other wealthy nations, depositors are unlikely to be compensated by the government or by an industry collective body.

Second, even if objectives were clear, the quality of data on which the TLO rests is weak or even nonexistent in critical respects. Measures of various objectives are neither agreed upon nor readily available in scientific circles (2013 Technical Report; Levi, Reuter, and Halliday 2018). For instance, it is exceedingly difficult to measure the scale of the underlying problem of predicate crime that yields dirty money – that is, the proceeds of crime (Reuter 2013; Reuter and Truman 2004), at least in most parts of the world. Thus there is no adequate denominator that allows measurement of how much dirty money is in the illicit market for money laundering, even if we accept that funds simply deposited in financial institutions by predicate offenders are all self-laundered funds. Measurement of the efficacy of punishment – arrests, sentences, asset confiscation – or of the destabilizing effects of cross-border flows of dirty money lag far behind the “measurement” of how many laws are enacted or rules are adopted. While this problem is not confined to the AML TLO, and may be true of criminal law at all

¹⁴ Methodology 2013, p. 15, para. 43.

WHY DO TRANSNATIONAL LEGAL ORDERS PERSIST?

sophisticated levels, it nevertheless remains the case that the AML TLO rests on flimsy and often purely rhetorical foundations (Levi, Reuter, and Halliday, 2018).

These deficiencies are paralleled in practice by defects in the assessments of how AML regimes are working in nation-states. Our close review of IMF Detailed Assessment Reports, if typical of FATF reports more generally, indicates that data collection and data analysis remained well behind the state of the art in the applied social sciences that specialize in behavioral observation and institutional analysis. Deficiencies included no systematic methodology for collecting data on country fundamentals (each evaluation produces its own opportunistic set of descriptors); no sampling design for collecting information from non-state stakeholders (a degree of bias from primary reliance on government officials within the evaluated state to choose informants and sources on private sector compliance); no methodology for systematic analysis of media reports, including investigative journalist reports on crime and money laundering; no systematic methodology for qualitative analysis; and no systematic methods for gathering and appraising scientific and academic research on ML/FT, crime, or regulation in a given country. Though “mystery shopping,” by which an investigator simulates a money-laundering transaction to see if financial institutions respond appropriately, has been shown to provide useful information (van der does de Willebois 2011), it has never been used in any MER. See van Duyne, Harvey, and Gelemerova (2019), for a strident methodological critique of the application of and evidential basis for AML.

Third, seldom does appraisal of the AML disciplinary order count the costs.¹⁵ These are of at least three kinds. One set of costs are economic. There are substantial costs to states, especially for poor countries, of erecting an AML regime. In addition to diverting domestic lawmaking toward this externally induced policy agenda, there are tangible costs in personnel, infrastructure, and expertise involved in the creation of Financial Intelligence Units, the hiring and training of civil servants

¹⁵ In a range of regional studies, Lexis-Nexis (2017a, b; 2018a, b) estimates that annual anti-money-laundering compliance costs US financial services firms US\$25.3 billion; European firms US\$83.5 billion; and in six Asian markets, US\$1.5 billion. We are not in a position to review the validity of these estimates, and skeptics might note that both they and other consulting firms have an interest in high estimates to get clients to focus on their offerings on how to reduce them. A serious effort was made by the Clearing House (2017), which noted that large financial firms will spend at least US\$8 billion on AML compliance around the world, not much less than the US\$9.5 billion budget of the FBI.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

and regulators in commerce and revenue ministries, the training of police to handle financial crimes, and the recruitment and training of judges to comprehend what are often complex financial dealings. The proportion of AML government administrative costs to the total budget of a developing country will be substantial and entail policy costs for other goals that governments may consider more pressing. In Mauritius, a county of 1.3 million, there were a total of twenty-five positions in its FIU in 2012. For a middle-income country with such a small population, that is a significant component of its financial regulatory resources, especially for largely non-prudential regulation. Even in an advanced economy, Amicelle and Iafolla report that Canada has some eleven federal departments and law-enforcement agencies dedicated to law enforcement and intelligence on money laundering, with a combined budget of C\$70 million (Amicelle and Iafolla 2018). FinTrac, Canada's financial intelligence unit, has a staff of 350.

There are enormous costs to businesses as well, such as banks, which have been co-opted by the state to monitor customers on the state's behalf. While these costs are usually closely held, the director of a major international bank's compliance division recently guesstimated¹⁶ that it cost his bank approximately \$2 billion annually to implement AML standards through its compliance division. There are also transaction costs to bank customers in time-consuming demands for more and more information when originating a home mortgage or loans for expensive items such as new cars, boats, or private planes. Transferring money internationally through a bank has become slower and more expensive. Risk aversion by financial institutions, which seek to protect themselves from undue scrutiny or sanctions by financial regulators, can lead to denial of financial services to customers by "de-risking practices" in which "banks [decide] to discontinue business relationships with customers who are deemed too risky" (Artingstall et al. 2016; Board 2018; Erbenova et al. 2016). This may be not because of individualized judgments but because of categorical judgments based on their membership of a suspect class, often but not exclusively because they come from or are associated with an occupation or a country deemed to be high risk, and/or because it is more expensive to monitor them properly than the profits they bring to the bank or other institution. Further potential adverse impacts can occur through false positives when individuals are mistakenly cut off from sources of credit or certain kinds of

¹⁶Private communication with the authors.

business activity because over-cautious bankers or faulty algorithms flag them as high risk (Amicelle and Iafolla 2018: 857–858). There is, in most countries, no recourse against such decisions, which banks can cloud in secrecy or in vague references to their “risk appetite.”

