

## Some International Dimensions to Economic Crime and Police Activity

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Jens Christopher Andvig\*

# Some International Dimensions to Economic Crime and Police Activity

In debates about dominant economic and political trends in modern society, it has become quite common to claim that “internationalisation” is taking place. This description has also been applied to recent trends in crime. “Internationalisation of crime” in general and “international organised crime” in particular, have been discussed as significant threats to the new, internationally open systems of international trade and finance, and to the national systems of criminal control. Recently it has also begun to be regarded as a significant threat to the Scandinavian type of welfare states. For example, when a change over of the Labour Party government in Norway was taking place in the autumn 1996, it listed up organised crime as one of five major international security threats that had to be dealt with in its foreign policy action plan.

Countries like the UK and the Netherlands have already set up official commissions to investigate and make proposals for dealing with the phenomenon of international crime. To mitigate the

problem, a corresponding “internationalisation” of public control mechanisms is often proposed. What is meant by this remains rather unclear, and lofty ideas about international cooperation are often mixed with detailed descriptions of the actual institutions of international police cooperation; but even in this case descriptions of the laws and international conventions receive more attention than the actual actions. This makes international crime a dreary and unaccessible area of research for economists.

Here I will take a step back and discuss, somewhat abstractly, some of the different international dimensions to economically motivated crime, outline their conceivable economic significance and spell out the kind of international police cooperation ideally needed in each case. The intention is mainly to classify the actions and survey the issues.

The international dimensions I will discuss is international criminal arbitrage, i.e. the possibilities of exploiting differences in legal systems across countries, the need for

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\* Norwegian Institute of International Affairs. I have received useful comments from Jan Fagerberg, Arne Jon Isachsen, Jon Reiersen and Stig Tenold.

complementary input from different countries in illegal organisations, and the possibility for crime rate spillovers, when the crime rates differ significantly across countries.

### Some Definitions

A *crime* consists of one criminal action or a string of actions of which at least one is criminal. An action is criminal if defined as such either in the country it is located in or in the criminal's country of residence, if such action in a foreign location is defined as criminal. Criminal acts are committed by individuals either on their own or as members of an organisation. *International crime* is:

- (1) Crimes performed in one country by individuals or organisations located in another country.
- (2) Crimes performed by a citizen or an organisation located in one country, A, but where at least some activities necessary to implement the crime are located in another country, B, without the criminal act in the action string necessarily having to take place there. For example, when, in order to avoid taxes in a Nordic country, bank accounts and mailbox companies are established in a foreign so-called "tax haven", it will be considered international crime.

In the case of (1) we say that that A *exports* criminal services to B, and B *imports* them.<sup>1</sup>

Many forms of economic crime require

some form of coordination of acts performed by different individuals. Such coordination may either be performed ad hoc for one or a few occasions or through more permanent organisations. The permanent organisations may either perform mainly legal acts, and belong to the *upperworld* (van Duyne, 1996) economy, they may be basically oriented towards illegality and be *underworld* organisations, or they may be a mixture.

The same individual may belong to several organisations, some *upperworld* and some *underworld*. Even as a member of an upperworld organisation an individual may perform a criminal act. For example, a sales agent of a legal firm may bribe a purchasing agent of another legal firm. Upperworld and underworld organisations may interact more or less closely through, for example, bribery networks, common ownership of capital or shared pools of labour supply.

*International organised crime* is when the activities are taking place in different countries and performed by an organisation. It does not suffice that the members of a criminal organisation have different nationalities. The activities in at least one country have to be strictly illegal. In the public perception of international organised crime, the organisations are conceived as underworld, but upperworld international organised crime is also significant. Both industrial espionage and transborder corruption are important economic phenomena organised by upperworld international organisations.

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1. We will not attempt to develop a consistent accounting system in order to establish whether a country is a net importer or exporter of crime. Given the important role of criminal transfers this is very difficult to do in an illuminating way. For example, if a car is stolen in A by a resident in C, brought back to C and sold there, that is export of crime from C to A, an international transfer from A to C, and an inducement to crime in C. With the same operation, but performed by a resident of A, the negative transfer is internal to A, and it is A that nominally exports a criminal service to C. Even if we could gather the necessary empirical information, it is clear from this example that the aggregate numbers for export and import of crime would be exceptionally difficult to interpret.

The focus here, however, will be underworld economic crime. Only in the last sections will the international structure of upperworld economic crime be touched, very briefly. The underlying issue is the question whether underworld organised crime is likely to increase in the small, open Nordic economies when an "internationalisation" of the economy is taking place.

The question may be divided into the short run issue of whether crime will increase during the **transition** towards openness and increased international mobility of persons and goods, and the long run questions of whether the **state** of high openness will be associated with a significantly higher level of organised criminal activity, and the even more threatening possibility that a high degree of openness will sustain a long run higher growth rate of international organised crime in the foreseeable future.

