

## Fletcher School of Law and Diplomacy

### EIB B223 – INFORMAL AND UNDERGROUND FINANCE

#### Ibrahim Warde

Wednesday 3:20 – 5:20

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Office hours: Monday, 3:30-4:30, Tuesday 1:00 to 3:30 and by appointment

This course aims to study the role of the informal (off-the-books), underground (criminal), and more generally illicit finance in the global economy. The primary focus will be on these financial practices and the ways governments, at the national and international levels, attempt to counter them. The course will also examine the implications of informal and underground finance from the dual perspectives of economic development and global security.

The end of the cold war brought with it the promise of a new world order based on liberalization, openness, and the rule of law. The informal sector, especially in developing countries, would be integrated into the formal economy, and new opportunities, combined with transparency and good governance, would reduce the scope of illegal activities. In reality, unhindered capital movements did not slow the growth of the informal and underground economies. On the contrary, the removal of controls and opening of borders, combined with technological advances, created unprecedented opportunities for invisible and illicit transactions, and this in turn posed new economic, security and political threats.

The potential for money laundering as well as corruption was magnified as proceeds of crime were reinvested in legitimate businesses. At the same time, governments pressured to follow neoliberal injunctions stressing market-based solutions were ill-equipped to deal with such new challenges. Opportunities for corrupt practices and tax evasion grew exponentially. New mechanisms and policy regimes are slowly taking shape at the international level to address these issues.

There is a substantial literature on such subjects as the drug trade, piracy, cybercrime, counterfeiting, black markets, transnational gangs, human and sexual trafficking, and most significant of all, terrorism. Such literature often lacks rigor. Broad-brush characterizations and facile generalizations (e.g., failed, rogue or mafia states, etc.) tend to obscure vital distinctions (between informal and underground sectors, between the legitimate or socially sanctioned and the legal, between mercenary and political logics, between money laundering and terrorist financing, etc.). Many countries now find themselves caught between market fundamentalism and global security concerns. Systematic criminalization tends to push illicit activities further underground, just as it perpetuates exclusion.

The course will bring these issues into historical, international and comparative perspective. It should be of interest to students interested in economic development as well as to those interested in global security, financial compliance, business intelligence, and law enforcement.

## GRADING

The course grade will be based on a midterm (50%) and a 10-to-12-page paper (50%).

## REQUIRED BOOKS

The following books will be read in their entirety:

- Hernando de Soto, *The Other Path: The Economic Answer to Terrorism*, Basic Books 2002.
- Robert Neuwirth, *Stealth of Nations: The Global Rise of the Informal Economy*, Anchor Books 2012.
- Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012.
- Sarah Chayes, *Thieves of State: Why Corruption Threatens Global Security*, New York: W.W. Norton & Co. 2015.
- Bill Browder, *Red Notice: A True Story of High Finance, Murder, and One Man's Fight for Justice*, New York: Simon and Schuster 2015.
- Tom Wright and Bradley Hope, *Billion Dollar Whale: The Man Who Fooled Wall Street, Hollywood, and the World*, New York: Hachette Press 2018.

## RECOMMENDED BOOKS

These books are available at the Ginn or the Tisch library.  
Excerpts from some of these books may be posted on Canvas as part of weekly readings.

- Aisha Ahmad, *Jihad & Co.: Black Markets and Islamist Power*, Oxford University Press 2017.

- Peter Andreas, *Killer High: A History of War in Six Drugs*, Oxford University Press, 2020.
- Raymond W. Baker, *Capitalism's Achilles Heel and How to Renew the Free Market System*, New York: Wiley 2005.
- Preet Bharara, *Doing Justice : A Prosecutor's Thoughts on Crime, Punishment, and the Rule of Law*, New York: Alfred A. Knopf 2019.
- Mehrsa Baradaran, *How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy*, Harvard University Press 2015.
- Oliver Bullough, *Moneyland: The Inside Story of the Crooks and Kleptocrats Who Rule the World*, New York: St. Martin's Press 2019.
- Tom Burgis, *The Looting Machine: Warlords, Oligarchs, Corporations, Smugglers, and the Theft of Africa's Wealth*, New York: Public Affairs 2015.
- John Cassara, *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, New York: Wiley 2015.
- Jesse Eisinger, *The Chickenshit Club: Why the Justice Department Fails to Prosecute Executives*, New York: Simon and Schuster 2017.
- Milton Friedman, *Capitalism and Freedom*, The University of Chicago Press 2002
- Brandon L. Garrett, *Too Big to Jail: How Prosecutors Compromise with Corporations*, Harvard University Press 2014.
- Johan Mathew, *Margins of the Market: Trafficking and Capitalism across the Arabian Sea*, University of California Press 2016.
- Lawrence Lessig, *Republic, Lost: How Money Corrupts Congress—and a Plan to Stop It*, New York: Twelve 2011.
- Bill Maurer, *How Would You Like to Pay? How Technology is Changing the Future of Money*, Duke University Press 2015.
- R. T. Naylor, *Counterfeit Crime: Criminal Profits, Terror Dollars, and Nonsense*, McGill-Queens University Press 2014.
- Carolyn Nordstrom, *Global Outlaws: Crime, Money and Power in the Contemporary World*, University of California Press 2007.
- Stephen Platt, *Criminal Capital: How the Financial Industry Facilitates Crime*, New York: Palgrave Macmillan 2015.