Entire industries have grown around consulting and advising businesses and governments on AML/CFT compliance, an area stimulated by large fines and threats of prosecution to major international banks. HSBC’s \$1.9 billion fine in 2012 for violations both of AML and of the sanctions regimes against various nations was large enough to catch the attention of bank boards, though substantial violations have postdated that and other fines. Even as this chapter was being written, the largest bank in Denmark was reporting (under severe media pressure) that it had probably laundered tens of billions of Euros through its Estonian branch, though the problem had been drawn to the attention of the bank board many years earlier by one of its managers. The CEO of Danske Bank – who had presided over the enormous expansion of business – was required to resign in 2018.

There are also transaction costs for global regulatory institutions and the expense involved in national evaluations, both to the surveillance institutions and the nation-state. The IMF earlier reported that each of its national assessments cost the Fund more than \$300,000. A MER might cost a state \$1 million, a minimal amount for an advanced economy, but not inconsequential for a poor state. Over the near thirty years of an AML TLOs existence, cumulative costs may be very high indeed – costs disproportionately (per GDP) borne by states with limited resources.

Furthermore, it is impossible to establish that economic benefits outweigh the economic costs since benefits are at present impossible to calculate.¹⁷ We reported that as of 2014 there was

no significant effort by any of the standard-setting or assessor bodies to undertake a cost-benefit analysis despite positive but incomplete moves in some jurisdictions. . . . National officials and private stake-holders state that discussion or information on benefits and costs of an AML/

¹⁷ Fifteen years ago, Peter Reuter and Edward M. Truman (2004) produced a rough estimate of the cost of implementation of AML for the US economy (partitioned among government, corporations, and the general public). There does not seem to be any more recent or more refined estimate, despite the substantial growth of coverage of legislation and regulatory institutions nationally and internationally. The cost studies referred to earlier do not calculate the costs to government or to the general public. In no cases are benefits calculated, though some countries specify asset recoveries from proceeds of crime, some of which are reasonably attributable to AML.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

CFT regime are limited or non-existent. Little consideration has been given, they say, to the costs of implementing an AML/CFT regime, and little evidence has been adduced to demonstrate that the costs produce commensurate benefits in their own or indeed in any other jurisdiction. (Halliday, Levi, and Reuter, 2014: 47–48)

Indeed, apart from the ability to occasionally convict senior members of criminal enterprises and to trace some proceeds of some crimes more easily, it is hard to measure any specific benefits from the AML regime.

Economic harms to poor countries can adversely affect the most vulnerable populations. Within countries, the AML transnational order has pressed countries to draw informal markets into the formal economy where they can be better monitored. This may have adverse economic effects on the poorest populations, who rely on cheap informal methods for moving money, for example from city workers to rural parents. Between countries an even more severe economic cost may be incurred when money-laundering and counterterrorism measures reduce remittances that overseas workers can send back to their country of origin. The volume of remittances can be high. For instance, it is reported that “every year, Somali migrants around the world send approximately \$1.3 billion to friends and families at home, dwarfing humanitarian aid to Somalia. . . . A recent report by the UN Food and Agricultural Organisation shows that up to 40 percent of families receive some form of remittance, and that the money is integral to their survival.” The Report continues, “banks in the West are closing down the accounts of money transfer operators, thereby threatening to cut the lifeline to hundreds of thousands of Somali families.”¹⁸

In the United Kingdom, the United States, and Australia, around 2012, banks came to perceive the transfer of funds to countries such as Somalia and Pakistan as exposing them to high risk of violation of counterterrorism finance (CTF) regulations. Many of the transfers occurred through money service businesses (MSBs) that knew little about their customers in the receiving countries; some of the money might be going to terrorist organizations such as Al Shabab. Rather than attempt to decide which MSBs could be trusted – an expensive undertaking – the banks terminated accounts for all MSBs transmitting money to Somalia. “Banks frequently characterize the entire remittance sector as high risk” (Financial Stability Board 2018).

¹⁸ Report, p. 51, para. 119.

WHY DO TRANSNATIONAL LEGAL ORDERS PERSIST?

When formal means of transmitting moneys are suppressed, and when banking institutions clamp down on remittances as a way of “de-risking,” the poorest populations in the world may be forced to use unregulated and unmonitored enterprises for their only lifeline to well-being. Hawalas became more important for Somali remittances: “[D]e-risking measures make it difficult to receive transactions through the formal banking system in a timely fashion. They also block money transfer operators as a viable channel for financial access and the transfer of remittances from the Somali diaspora” (El Taraboulsi-McCarthy 2018: iii). In 2017 the World Bank commented for MSBs generally that “[t]he country authorities are worried about the shift to the informal market.”¹⁹ Economic harms in practice can result from discriminatory behaviors by financial institutions when individuals are not excluded on manifest criteria such as race or gender but “on the basis of a certain criterion of risk,” which happens to be highly correlated with certain racial or gender attributes (Amicelle and Iafolla 2018: 859).

There are also harms to other institutions that have been seldom confronted, at least until recently. Arguably political harms may be caused by supplying new monitoring and surveillance tools to authoritarian leaders. Charges of corruption, tax evasion, fraud, and money laundering can provide convenient ways for authoritarians to marginalize their rivals, and AML weapons enhance their armory for bringing such charges.²⁰ Harms to civil society can occur through increased registration and reporting demands on civil society organizations, not to mention the administrative burdens on small charities that already struggle to survive.²¹ Reporting itself is not only a possible administrative and financial burden, but it enables authoritarian states to penetrate more deeply into voluntary associations and thereby subject them to surveillance and even control.

Not least, there are massive contradictions within the AML TLO that erode its legitimacy (Levi 2006). There is apparent inequity: those countries most heavily sanctioned are poor and weak. Despite the enormous problems of non-compliance in rich countries, such as the United States and United Kingdom, those countries (though not some of their major banks) are rarely sanctioned, yet they are prime drivers of

¹⁹ <http://pubdocs.worldbank.org/en/227971497448351308/WB-work-on-derisking-2017.pdf>.