In the journalistic type of literature that dominates this area, these possibilities of increasing size and frequency of international crime organisations are most often taken for granted. That is premature. The empirical evidence is too flimsy even to be certain that international organised crime is a growth industry today, although that is likely. The claim that increasing levels of international crime go together with increased openness and mobility of agents is not theoretically obvious, however. For example, if it becomes more difficult to rob Nordic banks, let us say, because of better security systems, ease of travel may make Nordic professional bank robbers rob banks in foreign countries instead, causing a stronger decline in the indigenous criminality than if they had operated within a closed system. If any international mafia organisation of bank robbers had existed, this response might become even swifter and stronger.

### **Scope for action when high and low crime countries mix**

The starting point for looking at internationalisation and crime is the increased cross national mobility of persons and capital combined with partly reduced levels of border controls. The last has come about partly for practical, partly for ideological reasons. This increased mobility may have some significant effects on crime itself where the experience from the US may be useful to draw upon also within a European context.

What makes the issue of international crime distinct is not increased mobility as such, but rather that

- (1) the laws of different countries are often significantly different both with respect to which actions that are defined as illegal and the punishment meted out,
  - (2) the different kinds of territoriality that in practice imply that the likelihood of police investigation and conviction will be different if a crime is made by a foreigner or resident,
  - (3) the large degree of variation of the efficiency of public control apparatus.
- What happens to the frequency of crime and its number of species when increased international mobility is combined with the national limitation of laws and the international limitations on law enforcement? What are the significant possibilities for manipulation of the international system of territorialities by mobile criminals?

To outline some of the possibilities for manipulation of the international structure by criminals and the corresponding problems in law enforcement, let us for simplicity consider three countries, A, B, and C. A and B are regular OECD-countries with a stable economic structure, law enforcement organisations, and so on. For some purposes

we may exaggerate their similarity and assume that for most types of crime the same probability for detecting, and convicting a given type of criminal act made by a resident of the country, exists. The subjective values of the punishment are also similar. Income levels, the attitudes to risk-taking and the quality of the prisons are also approximately the same.

Even with identical internal control and punishment systems, boundary control and international restrictions on law enforcement may give scope for manipulation of the location of a crime. Minor variations between the countries may also exist and give some scope for agents to manipulate differences in their legal systems.

C, however, is assumed to be different from A and B. Its frequency of criminal acts, according to the law-systems of A and B, is much higher. This may be the case when some important kinds of economic crime in A and B is not a crime in C. Tax havens are an important example. These C-areas are most important for the development of upperworld international crime. In addition to "importing" and "exporting" criminal activities, the major role of such centers may be, as we will see, to facilitate some kinds of criminal activities performed by residents of A and B against other residents in A and/or B. C becomes a transit area fostering the real criminal activities performed in A and B. We will return to how the internationalisation mechanisms of economic crime may work in this case.

C-areas may also arise, and more

importantly for the development of under-world economic crime, when the probability of detection or conviction are considerably lower for many kinds of criminal activities. This situation again may come about in different ways.

Firstly, some random, historical factors may have caused an outwards shift in the number of crimes that then may sustain itself through different kinds of economic and social mechanisms. As pointed out in much recent literature (e.g. Sah, 1991) there is likely to be some "positive" spillover effects from one criminal act to another. For example, if the number of burglaries is higher, the probability of being caught for any given burglar may be lower. The resulting low probability of being caught at any given burglary act may increase the expected profitability and make the higher incidence of burglary in C sustainable, in the case when C otherwise is similar in criminal structure to A and B.<sup>2</sup>

This may appear to be rather hypothetical, but observations from the US show that the situation may be empirically important. Glaeser et al (1995)<sup>3</sup> has shown how American cities of similar sociological and economic characteristics have shown a surprising variation in the rates of crime. If higher expected profitability was the only mechanism one should expect that high crime areas should be net "importers" of crime since it is now possible that residents of A and B may try to join the higher profitability of crime in C.<sup>4</sup> Hence, if this was the major mechanism of international crime,

2. This mechanism is in the case of corruption emphasized in Andvig & Moene (1990).

3. They show that the rate of serious crime per capita of the highest crime rate city, was 48 times higher than the lowest in 1985. The difference has been increasing since 1970 when it was 12 times higher. They claim that only 30% of the variation of serious crime across cities can be explained by difference in their economic and sociological attributes.

4. At this point the empirical work of Glaeser et al (1995) can supply few clues, since they have no data on criminal

the Nordic countries should have little to worry about when high crime areas arise in their European neighbourhood, on the contrary. An obvious countermechanism is that an area that has been exposed to, let us say, a high burglary rate should, after a while, be emptied for the best catches, more will be invested in security systems, causing a decline in the profitability of burglary in such areas. If this mechanism was the dominant one, one should not expect such great difference in observed crime rates in different parts of a country, and the highest crime rates should occur in the richest areas. This is contrary to stylized facts.

