

# Economic-Based Policing



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# The Shadow Economy

- Exists throughout the world
- Criminal phenomenon capable of destabilizing economic environments, even disrupt nation-states
- Operates within free markets in which normal supply chains are interrupted
- Legitimate product and service demand is replaced with counterfeit, stolen, or pirated goods and services

# The Shadow Economy

- Growth is alarming
- Strategies and measures must be taken to stabilize economies
- Greece, Spain, Portugal, Ireland, Mexico, Brazil, others affected
- Research links it to urban decay in U.S.

# The Shadow Economy

- Refers to economic environment outside official economy
- Contributes to Gross National Product but sales & services not reported for taxation
- Positive aspect: provides products & services for people living on margins
- Thrives during economic downturns
- Negative impact far exceeds positive

# The Shadow Economy

- Can lead to:
  - Increased public debt
  - Increased government regulation
  - Reduced capital accumulation
  - Reduced competition and innovation
- The more government regulation of product and labor markets, the more likely shadow economy will expand

# The Shadow Economy

- Consists of :
  - tax evasion
  - undeclared work
  - use of prohibited labor
  - noncompliance with regulations
  - sales and manufacturing of counterfeit goods
  - violation of workers' rights
- Affects construction, manufacturing, wholesale & retail, agriculture, health, social networks
- U.S. tax loss exceeds \$1.5 trillion dollars (nearly 9% of GDP)

# The Shadow Economy

- Is organized crime operating at small to immense size
- Unfairly competes with legitimate business due to lower overhead costs (research and development, insurance, marketing, taxation, fees and licensing, Social Security contributions, minimum wages)
- Leads to legitimate job loss

# The Shadow Economy

- Law enforcement has narrow view of organized crime
- In reality, organized crime is loosely-knit organizations working together or independently
- Narrow focus limits law-enforcement capacity
- Most people reluctant to take risks involving vice but eager to save money purchasing counterfeit and stolen goods



# Law Enforcement Response

- Main current response weakness is police enforcement
- U.S. police put little emphasis on property crimes, but lots on human and drug trafficking
- Fraudulent counterfeit goods distribution in U.S. exceeds \$500 billion annually (far exceeding profits from illegal drug sales, human trafficking, and counterfeit pharmaceuticals)

# Law Enforcement Response

- Police devote less time to property than violent crime
  - Reduces likelihood of detection, identification, arrest
  - Fewer than 1 % of Americans are violent crime victims
- Police fail to infiltrate organized crime rings due to lack of expertise
- Police must rethink old paradigms and shift strategies to interdict organized crime

# Problems with UCR Stats

- FBI Reports:
  - Violent crime decreased by **35%**
  - Property crime decreased by **31%** (1994- 2014)
  - 1.2 million violent and 8.3 million property crimes (2014)

## Problems with UCR Stats

- 46% of violent crime and 44% of property crime not reported to police
- Adding identity theft and check & card fraud, actual property crime goes up by almost 50 million crimes, and property loss by \$65 billion

# Problems with UCR Stats

- 18 million identity theft victims (only 8% reported) and 33 million unauthorized check and credit card transactions (2014)
- Actual property vs. violent crime ratio increases to 57 to 1
- But most police agencies devote 70–80% of investigative resources to violent crime

# Estimates of Cost of Crime

| Crime (2014 FBI Crime Report) | Number of Occurrences | Cost per occurrence (Victim and Criminal Justice System Cost) | Total Cost of Crime |
|-------------------------------|-----------------------|---|---------------------|
| Murder                        | 14,249                | \$1,136,591   | \$16,204,285,159    |
| Rape (revised FBI definition) | 116,645               | \$32,040  | \$3,737,305,800     |
| Robbery                       | 325,802               | \$17,101  | \$5,571,540,002     |
| Aggravated Assault            | 741,291               | \$17,346  | \$12,858,433,686    |
| Total                         | 1,197,987             |   | \$38,371,564,647    |