²⁰ China and Russia, for instance, use data on theft of state or private assets as part of criminal and corruption charges, but the specific contribution AML makes to these charges is unknown and, given the secrecy surrounding them in an authoritarian regime, unknowable at present.

²¹ See www.theguardian.com/money/2017/may/08/banks-charity-accounts-shut-without-notice-money-laundering; www.fca.org.uk/your-fca/documents/research/drivers-impacts-of-derisking.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

the international order. A recent news story on British shell companies offered the unsubstantiated figure of an estimated £90 billion “that is laundered through the country each year.”²² Certainly there is a great deal of evidence that stolen money from Russia and other nations with high levels of corruption are laundered through real estate in London, New York, and other international cities in wealthy countries (Sharman 2011; Sharman 2017). A 2016 Global Witness investigation of prominent New York law firms found a great willingness to provide services for very suspect financial prospects.²³

And then there is the allegation that the AML TLO is merely another arrow in the quiver of US foreign policy: Iran and North Korea are blacklisted. There is an undercurrent of geopolitical cherry-picking: China and India are not sanctioned, whereas numbers of less powerful countries are. There is the resistance by business, which bears the heavy burden of co-optation by the state and, in most countries, of professions, particularly the legal profession, which consider reporting and surveillance demands on them to be inconsistent with their hallowed values of privacy and client confidentiality. Though the United States is the leading AML hawk, driving much of the FATF decision-making, it has been unable to meet FATF standards with respect to AML regulation of the legal profession and shows no sign of being willing to do so.

Indeed, most of the critiques of the system registered by Levi and Reuter (2006) a decade ago remain salient. The AML regime is “elaborate and intrusive.” It has demonstrated lack of success in suppressing predicate crime, “rooting out major criminals or recovering a large percentage of crime proceeds” (Levi and Reuter 2006: 365).

2.7 CONFRONTING THE PUZZLE OF PERSISTENCE

At once we are confronted with a two-sided question for TLO theory. From one side, how is it possible for a TLO with so many ambiguities and contradictions, costs and harms, brittleness and fragility, and with so little evidence of reducing the problems that motivated its creation, to continue to reproduce its seemingly well institutionalized order? Why is it so resilient? From the other side, under what conditions will

²² “The Ghost Companies Connected to Suspected Money Laundering Corruption, and Paul Manafort,” *Buzzfeed*, August 23, 2018. www.buzzfeed.com/janebradley/shell-companies-money-laundering-uk-paul-manafort.

²³ See www.globalwitness.org/shadyinc/.

a TLO fail – even a TLO as highly developed as the AML TLO (Halliday and Shaffer 2015a)? At present the empirical evidence indicates there is no immediate sign this TLO will fracture or collapse. How is this to be explained?

In the first place, it does work to some degree. It is likely that some generic benefits of the regime identified by Levi and Reuter more than a decade ago still remain largely true (Levi and Reuter 2006). The AML regime makes it more difficult and expensive for offenders to carry out crime and enjoy its benefits. Its mechanisms generate more evidence about the occurrence of crime and link particular individuals to that crime, at least if those links are pursued (which requires both resources and a financial mind-set among law enforcement agencies). Convictions and news stories from time to time have the social appeal that criminals are not getting to enjoy the fruits of their criminality. The most prominent cases involving financial crimes in the United States in recent years, such as Enron, Bernie Madoff, and Paul Manafort, have involved convictions for money laundering, even though fraud and/or corruption may have been the principal offences. Moneys confiscated contribute to the state treasury; indeed, there are occasional complaints that the New York state bank supervisor, who issues licenses for operation on Wall Street, funds the office's operations by putting pressure on for settlements from banks who might be charged with money laundering. And it is possible the measures put in place to enforce money-laundering laws may increase the efficiency of law enforcement (not necessarily by reducing predicate crime).

Second, even if the AML regime imposes harms, it may be the case that those harmed are disproportionately weak as political actors and thus in no position to mount effective resistance to the regime. The senders or recipients of remittances, those injured financially by false positives, small civil-society NGOs, the small-time money launderers occasionally convicted all confront problems of collective action. Even if those hurdles were surmounted, their probable impact on domestic politics would be slight and their ability to influence the transnational legal order would be minimal. Others, such as international NGOs or religious institutions, might speak on their behalf, as has been the case with some positive effect with remittances, but even there, significant difficulties remain. On the other hand, FATF and the system as a whole certainly saw de-risking as a serious challenge to the legitimacy of the AML regime. Roger Wilkins, the Australian who served as FATF president at the height of the de-risking crisis, made some strong

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

statements to this effect.²⁴ It appears that the AML regime did respond in a constructive fashion, though concerted action against de-risking requires cooperation between regulators, prosecutors, and civil courts in many countries, and this is extraordinarily difficult to achieve.

There are occasional vocal and potentially powerful sources of resistance; see, for example, the 2017 report by prestigious US banking organization The Clearing House (2017). The most notable resistance has come from the legal professions in the United States and elsewhere, but their impact has been at the margins since their principal focus has been on the effort to bring them into the set of AML regulated professions rather than against AML as such. Indeed, for advocacy groups in the world of economic development, the moral high ground is on the side of the enforcers.

Third, even if there are certain financial harms and costs, these are hidden from a public that has only the vaguest sense of what additional costs this imposes on their everyday banking. While they may observe that getting home loans has become more onerous, the borrowers will have little awareness of how much these burdens can be attributed to the AML regime. Banks may also treat the monitoring obligations upon them partly as a barrier to entry to new competition – in particular, the costs of AML decline with scale, so that large banks will be advantaged compared to small new entrants. They will be indifferent to costs so long as all banks bear the same costs. One might even infer from the massive cheating of the previous decade that some banks may have liked the regime because deviating from it gave them a competitive advantage – that being willing to evade the regime enabled them to expand business at the expense of more AML compliant competitors.