Random shifts in crime rates are probably not the major cause of the emergence of C-countries. More common is that the relative profitability of criminal relative to legal economic action increases because of a general breakdown of public apparatuses including the police, that many observers believe have happened in several of the former socialist countries. These rates are likely to stay high as long as the governmental apparatuses remain weak. We will see that several crime diffusion mechanisms are likely to rise and propagate impulses from high crime centers of the C-type.

The possibilities for exploiting such national breakdowns in public security by internationally mobile criminals will be a major theme in the following. Not surprisingly, the nature of the crime, and how much it demands in the way of organisation, will influence the outcome.

## Some Simple Forms of International Economic Crime

In this section I will focus on relatively simple forms of international economic crime, where residents of one country deliberately commit crime in other countries.

### *a) Opportunities for New A-B Interactions*

Let us now look at some forms of internationalisation of criminal activities, and the forms of police cooperation that is helpful in each case:

A resident of A commits a single crime in B and returns to A. No planning of the crime is taking place in A. Crime committed by tourists will most often be of this variety. As long as tourism increases, this type of international crime is also likely to rise, more by a result of a random process than as a consequence of deliberate exploitation of difference of laws and the international restrictions on law enforcement. In the simplest case the police in B has to make all the investigation, and only needs the cooperation of the police of A in order to arrest the person and move him to B. (In principle, the whole case could move to A, but this is clearly more expensive and more impractical in most cases.)

In general a resident of A is less likely to be convicted for a crime in B than a B resident, if he has succeeded to reach home in A, and the crime is successfully completed. On the other hand, he has to pass a border control and he is more likely to make a mistake in a foreign country. Any increase in international crime caused by reduced travelling costs or mutual reduction in border controls should

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migration. I should add that their research does not support the hypothesis that variation in conviction probabilities is the likely spillover mechanism. Their results indicate rather that more purely sociological forms of interaction may be the clue, but this does not matter much at the level of generality of this paper.

have a symmetric effect: A residents would make more criminal acts in B and B residents in A. Ease in extradition rules would have symmetrical effects in the opposite direction.

The case when a resident of A does much of the planning in A is slightly more complex. If this planning leaves external traces, evidence, that may be helpful during an investigation and a somewhat closer police cooperation should be useful in principle. In both cases agreements about extradition for the kind of crime involved need to be established. If not, and if the crime does not demand much in the way of site-specific knowledge, this implies that it pays off for residents of A to commit this type of crime in B and vice versa for residents in B, if the probability of been caught by crossing the border is low.

Due to the increased international mobility more people are crossing borders than before (An indicator: the air traffic in 1992 was about seven times of the level in 1967), which increases the need for this simple form of police cooperation, if one wants to mitigate the potential for crime-motivated international travel.

In addition, the internationalisation of the financial system has made it possible for residents in A to commit crime directed against residents in B without actually leaving A. The international press has lately presented a number of cases where "hackers" have been able to steal money from bank accounts held in other countries.

With the exception of this form of financial fraud, such simple forms of internationalisation of crime across two similar countries are rarely discussed. However, an internationalisation in the sense of loosened border control and lessened cost of travelling clearly must increase this simple form of international criminality. How large the problem is and will become hinges, inter

alia, upon how easy it is to perform simple economic crime without site-specific knowledge. This clearly depends on the nature of the crime.

More demanding in the way of the *international* organisation of criminal activity is the case when a successful crime in A demands site-specific knowledge collected by residents in A, but acts that may be more safely performed by agents living in B, when their chances of being punished are lower for the crime in question, for example if that act is not a crime in B. In other cases the situation might be symmetrical in the sense that residents in A might better perform criminal acts in B and vice versa. An organisation that transmits information one way and "labour" the other, might clearly be profitable in this case. Some well known international fraud operations have had such structure. However, when we are dealing with (almost) identical countries like A and B, such crimes will only rarely be serious. Otherwise, rules for extradition will apply. In any case, close cooperation between the police in A and B is clearly important for successful crime prevention in this case.

#### *b) Opportunities for C-residents to Commit Simple Crime in A-B*

A greater worry has been the case when citizens of C, where the public apparatus is weakened, commit this simple type of crime in A and B. By the fact of being residents of C, their probability of being caught is considerably reduced by living in countries with weak public apparatuses. In some extreme cases, no organisation neither in the A-B-countries nor in C is needed. Bank and post office robberies may be cases in point. No international network is demanded among the criminal agents in this case. In the way of police investigation, exchange of information between police in A and B might

be helpful in order to establish patterns that may increase the probability of detection when the residents of C commit crime in A and/or B. It is not likely to very important, however. By assumption, cooperation between the police in A-B and in C has little interest, since the police there does not function. Moreover, the government of C may have no interest in solving the crime in A and B when this crime has become part of the economic basis of C, as often will be the case in tax havens and drugproducing areas.

It will often be much easier to commit even the simplest type of crime with at least some kind of site knowledge, however. Hence, even for this kind of nonorganised crimes it will be helpful if some nationals from C are already living in A and B.