- Mohannad Sabry, *Sinai: Egypt's Linchpin, Gaza's Lifeline, Israel's Nightmare*, University of Cairo Press 2015.
- Roberto Saviano, *Gomorrah*, New York: Farrar, Straus & Giroux 2007.
- Michael P. Scharf, *Customary International Law in Times of Fundamental Change: Recognizing Grotian Moments*, Cambridge University Press 2013.
- J. C. Sharman, *The Money Laundry: Regulating Criminal Finance in the Global Economy*, Cornell University Press 2011.
- J. C. Sharman, *The Despot's Guide to Wealth Management: On the International Campaign Against Grand Corruption*, Cornell University Press 2017.
- Louise I. Shelley, *Dirty Entanglements: Corruption, Crime and Terrorism*, Cambridge University Press 2014.
- Willem van Schendel and Itty Abraham, *Illicit Flows and Criminal Things: States, Borders, and the Other Side of Globalization*, Indiana University Press 2005.
- Eugene Soltes, *Why They Do It: Inside the Mind of the White-Collar Criminal*, New York: PublicAffairs 2016.
- Zephyr Teachout, *Corruption in America: From Benjamin Franklin's Snuff Box to Citizens United*, Harvard University Press 2014.
- Alex de Waal, *The Real Politics of the Horn of Africa: Money, War, and the Business of Power*, Cambridge: Polity Press 2005.
- Ibrahim Warde, *The Price of Fear: The Truth behind the Financial War on Terror*, University of California Press 2007.
- Terry Williams and Trevor B. Milton, *The Con Men: Hustling in New York City*, Columbia University Press 2015.
- Juan C. Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, New York: PublicAffairs 2013.
- Gabriel Zucman, *The Hidden Wealth of Nations: The Scourge of Tax Havens*, The University of Chicago Press 2015.

Important dates:

- Midterm will be on Wednesday March 11 in class.
- Papers are due by Monday April 27 at 5pm. They should be e-mailed to the instructor at [Ibrahim.Warde@tufts.edu](mailto:Ibrahim.Warde@tufts.edu) and a hard copy should be delivered at the Fares Center.

## COURSE OUTLINE:

### **Week 1 (January 15) – Perspectives on the Illicit Economy**

- Current Events Readings on Canvas

### **Week 2 (January 22) - From Cash to Cryptocurrency**

- Doug Campbell, “Searching for the Hidden Economy,” *Region Focus*, Federal Reserve Bank of Richmond, Spring 2005.

- Robert Neuwirth, *Stealth of Nations: The Global Rise of the Informal Economy*, Anchor Books 2012, p. 1 - 28.

- Harry I. Greenfield, “Economic Consequences of the Underground Economy,” in *Invisible, Outlawed and Untaxed*, Praeger Publishers 1993, Chapter 7, p. 105 – 120.

- Jessica Teets and Erica Chenoweth, “To Bribe or to Bomb: Do Corruption and Terrorism Go Together?” in: Robert Rotberg, *Corruption, Global Security and World Order*, Brookings Institution Press 2009, p. 167 – 189.

- Hernando de Soto, *The Other Path: The Economic Answer to Terrorism*, Basic Books 2002, Chapter 1.

- Peter Reuter, “Introduction and Overview: The Dynamics of Illicit Flows,” in Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012, p. 1 - 18.

- Current Events Readings on Canvas

## RECOMMENDED

- P. K. Thompson, “The Moral Economy of the English Crowd in the Eighteenth Century,” *Past and Present* 1971 (50), p. 76 – 126.

- Gary S. Becker, “Crime and Punishment: An Economic Approach,” *Journal of Political Economy* 1968.

- Nikos Passas, *Informal Value Transfer Systems, Terrorism and Money Laundering*, Report to the National Institute of Justice, November 2003.