Fourth, the AML TLO may be resilient because it rests on a surface plausibility. Cocaine is dangerous, and most people accept that it should be tightly controlled – that may not justify criminalization but it gives prohibition credibility. The notion that banks should keep out dirty money has a similar face plausibility. In fact, the promoters of the AML TLO have had considerable success in building a plausible folk theory to underwrite their enterprise (Halliday 2018). A plausible folk theory is built not on robust empirical foundations but on parsimony, face validity, a compactness of rhetorical expression, sufficient ambiguity to accommodate potentially conflicting understandings of what it

²⁴ See, for example, www.fatf-gafi.org/publications/fatfgeneral/documents/roger-wilkins-speech-fatf-plenary-jun-2014.html.

purports to explain, an affinity with extant beliefs about such things as crime and dirty money, and a failure or resistance to examining too closely the premises and logic of the theory itself. The most succinct version of the folk theory underlying the AML order can be expressed as (1) billions of dollars of dirty money are generated by crime; (2) those funds cause harms by destabilizing markets, governments, or even the international financial system; and (3) the regulatory order constructed by the FATF will mitigate or eliminate both (1) and (2). Part of the appeal of a plausible folk theory to an international organization lies precisely in the fact that they induce optimism that solutions abound for challenging problems, their promise offers an umbrella under which actors with diverse interests can find common ground, and it relieves IOs or states from the very difficult and resource-intensive tasks of subjecting the practices of crime and money laundering to rigorous empirical research.

Fifth, the AML regime covers not just money laundering but also CTF. There is good reason to be skeptical that the system has contributed much to the control of terrorism incidents. As already noted, terrorism is not very expensive. The British government's independent monitor of counterterrorism has presented data to suggest that it is rare for the government to have financial information about detected terrorists. Yet there is an understandable reluctance to criticize anything that is plausibly a component of effective anti-terrorism policy.

Relatedly, the AML TLO satisfies certain symbolic and social needs of publics and governance institutions. While the AML TLO may not rest on empirical foundations, it does offer a compelling narrative. Its real work is not to change behavior or stop rule breakers but to "unite good consciences, to show purity in the face of danger, to do cultural work." It creates a persuasive account of a world in which there are dark, nefarious activities that must be stopped. It joins fear of the unknown and of the criminal with the opportunity for states and supra-state institutions to be styled as rescuers. It offers comfort that good is fighting evil. It assures publics that the fear of the unknown is being addressed—that leaders are acting to assuage fears and control the dark side of globalization.²⁵

Not least, the AML TLO is sustained by geopolitics. The AML regime, originally aimed at drug trafficking, has been extended to the

²⁵ We are indebted to Sally Merry and David Nelken for these insights.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

international sanctions regime, which has been a central element of US foreign policy for twenty years. Some of the largest fines (e.g., Paribas's \$9 billion in 2014 and \$80 million against ABN Amro in 2005) have been for violations of the US Treasury financial sanctions regime aimed at Iran, Libya, North Korea, and Russia. The AML TLO has been important for the United States in forcing strategic opponents such as Iran and North Korea to enter into unpalatable bargains. Put in another idiom, this TLO is sustained, critical theories would say, because they are tools of US imperialism or hegemony.²⁶

These explanations of TLO resilience lead us back to the hypotheses generated in earlier studies of resistance to TLOs and the conditions under which they might falter or fail (Halliday and Shaffer 2015a: 500ff). The AML TLO might be expected to confirm the hypothesis that resistance to TLOs will increase in inverse proportion to the legitimacy of its institutions or norms (Halliday and Shaffer 2015a: 500, 508). The master norms of the AML order are crafted principally by a few powerful states and international organizations. In theory, poorer and weaker states and non-state actors participate in the development of both AML Standards and its Methodology. In practice, their involvement is more pro forma. Yet this seems not to have detracted from the legitimacy of the AML TLO. In so many of the poorer nations, the leadership is seen as kleptocratic, with a deep interest in weakening money-laundering controls; this presents these governments as seemingly weak opponents to FATF, with its visibly moral position. Each time a kleptocrat falls (e.g., Mubarak in Egypt or Suharto in Indonesia) and it is revealed that they have laundered large amounts overseas, the position of developing countries for rolling back the FATF TLO is weakened. Such events typically result in NGO support for toughening the regime in the Global North.

More pointed is the hypothesis that poorer and weaker nation-states and other actors are more likely to resist a TLO when norms are "perceived to be instruments of imposition, coercion, surveillance, or control by stronger actors on weaker states" (Halliday and Shaffer 2015a: 500). Since we have seen that AML norms emerged primarily from a few states at the center of the world economic and financial systems, and have been sustained by international governance bodies (e.g., IMF, World Bank) where those states wield disproportionate

²⁶ We are indebted to Mariana Valverde for underlining this point.

influence, resistance would seem probable from states in the periphery. While this is not overt in the last revision of either the Standards or Methodology, it is more probable that resistance takes the form of symbolic compliance where states adopt laws and create institutions but cannot or will not implement them in practice. Normative concordance, in other words, is accompanied by a discordance between the expression of those norms and changes in behavior.

The hypothesis has been advanced that TLOs have a greater probability of failing the more that internal contradictions intensify (Halliday and Shaffer 2015a: 508). If, for instance, retributive sanctions by AML governors are brought against a state or financial institution, then it may actually produce the very condition of financial instability the regime was erected to forestall. Yet there appears to be little evidence this has occurred or occurred sufficiently often enough to fracture the TLO. Another contradiction might follow from the very expansiveness and penetration of the TLO itself, thereby engendering a backlash from constituencies that are harmed. Here again, apart from occasional critiques from academics and some professional insiders, such a backlash has not eventuated.