Another case is when residents in C may commit crimes in A and B, where no site-specific knowledge of these countries is needed, but where the C-resident committing the crime needs an organization at the C-end in order to complete the crime successfully. An example could be a situation where it is easier to establish ownership rights to stolen goods in C than in A and B. In this case the criminal resident of C has to establish contact with at least one other agent in C, the buyer, and the buyer needs to have some contact with a public employee in order to establish lasting ownership rights. The advantage of establishing an organisation in C to deal with this, in the simplest case, a "fence", is considerable.

Since it may often be impossible to establish such fence organisations with ownership creation in A and B for such visible objects as cars, we here see a clear case when the existence of C-areas will induce crime in A and B.

The organisations in C that commit those simple crimes in A-B, may well be fairly large and complex in C, particularly when they

have to compete with similar organisations if C approaches a Hobbesian state of nature, and therefore scale gives advantages in violent clashes. However, as an international organisation it is still rudimentary since the criminal acts in A and B in itself do not demand coordination or extensive site-specific knowledge.

The case of public supply of false ownership grants in C is only one special case where residents in C may more easily commit certain crimes in A and B than these countries' own residents. The basis of the profit is that the market value of the stolen goods increases because of the ownership rights granted.

Residents of C, including their common criminals, are generally poor, so they may need some finance in order to travel to A and B that may be supplied by a criminal organisation in C against a share in the proceeds. The criminal act in A may still be very simple, but so risky that it will not be worthwhile for organised crime organisations in C to go deeper into the action itself. The expected gain of one (risky) action in A is too low compared to the loss when caught, for the organisation's A-branch, as an ongoing operation. The point to make is that the establishment of a large mafia-like organisation in C may not automatically give rise to the establishment of branch mafias in A and B, if the situation is not otherwise favourable for the crime in question. It may simply induce a higher frequency of simple crime in A and B, but where residents of C are more frequently involved than before. Drug imports to Great Britain appears to be mainly organised this way, and most importers caught are Africans.

Some size is needed at the C-end not only to finance the activity, but also to police the criminals when they return. Here we see a case where the existence of C-areas not only



export crime to A and B, but where these export possibilities feed back and stimulate the rise of organised crime in C, without organised crime in C being directly involved.

Despite the impressions given from the popular press the rise of such large organisations is not a necessary development. Depending on circumstances, it might either pay better to be an independent operator (i.e. a single thief) or a member of a criminal organisation that operates across the borders. As an example of international crime that belongs to this category of pluralistic organisational solutions is car theft, where cars are stolen in Western Europe and brought into Russia. Such thefts can be performed both by single agents, either working independently or on commissioned basis, or by large organisations.

We have now seen cases where C exports simple criminal “services” because their residents may have a lower probability of being caught, have some sources of finance not available in areas with little organised crime, or may sell the stolen goods for higher prices when they are brought to C.

One more inducement to export of crime may be that the very poverty of the residents in C may reduce the value of punishment for them in A and B countries, given that they are caught and increase the subjective value of any given proceeds from the crime. Punishment systems meted out for A-residents have less effect as deterrence for C-residents. This is, probably, even of more significance for international crime when building up transnationally *organised* crime structures.

### *c) Opportunities for A-B Residents to Induce Crime in C*

While it is possible to use the lawless state in C to establish more secure property rights to goods stolen in A and B than if the stolen goods had remained there, and thereby C is

exporting crime to A and B, it is also possible to go the other way around. It is an important characteristic of many of the former socialist states that in the first transition period, property rights are unclear, and goods might often be grabbed by anyone with sufficient power or daring. As long as the economic rules for allocating such goods have not yet been fixed, or no authority to implement them has been established, the property rights remain uncertain.

One possible way to establish such rights might then become to grab/steal them and export the goods to countries with working rules for allocating property rights, such as A and B. If these goods are recognised there as belonging to a given organisation/person, such rights are thereby secured and the market value of these goods will increase. It is sufficient that only one of the countries A or B has sufficiently lax rules to recognise the ownership, since it will then normally in practice be recognised by the other countries. One example is the export of works of art from Russia to Great Britain, wherein less strict proofs has been needed to establish that the importer is the rightful owner, than for other OECD-countries. Another example is the export of metal from Russia to the West. In both cases site-specific knowledge is demanded at both ends, i.e. both in C and A-B. In metal trade that was due to the size of the operations, in art, the heterogeneity of the goods and the knowledge needed to establish the value of the objects demanded the increased sophistication.

Hence, the international aspects of the trading organisation have to be somewhat more complex in both cases than is necessary in the case of the car theft. Here it is the interaction between the law-abidingness in A-B and lawlessness of C that may make residents of A and B (for example, their art buyers) to induce crime in C.

In newspaper accounts one may gain a vivid impression of the characteristics of the "investors" from A and B that are gathering in the C-countries. It is clear that the very lawlessness of C-countries have attracted a large number of adventurous and crooked single businessmen as well as organised crime from the A-B countries. The extent to which this has stimulated simple economic crime in C and reduced them, at least in the short-run, in A-B, is an open question.