# Estimates of Cost of Crime

| Crime (2014 FBI Crime Report) | Number of Occurrences | Cost per occurrence (Victim and Criminal Justice System Cost) | Total Cost of Crime      |
|-------------------------------|-----------------------|---|--------------------------|
| Residential Burglary          | 1,266,104             | \$5,488   | \$6,948,378,752          |
| Larceny/theft                 | 5,858,496             | \$3,360   | \$20,684,546,560         |
| Auto Theft                    | 689,527               | \$9,990   | \$6,882,168,987          |
| Fraud (third-party)           | 33,100,000            | \$4,372   | \$134,649,200,000        |
| I.D. Theft (BJS, 2015)        | 17,600,000            | \$1,343   | \$23,636,800,000         |
| <b>Total</b>                  | <b>58,514,127</b>     |   | <b>\$192,801,094,299</b> |

# Estimates of Cost of Crime

- Police often deploy resources to perceived problems not justified by data and actual need
- Police business models out of sync with actual crime rates: often privileges violent crime above property crime
- For every violent crime there are 58 property crimes (ratio much worse if ID theft & check/card fraud included)
- Eliminating all violent crime would only achieve 10% overall reduction



# Calculating the Cost of Crime Implications

- Police should target 7 to 10% of criminal population committing 70–90% of crime: would reduce both property and violent crime considerably
- Sometimes we have *tunnel vision* when it comes to crime

# The Shadow Economy: The Business Community

- Communities held together by local business
- Local businesses supply jobs to local residents, contribute taxes, are affected by crime and disorder, are legitimate stakeholders
- Retail loss exceeds \$112 billion annually
- More money lost to retail theft than spent on illegal drugs in the United States (\$70 – 90 billion)

# The Shadow Economy: Property Crimes Defined

- Operates in free markets
- Normative supply chains interrupted
- Replaced with counterfeit, stolen, or pirated goods & services
- Organized crime consists of businesses, associations, networks committed to obtaining profit, property, services through criminal enterprise
- Use business models to ensure success

# The Shadow Economy Business Model

- Organized crime is consumer driven
- Locate sources of inventory to meet consumer needs
- Dispatch groups to obtain inventory (boosters)
- Create relationships with outside criminal or legitimate organizations capable of distributing inventory
- Determine market value for inventory & collect payments
- Compete with other criminal organizations: affects marketing and market value

# The Shadow Economy Business Model

- Variety of goods sold in unofficial market: cigarettes, alcohol, groceries, medications, health & beauty items, clothing, electronics, pharmaceuticals, auto parts, home goods, etc.
- If you can imagine it, it is possible
- Police must disrupt supply chain

# The Shadow Economy Business Model

- Commercial fences sell stolen goods to legitimate stores capable of selling both legitimate and stolen products, increasing net profit
- Garment District in New York City: example of legitimate and illegal storefronts selling stolen products directly to public without police interdiction
- Homeland Security, Department of Revenue, Internal Revenue Service, regulatory agencies, and state and city licensing departments) all have role

# The Shadow Economy Business Model

## E-Fencing

- Internet most used method to distribute contraband, pharmaceuticals, stolen property, etc. – expands consumer access
- Conventional fencing operations earn 30 cents on the dollar; e-fencing earns up to 70 cents
- 73% of retailers have located or recovered items stolen from their stores on Internet

# Connection to Terrorism

- Many organized retail crime (ORC) rings fund Middle East terrorist groups (operated in U.S. prior to 9/11)
- Include Hezbollah, Al-Qaeda, Hamas, Taliban, El Shabaab
- Other countries profiting from U.S. ORCs: Somalia, Mexico, Columbia, Iraq, Jordan, Lebanon



# Connection to Terrorism

- Cigarette theft, smuggling, trafficking have long supplemented terrorist groups around globe
- Terrorist groups linked to cigarette smuggling in Latin America, Africa, Ireland, Middle East
- Only glimpse of full problem

# Examples of ORC

- Roanoke (VA) police reported 7 stores purchasing stolen property from ORC rings to supplement inventory & profits (June 2014)
- Female driving U-Haul truck steals Prilosec, Sudafed, Zantac from drug stores; sells to fences; money sent to MS-13 (Central American gang with ties to al Qaeda); 4-day value exceeds \$100,000