It has further been hypothesized that a change in the embedding contexts that facilitated emergence of the TLO might subsequently render a TLO irrelevant or sclerotic. Institutional rigidities might reduce adaptive flexibility (Halliday and Shaffer 2015a: 524). Yet the AML TLO has shown itself to be remarkably adaptive. From its beginning in the war on drugs, it managed to pivot swiftly to encompass the war against terrorism and pivot again to embrace the financing of nuclear proliferation and assist the fight against tax evasion and wildlife crime along the way. This might of course produce its own contradictions – a sheer overload of not always consistent goals. But it may also signify the agility of a soft law institutional foundation built on high-level principles (Block-Lieb 2019) and the minimal bureaucratic infrastructure that might inhibit change.

Moreover, while some TLOs have diminished or fallen when confronted with a more potent rival (Genschel and Rixen 2015), no rival TLO can be observed on the horizon of AML/CFT/FNP. It is true that there is much passive resistance in the implementation of norms in practice. And there is a good deal of decoupling between states' compliance with global norms that intentionally (or not) do not make it into national or local practice. There is gamesmanship of various kinds, as peers in the mutual evaluation of other states may favor (or appear to

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

favor) each other, or hold back from criticizing more powerful countries, in implicit reciprocities of disciplinary restraint.

Finally, there is the view that the AML TLO has proven itself valuable to monitoring groups in international civil society that seek to constrain corruption and kleptocracy.²⁷ Some of the tax and AML-evasive activities revealed in WikiLeaks, the Panama and Paradise Papers, and other outlets enable investigative journalists and NGOs to follow trails of money and asset purchases across borders and thereby to hold accountable political leaders and others who siphon off state moneys and seek to transmit them to safe havens for private consumption elsewhere in the world.²⁸ That accountability effect may also be deployed in domestic politics when, for instance, a special prosecutor seeks evidence of malfeasance in financing of political campaigns by candidates for office or elected politicians. It has been said that local liberal elites in Iran appeal to FATF standards in their own domestic struggles to hold national leaders accountable.²⁹

In sum, on the one side, viewed from the vantage point of its champions, the AML TLO persists because (1) it works in small respects; (2) it has surface plausibility insofar as it is underwritten by a plausible folk theory; (3) it offers a culturally satisfying, protective narrative of hope; (4) its minimalist bureaucracy and soft law properties have given it significant adaptive capacity; (5) it offers geopolitical benefits to the most powerful states, especially the United States; and (6) it demonstrates to the world and to regions that international governance institutions are effectively confronting the dark forces of globalization.

On the other side, viewed from the stance of its critics and opponents, it has survived assaults on its mission and practices because (1) most domestic actors harmed or hurt by it either do not realize the costs they bear (e.g., to privacy) or those costs are born most directly by institutions such as banks which can bear them; (2) even if costs were widely recognized, collective action by such diverse economic and civil society actors presents an immense barrier; (3) even if collective action

²⁷ Oral conference discussion, UCI, September 21–22, 2018.

²⁸ This is not to minimize the challenges posed by the fact that reports to Financial Intelligence Units are classified and that the identities of reporting bodies are protected from external disclosure, including disclosure in court. NGO efforts may be eased if beneficial ownership registers help expose or deter deviants, but this is a deeply contested issue.

²⁹ “The Ghost Companies Connected to Suspected Money Laundering Corruption, and Paul Manafort,” *Buzzfeed*, August 23, 2018. www.buzzfeed.com/janebradley/shell-companies-money-laundering-uk-paul-manafort.

barriers were surmounted, those who are adversely harmed are weak actors; (4) attacks on its legitimacy and practices come from weak or discredited actors; (5) weak states disproportionately harmed by it don't have the ability to mobilize collectively against it, but they can mitigate its local unwanted effects through symbolic compliance; (6) its internal contradictions haven't yet swelled to disruptive levels; (7) the institution has no looming rivals at the global level; and (8) it is immunized from much criticism because a TLO invoking protections from terrorism is rhetorically unassailable.

Indeed, more generically, we may hypothesize that when a TLO is deeply embedded within and supported by other normative institutions, and when its rules become an integral guide to the practices of hundreds or thousands of organizations beyond the state, within the state and across markets, the legal order becomes highly resilient when confronted by attacks or changed contexts. Moreover, if its technical features prove applicable to new problems, then it can move sideways to take on tasks that further widen its appeal to even broader constituencies. Insofar as the AML TLO has accomplished these feats of a legal order, it should be presumed the greater probability is that it will persist rather than fail, despite its costs and harms.

2.8 A DISCIPLINARY TLO?

Nevertheless, while the preceding factors go some distance toward an explanation of resilience, they may serve as elements in a more comprehensive theory. Ultimately, might it be the case that its persistence results not from demonstrable results in achieving its ostensible goals³⁰ but from its disciplinary character? How does it serve as a disciplinary institution whose interests are advanced by those facilities?

Much currency in contemporary sociology on the topic of discipline derives from the writings of Foucault. The recent revisionist work by Mariana Valverde (Valverde 2016) on Foucault and criminology, law, justice, and penology asserts that conventional English understandings of the French verb *surveiller*, frequently translated as “discipline,” are too constrictive. Rather than a negatively inflected tone directed toward predominantly top-down control, in her view, “discipline” better connotes an amalgam of “keeping an eye on things”—watching

³⁰Or as Peter Andreas cleverly puts it, “a policy failure that is a political success.”