### **More Complex Forms of International Crime**

When a more complex, criminal organisation first have been built up in C, and either expanded into, or originally being based upon, performing simple crime acts in A-B, it is likely to develop further into more informationally complex acts at its A-B ends. These larger organisations will, for example, have the advantage of being able to collect and store useful information about the best gates of entry and exit to the various countries, better estimates about the risks involved, etc., which makes it possible to apply agents with lower skills. Certain fixed costs might also be shared, i.e. if one discover some custom officers in A or B who can be bribed, a large organisation might use them for many transactions. A larger organisation may also share risks in the sense that any given theft may go wrong, while a run of several thefts will result in several hits. This is particularly important for criminal ventures that demand more capital such as moving larger stocks of expensive drugs across borders.

On the other hand, the incentives of an independent agent are stronger, and the probability of being caught might in many cases be less for individual agents, since the conditional probability of being caught by

any member of an organisation might increase steeply if another member is caught. Hence the the probability of being caught by being a member might be greater than for an independent operator, when considering the joint outcome of all the probability distributions for being discovered by the members, although the probability of being caught by a member might be lower, given that all the other members are undetected. Hence, the development of large, criminal organisations seems not to be an inherent necessity. Smaller organisations and individual thieves may well prove more competitive.

Here we should note the advantage of directing larger criminal networks from C. With an international criminal organisation with only A-and B-branches, police unravelling of the A-branch is likely to cause an unravelling of the B-branch, but with C-headquarters the unravelling of the A-branch is likely to stop there.

Smaller organisations tend often to take excessive risks in the sense that their actions may destroy a large criminal infrastructure, such as a smuggling route. If this infrastructure creates large advantages, larger organisations will tend to police it and control the independents.

Cooperation between the police in C on one side and A and B on the other, is clearly very advantageous to A and B, in order to investigate these crimes in A and B, but is, given our assumption that the public apparatus of C is inefficient, difficult to implement.

However, even the sharing of information between the police in A and B is often useful for the obvious reason that if an agent resident in C is suspected by the police in A to have committed a crime in A, this information is clearly useful in several ways for the police in B, if this criminal plans to, or

already has entered B, for example when applying for a visa. The need for cooperation clearly applies if a criminal infrastructure that embraces both A and B has been developed, even if it is mainly operated by independents that specialise in one of the countries.

Another spillover mechanism from the crime situation in C is the case where residents of C might perform criminal acts in A more efficiently than residents in this country, given some site specific knowledge transferred from A-residents. The advantages for C-residents might either be that their probability of being caught in the somewhat longer run is lower, or because they have developed skills that are not to be found among A-residents.

Such skills may naturally develop in a disordered society where residents have to cope with low trust situations and deal with cheating, threats of violence and actual violence. In an ordered society many potentially profitable crimes never take place because the difficulty of matching a rare demand of a criminal service with a rare supply. When that is combined with a fairly high probability of being caught, such crimes might be nonexistent. If the public order is breaking down, as in C, suddenly a market for such services in C may arise. By servicing such a market, new skills may arise.

A sinister, but clear cut example is hired killing. To kill a person living in A by a hired killer living in C, demands an international organisation that is able to collect information about who in A that might be killed for a profit and to transmit that information to a killer in C, collect the payment and share it with him. The knowledge that such a market has risen in C, may release criminal acts in A that otherwise would never have taken place. This is an example of how the development of the crime situation in one country may have important spillovers to

other countries, and where crime prevention in A in an important way is influenced by crime prevention in country C.

It becomes easier for a C-based organisation to acquire site-specific knowledge of the relevant conditions in A and B, if a sizeable emigration of people from C to A and B has already taken place. As pointed out before, however, organised crime may be only one of the ways that crime activity in C-areas may influence crime levels in A and B. Even in the absence of transnational organised crime organisations, spillover effects from C to A and B are likely to be stronger with immigration.

When the C-residents' experience and skills of handling life in unstable societies are combined with the low alternative costs of joining organised crime groups or venturing own crime enterprises, high crime levels among immigrants coming from C-areas are likely. In order to prevent that outcome, it becomes crucial to increase the alternative costs not only through policing, but through reducing the unemployment levels in these groups and other kinds of measures that may reduce their feelings of being rejected by the regular A-and B-populations.

### **Drug Trade and International Mafia-Like Organisations**

I will here follow Gambetta's (1993) conception of a mafia organisation as a kind of private ministate operating in low trust areas, that is areas where the residents often are unable to complete economic transactions from fear of cheating and breach of contracts. To ensure that the opposite side of the transaction sticks to the deal an agent may rent the services of a mafia organisation.

In order to police the contract the mafia needs both fairly detailed knowledge of the contract and the local conditions, and it

needs some means of enforcement, which usually implies some means of violence. From this it is clear that mafia organisations are most likely to arise in C-areas, or pockets of C-like areas within A and B countries, like some of the inner cities of the US, or Sicily and Naples in Italy.

In order to really develop as an international organisation it needs normally to establish bridgeheads in C-like pockets of A and B. Hence, the conditions for mafia growth should be rather circumscribed.