### **Week 3 (January 29) – Recent Evolution of Informal and Underground Finance**

- Robert Neuwirth, *Stealth of Nations: The Global Rise of the Informal Economy*, Anchor Books 2012, p. 29 - 260.
- Hernando de Soto, *The Other Path: The Economic Answer to Terrorism*, Basic Books 2002, Chapters 2 to 8.
- Thomas Friedman, *The Lexus and the Olive Tree: Understanding Globalization*, Farrar, Straus and Giroux 1999, Chapters 6 and 7.
- Sudhir Alladi Venkatesh, *Off the Books: The Underground Economy of the Urban Poor*, Harvard University Press 2009, p. 1-21.
- Ha-Joon Chang, “People in poor countries are more entrepreneurial than people in rich countries,” *23 Things They Don’t Tell You about Capitalism*, Bloomsbury Press 2010, p. 156-166.
- Ibrahim Warde, “The Cash Economy: Why Egyptians Distrust Their Banks.”
- Joshua E. Keating, “The Wikileaks of Money: Is Bitcoin a Revolution or a Bubble?” *Foreign Policy*, September 8, 2011.
- Peter Andreas, “Gangster’s Paradise: The Untold History of the United States and International Crime,” *Foreign Affairs*, March-April 2013.
- James K. Galbraith, *The End of Normal: The Great Crisis and the Future of Growth*, New York: Simon and Schuster 2014, Chapter 9 “The Fallout of Financial Fraud.”
- R. T. Naylor, *Patriots and Profiteers: Economic Warfare, Embargo Busting, and State-Sponsored Crime*, McGill-Queen’s University Press, Second Edition 2008, Chapter 1 “Mightier than the Sword?”
- Current Events Readings on Canvas

### **Week 4 (February 5) – Deviant Globalization and Policy Responses**

- Jesse Goldhammer, Steven Weber and Nils Gilman, “Introduction,” in *Deviant Globalization: Black Market Economy in the 21st Century*, Continuum 2011.

- Moises Naim, “The Wars We Are Losing” and “Global Smugglers Are Changing Your World,” in *Illicit: How Smugglers, Traffickers, and Copycats are Hijacking the Global Economy*, Random House 2006, Chapters 1 and 2.

- Misha Glenny, “The Future of Organized Crime,” in *McMafia: A Journey through the Global Criminal Underworld*, Vintage 2009, Chapters 13 and 14.

- “The Political Economy of Illicit Flows” and “Illegal Markets” in Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012, p. 19 – 202.

- Robert Mandel. "Transnational Organized Crime's Changing Threat" in *Dark Logic. Transnational Criminal Tactics and Global Security*, Stanford University Press 2011.

- Current Events Readings on Canvas

### **Week 5 (February 12) – The Money Laundering Paradigm**

- J. C. Sharman, “Introduction,” “Money Laundering and Anti-Money Laundering,” in *The Money Laundry: Regulating Criminal Finance in the Global Economy* Cornell University Press 2011, p. 1 - 36.

- Ibrahim Warde, “The Financial Terrain: Framing the Guilty,” and “The Flawed Money Laundering Template,” in *The Price of Fear: The Truth behind the Financial War on Terror*, University of California Press 2007, p. 23 - 52.

- J. C. Sharman, “Does Anti-Money Laundering Policy Work? Indirect and Direct Tests of Effectiveness,” *The Money Laundry: Regulating Criminal Finance in the Global Economy*, Cornell University Press 2011, p. 37 – 95.

- Michael Levi, “How Well Do Anti-Money Laundering Controls Work in Developing Countries?” in Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012.

- Tom Wright and Bradley Hope, *Billion Dollar Whale: The Man Who Fooled Wall Street, Hollywood, and the World*, New York: Hachette Press 2018, Chapters 1 to 26)

- Current Events Readings on Canvas

**(No class on February 19)**

### **Week 6 (February 26) – Bank Secrecy, Offshore Finance and Tax Havens**



- R. T. Naylor, "Offshore Heavens, Bank Secrecy, and Money Laundering," in *Wages of Crime: Black Markets, Illegal Finance, and the Underworld Economy*, Cornell University Press 2005, Chapter 4, p. 133 – 195.

- "To What Extent Do Corporations Facilitate Illicit Flows?" in Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012, p. 203 – 334.

- Alex Cobham, "Tax Havens and Illicit Flows," in - Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012, p. 337 – 372.

- Current Events Readings on Canvas

### **Week 7 (March 4) – Corruption, Kleptocracy and the Challenge of Asset Recovery**

- Raymond Fisman and Edward Miquel, "Suharto, Inc." in *Economic Gangsters: Corruption, Violence and the Poverty of Nations*, Princeton University Press 2010, p. 22 - 52.