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

over activities, monitoring, and supervising.³¹ Extrapolating from Foucault's work on modern prisons, "whole populations would come to be controlled, monitored and supervised. The panopticon is the paradigmatic exemplar, even the extreme. Silently, every inmate of the prison is constantly observed." In society this gaze proceeds through "hierarchical observation" where "techniques for supervising or monitoring groups of people . . . allow and foster surveillance by authorities" and where "the few are employed to watch the many." Great power is exercised "in a silent, impersonal, and almost automatic manner."³²

In AML regimes, much of the surveillance is silent and unobserved. Backroom bank employees scan transactions for a whiff of suspicion, or computers run algorithms to identify patterns of abnormal or illegal transactions. Officers in financial systems create lists of both domestic and foreign politically exposed persons (PEPs) who will be subject to heightened scrutiny. Recent research on Canada, for instance, indicates that any citizen can be watching a neighbor for out-of-the-ordinary financial activity or lifestyle and submit a report to a government agency, unbeknownst to the hapless neighbors (Amicelle and Iafolla 2018). Keeping an eye out, thereby, simultaneously occurs from below and above. In AML regimes, much of the monitoring is routinized and observable, though not intrusive, whether at the mundane level of bank deposits or the use of cash for payments or in annual reporting of NGOs and the activities of charities.

The tools that enable such monitoring and eyes on behavior at the bank or in leisure activities offer varieties of value for quite different actors. For state officials, they may offer intelligence for law enforcement of a broad spectrum of crimes, especially grand corruption. Tax authorities obtain an added tool to lessen tax evasion. The security apparatus adds a window into potential threats of violence against the state. For states who dominate this transnational order, they gain another weapon in the armory against "terrorism" or nuisance-some players in regional politics or a bloodless alternative to military action.

For authoritarian regimes, the imperative for control of their populations may be well served by comprehensive and largely unobserved means of tracking who opponents are, what they own, and what they do. Empirical research on use of AML tools for political purpose is in

³¹ See Valverde (2016), pp. 1–2, fn. 1.

³² See Valverde (2016), pp. 55, 47, 61.

its infancy. Yet, for authoritarians currently in power, the most dangerous of opponents, whether the leader of an opposition party, a prior ruler, the media, or a civil society irritant, the payoff of keeping an eye on opponents' affairs through the legitimate means of financial surveillance at once may keep current rulers abreast of the threat of insurgency and at most gives them weapons to quash and silence voices perceived to threaten them.³³ For bankers, even if costly to implement, the actuality of monitoring and the threat of AML enforcement may contribute to an even playing field so that competitors do not get undue advantage through devices designed to attract dirty money.

Foucault spoke of the punitive city where "tiny theaters of punishment" were staged in parks and at intersections so passersby could observe the little dramas and heed their moral lessons. The AML regime scales up to the regional and global: a (moderately) punitive global order where monitoring and punishing and shaming take place on a global stage, whether in the form of international media exposes with or without prosecutions; the high drama of the unfolding Danske Bank³⁴ scandal, with criminal charges and investigations in several European countries and potentially in the United States; or blacklisting threats for punitive actions taken by the entire international financial system.

It is reasonable to ask whether the TLO actually disciplines those it is intended to discipline and/or claims to discipline. The fact that money laundering and underlying predicate crimes continue is not sufficient in itself to belie the impact of disciplinary measures. While discipline might not achieve all or any of its intended effects, it might well impel financial institutions or criminal organizations to develop new techniques of bypassing the rules, at least when local or institutional profitability provides sufficient incentives. The disciplinary apparatus shapes unforeseen ways of crime displacement, where the place, time, or method of offending is changed to avoid detection. Thus there may be a disciplinary effect, even if the crime reduction effect is minimal or difficult to observe.³⁵

³³ Of course, authoritarian rulers have armories of weapons to wield against opponents, and financial surveillance may be only one of these. To make this point is not to be construed as an argument that authoritarian states could or do exert influence in FATF for this specific purpose. However, they may well concur with stronger measures that have collateral political benefits.

³⁴ www.ft.com/content/519ad6ae-bcd8-11e8-94b2-17176bf93f5; www.theguardian.com/world/2018/oct/04/danske-bank-faces-us-investigation-into-money-laundering.

³⁵ We are indebted to the editors of this volume for this insight.

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

In sum, is it possible that the persistence of this disciplinary TLO can be attributed to the symbolic and tangible appeal of “discipline” itself? That is, a disciplinary TLO has multi-faceted appeal that gives it viability despite the manifest inadequacies or limitations we have noted. Like much lawmaking on crime, the AML TLO gestures toward serious consideration of problems that trouble publics and rulers without necessarily doing much about these problems in practice. This disciplinary TLO gives powerful states, especially the United States, legitimate cover to leverage surveillance and control in pursuit of domestic policy priorities. And because it is exceedingly difficult to be publicly in favor of dirty money, the illicit drug trade, financing of terrorism, and nuclear proliferation by “rogue states,” those institutions that would prefer to escape the TLO cannot legitimately do so and will not thereby defect. Hence this TLO, even if erected on weak foundations to control problems for which it is ill-suited, may nonetheless persist because its collateral benefits give it enduring resilience.

2.9 SINGULAR?

The disciplinary properties of the AML TLO offer a capstone explanation for its resilience. Are those properties distinctive to an AML institution or are they indicative of a class of TLOs that share some of its properties? In comparison to many other partially or wholly institutionalized TLOs previously studied in the scholarly literature, the AML TLO does appear to be distinctive. We can explore this putative distinctiveness more systematically by asking, what makes a TLO disciplinary?

First, there is a pervasive assumption that there are identifiable recalcitrant actors in society who must be monitored to reduce the harms they may cause society. On its face, a disciplinary order offers an attractive way of doing so. This is not an assumption underlying most commercial, finance, and trade TLOs. Nor is it an assumption about actors in a climate change TLO or a value chain TLO, although one might get to recalcitrance in types of deviance for both. This assumption might be a secondary concern for a multilateral trade or carriage of goods by sea regime, since deviance of some sort may factor in either TLO, but these don't seem quite in the same category as the AML order.