In practice, the demand for illegal transnational policing has been most pronounced for smuggling transactions in general and narcotics trade in particular. The major reason is that goods in this trade have to be kept hidden from authorities until they have been consumed. For many reasons the form of internationally organised crime that has received the largest attention internationally is drug trade. While residents of C may be able to produce and ship the goods as far as into the C-country bridgeheads in A and B, the employment of residents in A and B on a regular basis is necessary for further penetration since it is very demanding with respect to site-specific information /activity at all country ends of the organisation.

In this case we are regarding a good produced in C, that has to be sold illegally in countries A and B. It is normally possible by inspection to establish that the good in question is illegal. Since the production of large quantities is practically impossible to hide, these goods will normally be produced in C-areas where such production is either not illegal, or C is a country where the apparatus for criminal control has broken down, or where the authorities pretend so in order not to comply with its international agreements. The organisational demands for secrecy are exceptionally heavy at the same time as it is impossible to establish publicly recognised,

private ownership rights to the goods through legal means; at least after the goods have left C. That is, some kind of private, illegal protection of such rights in the drug needs to be established. Hence a demand for some mafia-like organisations arises.

This trade might, of course, be organised in different ways. It might, for example, follow the pattern of regular trade in standardized agricultural commodities. Producers in C might, for example, sell the goods to wholesalers in C, each who might sell it to several wholesalers in A, and other wholesalers in B, who may be responsible for smuggling it into A, respectively B. These wholesalers may deal in small or large quantities, and sell it to wholesalers who operate entirely inside their own country, or the international organisations may do this internal wholesaling themselves. These basically trade-oriented organisations may then employ a few armed men, or rent the service of smaller gangs of bandits in order to protect their interests when selling and buying the illegal goods.

When the organisation of trade is partitioned in this way, the investigation of the criminal acts taking place in A and B has international dimensions, but if the police in C is noncooperative, the interchange of information between police in A and B will often not be that important, since the decentralisation of the wholesale operations makes it likely that each trading organisation will focus on one country.

Alternatively, the trade may be linked, backwards and forwards in the mafia-like organisations we know from the press. That is, the same organisation is organising the wholesale operations in all countries. The competition that then eventually will take place, will be between such backwards and forwards-integrated organisations operating in all countries. This is the popular

newspaper conception of the trade. Rare full-scale wars will be interspersed with fragile cartel agreements between these web-like organisations.

In this case, the information collected by the police in A, is, of course, of much more significance for the police in B and their investigation, and vice versa. Within the brand name of such organisations, the activity might be more or less decentralised. When thoroughly internationalised, these organisations are also likely to exploit the minor variations between legal systems and law enforcing agencies in A and B to minimise the overall risk; for example, by allocating as much as possible of the wholesaling to countries where conviction and punishment rates are low.

As far as I have understood the literature and evidence, it is not quite settled how centralised these forms of international criminal activities really are. Given the fact that it is a priority task of the police in most A-like countries to fight wholesale drugtrade, one should expect it to be extraordinary difficult to create large-scale, centrally directed organisations in this area. Reuter (1983) doubts strongly that traditional mafia organisations are involved in policing the heroin dealers in the US.

On the other hand, the high risks involved when highly valuable goods with uncertain quality are to change ownership in situations when no public protection of ownership for obvious reasons exists, make it sensible to reduce the number of such transfers on the way from the producer in C to the consumer in A, hence for large integrated organisations to arise. Size is also useful in the competition between the organisations, since private use of violence may be applied in extreme situations. The probability of winning such conflicts is obviously positively related to the number of men in arms.

There evidently also are some infra-structural attributes of international, criminal trade routes that give rise to economies of scale and the need for policing not only to keep contracts in a criminal environment, but to protect the value of the shared infrastructure. This last factor seems to be the most prominent factor in increasing the size of the so-called cocaine cartels of South America. In the mixture of illegal enterprise -illegal state that characterises most mafia organisations they are in the enterprise end of the spectrum.

When first established, the apparatus of violence, may not only be used externally, but also for internal management purposes. Violence, or the threat of it, is clearly also very useful for internal control of employees in illegal organisations in order to ensure compliance. The alternative to bribe, is likely to become excessively expensive, since so many of the members of the organisation are in hold-up positions, where they may try to rob the organisation of its quasi-rent. Without such use of violence, the feasible size of these organisations is likely to be narrowly circumscribed.

In order to reduce the probability of police unravelling, it might be possible to increase the scope and size of the organisation by hiring employees from certain ethnically and geographically restricted groups of people, or to develop exotic and demanding entrance rituals (like the Hells Angels). In this case the police of A and B would need to hire a person that belongs to such a group, if they are going to be able to infiltrate it, often an extraordinarily difficult task.

A further possibility of organising the international drug trade is to let the actual trade, the movement of the illegal goods, be fairly decentralised, and follow the pattern of regular international trade, while making the trading wholesalers rent the services of fairly

large, centralised international organisations of the mafia type that specialise in selling protection to the parties involved instead of employing smaller gangs of bandits. If this trade is profitable, such protection is likely to develop into take-over.