# Examples of ORC

- ORC of 70 boosters operate theft ring from Atlanta to New Jersey
- Group led by male tied to Mujahedeen-e-Khalq in Iran
- Steal Enfamil, diabetic test strips, diapers; ship to warehouse in North Carolina, which houses more than \$150,000 of stolen products; acts as distribution center for groups & illegal businesses willing to sell products for profit or trade
- Eli Lilly & Co. was cargo theft victim of more than \$75 million worth of Cymbalta and Zyprexa; stolen pharmaceuticals sold on Internet, retail stores, illegal businesses, & exported overseas (March 2010)

# Examples of ORC

- FBI arrested man for selling stolen merchandise: high-end golf clubs, Victoria's Secret products, car headlights, perfume, dog collars; earned over \$2 million selling items through registered website & online auctions (2009)
- 3 women arrested in Tallahassee (FL) for organized retail theft of baby formula from local stores & for selling product on Craigslist nationwide; generated over \$2 million (2014)

# Examples of ORC

- Baltimore man directed others to steal merchandise from large retail stores in 4 neighboring states & exchange stolen property for gift cards; boosters sold cards back to ring leader for 50% of value; over \$400,000 financial loss (2009-2013)
- 4 adults & 2 juveniles committed burglaries from 17 convenience stores stealing over \$20,000 worth of cigarettes; sold cigarettes to fences; ongoing investigation in Phoenix

# Examples of ORC

- Same pattern in organized crime
- Leader directs boosters to steal from stores using multiple methods
- Product returned to leader who sells product to fence for trade or cash
- Sale of products outright or as part of larger fencing operation distributing product nationally
- Investigator needs to prove links between theft & trafficking

# Economic Crimes

- Economic crimes are financial backbone for career criminals, organized crime, terrorist organizations, Mexican Cartels
- Between 2005-2010 worldwide sales of counterfeit medicines rose 90% to \$75 billion
- According to World Health Organization, 50% of medicines sold online are counterfeit
- Massachusetts Department of Revenue estimates statewide 8–27% of cigarettes illegally trafficked; state losing \$60-250 million a year in revenue

# Partnership Cooperation

- Silos between retail industry & law enforcement
- 22 law enforcement agencies participating in NRF Fusion Center, including FBI, U.S. Marshals, Secret Service, Homeland Security, & Los Angeles, Houston, Dallas PDs
- Purpose is to share information on ORC crimes, trends, investigative leads, methods



# Phoenix Police Department Business and Economic Stability Team (BEST)

## Operation Unscripted

- Arizona is pipeline for drugs & other illicit goods from Latin America; many of drugs are “foreign dangerous drugs”
- All prescription drugs are dangerous when used without prescription; “foreign dangerous drugs” not allowed to be prescribed or distributed within the U.S.
- Counterfeit & foreign dangerous drugs sales almost equal marijuana, heroin, cocaine, etc., sales in U.S.; drugs have left supply chain & smuggled into U.S.; significant consumer health & safety risks

# Phoenix Police Department

- California police agencies investigated organization bringing foreign dangerous drugs to U.S.; some sold in Maricopa County (2014)
- Yerberias (shops selling holistic medicines, spiritual advice, herbs, folk medicines ) were selling foreign dangerous drugs in Maricopa County
- PPD located more than 200 Yerberias in Maricopa County: most in Phoenix

# Phoenix Police Department

- PPD penetrated supply chain using U/C operations & identified supplier, distributors & product
- 24 search warrants served simultaneously throughout county; all illegal property seized (foreign dangerous drugs, counterfeit prescription drugs & over-the-counter drugs, illegal street drugs, etc.)
- 12,000 pieces of evidence collected with aid of FDA and pharmaceutical companies
- 26 grand jury indictments handed down implicating Yerberia owners in illegal schemes

# ASU/ Phoenix PD Study

- Financial crime investigations by BEST from May 2013-December 2014
- Impact of financial crimes relating to jobs, labor income losses, federal, state & local tax revenues, lost profits
- IMPLAN input-output model used to estimate multiplier effects

(Eva Madly, Seidman Research Institute, W.P. Carey School of Business)

# ASU/ Phoenix PD Study

## Findings:

- \$2.6 million lost gross state product
- 39 lost jobs
- \$1.5 million labor income losses
- \$433,526 state & local tax revenue losses
- \$965,011 lost profits in Arizona
- \$336,657 federal tax revenue losses



# Questions & Comments