Second, we have seen that the AML TLO has erected a pervasive surveillance apparatus into many corners of society. Is this merely

a difference in degree, or is it a difference in kind? Perhaps it is true that banking and taxation TLOs come close to this level of surveillance. And perhaps it is the case that the burgeoning reliance of states and international organizations on indicators begin to approach or aspire to such pervasive monitoring (Davis et al. 2012). Human rights TLOs monitor broad swaths of social behavior, yet they tend to more focused on one or another right and leave entire arenas in a society (e.g., its financial institutions or its leisure activities) outside their gaze.

Third, the pervasive AML surveillance apparatus is yoked to punitive criminal and regulatory institutions and practices. This TLO is anchored in public law and the institutions of the state erected to control crime – the police, courts, and prisons – though it has significant regulatory dimensions as well, inflecting the supervisory practices of financial and professional regulators. The qualifier “punitive” is deliberately chosen because despite considerable attention to regulating the suspicious activity reporting regime, the model of crime control underlying the AML TLO is principally retributive and confiscatory, relying on punishment to deter both the criminals who generate financial proceeds of crime and the enablers who allow them to enjoy or use those proceeds for malign purposes.

Fourth, the AML TLO has constructed an elaborate repertoire of discipline. Socialization into disciplinary norms occurs for government officials through their participation in FATF global and regional bodies, for workers in the financial sector through their training, and for professionals in collegial education such as ACAMS (Association of Certified Anti-Money Laundering Specialists) membership. Reports by the FATF and ROSCs (IMF Reports on the Observance of Standards and Codes) from the global financial institutions calibrate degrees of deviance by ratings that concentrate the minds of state officials and incur the evaluative judgments of supra-state monitors. It is a short step from rating to naming and shaming, and then to tangible threats of gray- or blacklisting. How extensively can this repertoire of discipline be found in commercial, financial, environmental, or private contracting or human rights TLOs?

Fifth, we have seen that the AML TLO has multiplied its subjects of discipline to include states; financial institutions (e.g., a bank); non-state collective actors such as charities; organized crime families; individuals in their many guises of PEPs, lawyers, or accountants; or everyday participants in their myriads of transactions in an integrated global financial system. Again, the geographical and legal scope of this disciplinary TLO appears unusually extensive, so much so that it

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

appears different in kind rather than in degree from other TLOs identified in scholarship to date.

The question of singularity therefore points to a wider question: are criminal justice TLOs³⁶ in general distinctive as a class? There are reasons to suggest they are. TLOs directed to control of crime involve (1) a particular moral sanction (i.e., that of being labeled a “criminal”); (2) the threat or deployment of coercion by the state; and (3) the use of disciplinary powers beyond those deployed in governmentality more generally. Moreover, a criminal justice TLO targets a subset of behavior (i.e., that which is illegal), in contrast to TLOs, which target legal behavior that may be deviant in its forms of action but is controlled by civil or regulatory measures.³⁷

Placing the AML TLO within a set of TLOs that is as expansive as law itself, public and private, domestic and international, thereby compels us to confront the possibility that the AML TLO is singular or, more probably, is one instance of a class of TLOs not hitherto explored or well understood. Those singular properties may in fact be shared substantially by other TLOs directed at crime. The site of criminal justice thereby encourages a more differentiated understanding of TLOs in twenty-first-century settings, and concomitantly TLO theory reveals aspects of international criminal justice that amplify understandings of crime control, markets, and politics in the contemporary global order.

2.10 SCENARIOS OF TLO COLLAPSE

We conclude with a brief consideration of circumstances under which the AML TLO might collapse. There is little prospect that it becomes irrelevant. It is hard to imagine what would lead to much diminution in transnational money laundering, unless the TLO itself becomes effective, which would lead to its continuation rather than disappearance. Nor, to take contrary extreme, is its failure likely to lead to its collapse. It survives despite almost annual occurrences of attention-riveting incidents showing that major institutions ignore the fundamentals, as illustrated by Danske Bank and ABN Amro as recently as 2018.

The true threat may come from the country most responsible for the formation of the TLO—namely the United States. The threat could

³⁶ See the other chapters in this volume.

³⁷ We appreciate these insights of the volume's editors on the distinctiveness of criminal TLOs.

WHY DO TRANSNATIONAL LEGAL ORDERS PERSIST?

come in one of two contrasting forms. In one, the United States, as part of its general withdrawal from international agreements (witness its notification of ending participation in the International Postal Union), drops out of FATF, which then loses its most powerful tool, namely eliminating access to dollar transactions. It is perhaps not unfair to speculate that the Trump administration is not enthusiastic about efforts to control money laundering. The contrasting threat comes from excessive US aggression. Already there is discomfort about the ways in which, as discussed previously, FATF's Recommendations further US foreign policy goals. Further extensions of FATF's jurisdiction in that direction might lead some other important countries to defect from FATF and to the collapse of the TLO, and/or to the undermining of whatever legitimacy its regulations and evaluations has in the international community.

Neither scenario is likely in the near future. Neither scenario, however, seems wholly fanciful.