According to Gambetta (1993), the essence of the original mafia-organisations in Italy was to sell protection in situations where the distrust among agents was extreme, and thereby facilitate market transactions that would not otherwise have taken place. To trade drugs on an international arena has basically the same characteristics, and the same need for protection. The same mafia-organisation may “protect” both the seller and buyer in a transaction or they may be protected by different organisations, in which case the possibility for conflict increases. Since the value of the service supplied by this type of mafia-organisations clearly increases with its number of armed men, these specialised firms should be fairly large, but, again, to avoid public prosecution, they should not become too large and conspicuous. Since the traditional drug trade is international, these mafia services have to follow these goods, going deep into the A- and B- countries.

In this case of large backwardly integrated mafia organisations, the cooperation needed between the police in A and B in order to unravel the mafia-organisations will be more important. However, that cooperation will be less useful to fight the more decentralised drug trade-organisations. To the degree the decentralised organisations on the same infrastructure connecting A and B, to locate and destroy the shared criminal structure, will be helpful. Cooperation with the police in C is for many reasons essential, but difficult to accomplish since that police may either not be working or not be willing to go against important economic interests in their country.

## **International Organisation of Upperworld Economic Crime**

In the cases so far outlined, the basic criminal acts have been rather simple, although involving some international dimensions. Most successful economic white collar crimes involve fairly complex strings of actions, however, whether we are dealing with corruption, data fraud techniques, tax fraud schemes or industrial espionage.

Often such forms of economic crimes have also a complicated international structure. Here, for example, a resident of A employed in an enterprise located in B has to perform certain acts in A, others in B, and even some in C, in order to succeed with a criminal act mainly directed against an agent or organisation in A. To take an example, in order to succeed with a VAT-tax fraud against the authorities in A, a resident of A has to receive paperforms from both custom officers (whether through bribery and cheating) and buying firm in B. The firms in A and B are coordinated through a ownership structure nominally located in a C-country. Finally, in order to keep his earnings, and reduce the risks of detection he has to transfer his income to another C-country.

In this case a successful investigation made by the police in A may demand bits of information only available to the police in B. In order to prove the case, bank accounts in C may also have to be opened and the ownership structure understood, which again may demand cooperation with the police in several C-type of countries.

Let us look at a further dimension to the meaning of “internationalisation of crime”. So far, we have assumed that the crime has taken place either against residents or organisations in either A or B. Many important economic organisations, such as multinational companies and international

public organisations, have activities located both in A and B where individual criminal acts may be performed by otherwise legal companies operating in both A and B, and be directed against companies operating in both A and B.

Here the patterns of cooperation between the police in A and B might be both many-sided and difficult. Let us look at the case when two multinational firms are involved. The supplying firm, an engineering company, or rather one of its semi-official agents, living in B, is bribing an employee in B. The buyer, a multinational oil company, is located in B, and with headquarters located in B. The supplying firm has headquarters located in A, and most of the planning of the bribing act has taken place in the headquarters.

In order to establish a case, the police in B may need information that only the police in A can legally collect. However, that act may not be illegal in A, in fact it will be legal except when the US is the A-country<sup>5</sup>. The bribe may even be said to further the interest of an important economic group in A. Hence the necessary cooperation between the police in A and B is not likely to be established. The actual delivery of the good, for which the bribe was made, might be as input to the production in a third country. Hence, some evidence might only be gathered from this country. Finally, in order to win the case, bank accounts in C have to be opened, which again demands the cooperation of the police in C.

The string of acts that has to be performed in order to accomplish the service that gives rise to the bribe might in itself be very

complicated and involve employees of the company who are resident in several countries, all having different extradition laws. This may add to the complexity of the police cooperation.

### **Money Laundering and International Financial Havens**

Recently so-called "money laundering" has received increased attention, and much of the efforts in fighting international organised crime has been directed against money laundering. In a period when the general thrust of regulatory activity is for the governments to withdraw from detailed interventions in the private sector, the recent governmental pressure to force banks, even in countries like Switzerland, to report on their clients, is remarkable. To some extent the public interventions against money laundering appear like a substitute activity, where the authorities have given up to control the real criminal activities. The links between this, often internationally organised real crime, and money laundering are seldom made clear and are drowned in details about national differences in law construction, banking rules, etc.. Hence, a separate discussion of money laundering activities is warranted.

Any successful, economically motivated crime has a financial side that exposes the criminal to at least two basic forms of risks:

- (1) Since he has acquired the money or financial claims in an illegal manner, he may risk to lose his property rights to the authorities, if he is detected. It is also easier for private individuals and enterprises to

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5. In US it has since 1977 been illegal of its firms to bribe foreign officials (The Foreign Corrupt Practices Act). Other countries are now discussing whether they should follow the US-practice. Even in the US it is not in our case quite clear whether the act is illegal or not. It depends, inter alia, on whether the oil company is owned by the government or not.

steal them since it will be more difficult to defend the property rights with legal means.