- Rose-Ackerman, "When is Corruption Harmful," in Arnold J. Heidenheimer and Michael Johnston, editors, *Political Corruption: Concepts and Contexts*, Transaction Publishers 2007, p. 353 – 369.

- James Maton and Tim Daniel, "The Kleptocrat's Portfolio Decisions," in Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012.

- Ben W. Heineman, Jr., "The Role of the Multi-National Corporation in the Long War against Corruption," in *Corruption, Global Security and World Order*, Brookings Institution Press 2009, p. 359 – 381.

- Current Events Readings on Canvas

### **Week 8 (March 11) – Midterm**

### **Week 9 (March 25) – Corruption, National Security and Economic Development**

- Sarah Chayes, *Thieves of State: Why Corruption Threatens Global Security*, New York: W.W. Norton & Co. 2015.

- Bill Browder, *Red Notice: A True Story of High Finance, Murder, and One Man's Fight for Justice*, New York: Simon and Schuster 2015, chapters 1-22.

- Current Events Readings on Canvas

### **Week 10 (April 1) – Terrorism, Insurgency, Conflict Zones and Illicit Finance**

- Robert J. Bunker, “Changing forms of insurgency: pirates, narco gangs and failed states,” in Paul B. Rich and Isabelle Duyvesteyn, *The Routledge Handbook of Insurgency and Counterinsurgency*, p. 45 – 52.

- Fred Kaplan, “Another Type of Warfare,” “Eating Soup with a Knife,” “Revolutions,” “The Insurgent at War,” in *The Insurgents: David Petraeus and the Plot to Change the American Way of War*, Simon and Schuster 2013, p. 11 - 93.

- Carolyn Nordstrom, “Entering the Shadows,” “A First Exploratory Definition of the Shadows,” and “The Culture of the Shadows: The Meat, Potatoes, Diamonds, and Guns of Daily Life” in *Shadows of War Violence, Power, and International Profiteering in the Twenty-First Century*, University of California Press 2004, p. 87-138.

- Ibrahim Warde, “Rethinking Money and Terror,” in *The Price of Fear: The Truth behind the Financial War on Terror*, University of California Press 2007, p. 163 - 182.

- Bill Browder, *Red Notice: A True Story of High Finance, Murder, and One Man's Fight for Justice*, New York: Simon and Schuster 2015, Chapters 23-42.

- Current Events Readings on Canvas

### **Weeks 11 (April 8) – Financial Regulation and the Evolution of Compliance**

- Tom Wright and Bradley Hope, *Billion Dollar Whale: The Man Who Fooled Wall Street, Hollywood, and the World*, New York: Hachette Press 2018, Chapters 26 to 51.

- Ibrahim Warde, “Fining the banks for all the wrong crimes: BNP Paribas's sins,” *Le Monde Diplomatique*, July 2014.

- Ibrahim Warde, “Getting away with it: Swiss tax evaders, and their handlers, will escape justice,” *Le Monde Diplomatique*, March 2015.

- Current Events Readings on Canvas

### **Week 12 (April 15) – Between Market Fundamentalism and Criminalization: Challenges of Economic Development**

- Carolyn Nordstrom, “The Institutionalization of the Shadows (Habits of War Mar Landscapes of Peace)” and “Ironies in the Shadows: (Literally) Untold Profits and a Key Source of Development,” in *Shadows of War Violence, Power, and International Profiteering in the Twenty-First Century*, University of California Press 2004, p. 143 - 156 and 209 - 224.

- Jomo Kwame Sundaram, “Good Governance, Anti-Corruption, and Economic Development,” in Robert Rotberg, *Corruption, Global Security and World Order*, Brookings Institution Press 2009, p. 457-459.

- Ibrahim Warde, “Targets and Collateral Damage,” and “‘Gated Finance’ and Other Contradictions of the Financial War,” in *The Price of Fear: The Truth behind the Financial War on Terror*, University of California Press 2007, p. 93 - 126.

- Naomi Klein, “Introduction: Blank Is Beautiful” in *The Shock Doctrine: The Rise of Disaster Capitalism*, Picador 2008.

- Mick Moore, “The Practical Political Economy of Illicit Flows,” in Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012, p. 457 – 482.

- Peter Reuter, “Policy and Research Implications of Illicit Flows,” in Peter Reuter, editor, *Draining Development? Controlling Flows of Illicit Funds from Developing Countries*, The World Bank 2012.

- Current Events Readings on Canvas

### **Week 13 (April 22) – Review and Conclusions**