REFERENCES

- Amicelle, Anthony, and Vanessa Iafolla. 2018. "Suspicion-in-the-Making: Surveillance and Denunciation in Financial Policing." *British Journal of Criminology* 58: 845–863.
- Artینگstall, David, Nick Dove, John Howell, and Michael Levi. 2016. *Drivers and Impacts of Derisking*. London: Financial Conduct Authority. www.fca.org.uk/your-fca/documents/research/drivers-impacts-of-derisking.
- Block-Lieb, Susan. 2019. "Soft and Hard Strategies: The Role of Business in the Crafting of International Commercial Law," *Michigan Journal of International Law* 40: 433–477.
- The Clearing House. 2017. *A New Paradigm: Redesigning the U.S. AML/CFT Framework to Protect National Security and Aid Law Enforcement*. www.theclearinghouse.org/~/_/media/TCH/Documents/TCH%20WEEKLY/2017/20170216_TCH_Report_AML_CFT_Framework_R redesign.pdf.
- Davis, Kevin E., Angelina Fisher, Benedict Kingsbury, and Sally Engle Merry, eds. 2012. *Indicators as a Technology of Global Governance*. New York: Oxford University Press.
- Van der Does de Willebois, E., E. M. Halter, R. A. Harrison, J. W. Park, and J. C. Sharman. 2011. *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do about It*. Washington, DC: The World Bank.
- Erbenova, Michaela, Yan Liu, Nadim Kyriakos-Saad, Aledjandro Lopez Mejia, Jose Giancarlo Gasha, Emmanuel Mathias, Mohamed Norat, Francisco Fernando, and Yasmin Almeida. 2016. *The Withdrawal of Correspondent Banking*

TERRY HALLI DAY, MICHAEL LEVI, AND PETER REUTER

- Relationships: A Case for Policy Action*. Washington, DC: International Monetary Fund.
- Financial Stability Board. 2018. *Stocktake of Remittance Service Providers' Access to Banking Services*. Basel: Financial Stability Board.
- Genschel, Philipp, and Thomas Rixen. 2015. Settling and Unsettling the Transnational Legal Order of International Taxation. Pp. 154–186 in *Transnational Legal Orders*, edited by Terence C. Halliday and Gregory Shaffer. New York: Cambridge University Press.
- Halliday, Terence C. 2018. "Plausible Folk Theories: Throwing Veils of Plausibility over Zones of Ignorance in Global Governance." *British Journal of Sociology* 69(4): 936–961.
- Halliday, Terence C., Michael Levi, and Peter Reuter. 2014. *Global Surveillance of Dirty Money: Assessing Assessments of Regimes to Control Money Laundering and Combat the Financing of Terrorism*. Chicago: Center on Law and Globalization, American Bar Foundation, and University of Illinois College of Law. www.americanbarfoundation.org/uploads/cms/documents/report_global_surveillance_of_dirty_money_1.30.2014.pdf.
- Halliday, Terence C., and Gregory Shaffer. 2015a. "Researching Transnational Legal Orders." Pp. 473–528 in *Transnational Legal Orders*, edited by Terence C. Halliday and Gregory Shaffer. New York: Cambridge University Press.
- Halliday, Terence C., and Gregory Shaffer. 2015b. "Transnational Legal Orders." Pp. 1–72 in *Transnational Legal Orders*, edited by Terence C. Halliday and Gregory Shaffer. New York: Cambridge University Press.
- Levi, Michael. 1991. "Pecunia non olet: Cleansing the Money Launderers from the Temple." *Crime, Law and Social Change* 16: 217–302.
- Levi, Michael. 1997. "Evaluating 'The New Policing': Attacking the Money Trail of Organised Crime." *Australia New Zealand Journal of Criminology* 30: 1–25.
- Levi, Michael. 2006. "Pecunia non olet? The Control of Money-laundering Revisited." Pp. 161–182 in *The Organised Crime Community*, edited by F. Bovenkerk and Michael Levi. New York: Springer.
- Levi, Michael. 2010. "Combating the Financing of Terrorism: A History and Assessment of the Control of 'Threat Finance,'" *British Journal of Criminology* 50(4): 650–669.
- Levi, Michael, and Peter Reuter. 2006. "Money Laundering." *Crime and Justice* 34: 289–375.
- Levi, Michael, Peter Reuter, and Terence Halliday. 2018. "Can the AML System Be Evaluated without Better Data?" *Crime, Law and Social Change* 69: 307–28.
- Lexis-Nexis. 2017a. *Future Financial Crime Risks 2017*.
- Lexis-Nexis. 2017b. *True Cost of AML Compliance – Europe*.
- Lexis-Nexis. 2018a. *The True Cost of Anti-Money Laundering Compliance: A LexisNexis Risk Solutions Report Study on Financial institutions across Six*

WHY DO TRANSNATIONAL LEGAL ORDERS PERSIST?

- Markets in Asia*. www.lexisnexis.com/risk/intl/en/resources/research/true-cost-of-aml-compliance-apac-survey-report.pdf.
- Lexis-Nexis. 2018b. *The True Cost of Anti-Money Laundering Compliance in the United States*.
- Nance, Mark T. 2018. "The Regime That FATF Built: An Introduction to the Financial Action Task Force." *Crime, Law and Social Change* 69(2):109–29.
- Organization for Economic Co-operation and Development. 2013. *Measuring OECD Responses to Illicit Financial Flows from Developing Countries*. Paris: OECD.
- Reuter, Peter. 2013. "Are Estimates of Money Laundering Volume Either Feasible or Useful?" Pp. 224–231 in *Research Handbook on Money Laundering*, edited by Brigitte Unger. Cheltenham: Edward Elgar.
- Reuter, Peter, and Edwin M. Truman. 2004. *Chasing Dirty Money: The Fight against Money Laundering*. Washington, DC: Institute for International Economics.
- Shaffer, Gregory, Tom Ginsburg, and Terence C. Halliday, eds. In press. *Constitution-Making and Transnational Legal Orders*. New York: Cambridge University Press.
- Sharman, Jason C. 2011. *The Money Laundry: Regulating Criminal Finance in the Global Economy*. Ithaca and London: Cornell University Press.
- Sharman, Jason C. 2017. *The Despot's Guide to Wealth Management: On the International Campaign against Grand Corruption*. Ithaca: Cornell University Press.
- Valverde, Mariana. 2016. *Michel Foucault*. New York: Routledge.
- Van Duynes, Petrus, Jackie H. Harvey, and Liliya Y. Gelemerova. 2019. *The Critical Handbook of Money Laundering: Policy, Analysis and Myths*. London: Palgrave Macmillan.