(2) His possession of money/financial claims may increase his risks of being detected.

In the case of small scale crime the second risk is usually only a problem if the criminal behaves in an irrational manner, boasting his exploits, since it is normally on a cash basis. Boasting is however, often common among people with a risky economic lifestyle. Even cash is not always riskfree. We have all read stories about how the police at times may mark cash notes to trace bank robbers. International economic crime normally has more important financial aspects that expose the criminal organisation to some risks.

Take the example where the resident in A robs a bank in B. He now at the minimum has to exchange the income in B-money into A-money. In former days with exchange controls, this exchange could expose him to at least some type 2 risks. It will also be extremely difficult, but still possible to operate larger organisations on a cash basis. Let us look at an internationally integrated drug-trade organisation.

At the A-end its income will basically be cash of the A-B types of money while the unavoidable expenses are to peasants in C who would either be paid in the non-convertible C-type cash, or the A-B cash. At least A- and B- cash will be convertible, and in principle, both employees and other links in the chain might also be paid in cash. To handle large amounts of cash is, however, very risky in the sense that it is easy to steal, a kind of type 1 risk, and will demand much in the way of its protection. In addition, given the normal limited use of cash in modern economies, too extensive use of cash transactions would by itself create suspicion, and thereby generate a type 2 risk.

In practice, it will be difficult to trespass the banking system both when making such payments, and when securing ownership claims to the financial instruments that have been acquired through the criminal acts. The problem with the international banking system is, however, that it leaves electronic traces behind which will be stored for a considerable period. It is difficult to avoid type 2 risk and therefore often the type 1 risk. The point with money laundering and use of financial havens is to reduce these two types of risk and still be able to use the international banking systems.

In the extreme case, if there existed banking systems that legally could accept deposits no matter how they were acquired, the bank could completely cover a criminal client against the type 1 risk. Furthermore, if it could ensure complete banking secrecy, it could also ensure against the type 2 risk.

While some financial havens used to be close to this ideal type, their protection for criminal clients have become more circumscribed recently. Fairly complicated schemes for creating artificial companies that may establish deposits in the financial havens have become necessary to protect the criminal against the type 2 risk. A criminal client cannot be fully insured against type 1 risk anywhere, but these financial centers still give better protection than deposits left in the ordinary A-B countries. Given the international restrictions on legal authorities, only to move property to a foreign country helps. To fulfill this role, the financial institutions need to be protected against arbitrary interventions from its own authorities, so one should not expect financial havens to be established in areas where public authorities are destabilized.

Although less protected than before, the criminal roles of these centres are likely to remain more important than ever. Due to the



international liberalisation of the financial system, when a criminal client is able to establish valid ownership to a deposit in any internationally recognised bank, he can use it for payment purposes as well as for investment or consumption anywhere in the world.

Hence, the establishment of a single financial C-haven, may influence the incidence of economically motivated crime anywhere. It facilitates criminal activities of A-residents directed against other A-residents and institutions, as well as cross-border types of crime. Given this openness, the secrecy rules, the regulation of financial activity of a single country is not only a question for the crime taking place in that country, it becomes a question of international consideration.

It follows that international financial havens are of interest to the police anywhere in the world. The need for cooperation with police in these centres is evident in the cases where it is possible to draw important indices of the real crime from its financial traces in order to increase the type 2 risks involved in economic crime. In order to increase the type 1 risks and thereby reduce the expected profitability of this crime, it is necessary to make it possible to confiscate deposits resulting from the proceeds of the activity also in these countries.

### **Impact and Propagation of International Crime and Crime Policy**

What constitutes international crime, how may crime in one country may spill over and influence criminal behaviour in other countries? These are the questions raised. I have emphasised that large, internationally oriented mafia organisations are not the only propagating mechanisms of economic crime.

Nevertheless they deserve special attention because they may feed on and stimulate slowly moving, but deep changes in the Nordic societies through their impact on the upperworld economy.

Until recently it seemed not to be much reason for worry. As pointed out in many convincing studies by van Duyne of the Benelux countries, the growth potential of organised crime even within very open economies appear limited within the context of socially stable economies with reasonably effective public enforcement apparatuses. When we look at the development in Italy, however, the possibilities appear more sinister. There mafia organisations were able to develop into relatively stable areas of Italy, making important impact on both the economy and the political system. In the literature the worry about the impact of underworld on the upperworld, has often been the influence of the black money when invested in legal firms since bandits may remain bandits and evil men whether they head mafia organisations or regular business.

This problem may be serious enough, but the really worrying question is whether or not organisational use of private violence may often be a dominant way of behaviour even within more stable contexts. Through it one may with little monetary expense influence judges, politicians and ordinary businessmen. Moreover, there are many indications that even within the Nordic societies the sense of mutual trust is lowered, a condition that may make them more open to mafia-like organisations, but if so, only in a fairly distant future.

Before we reach that far, the authorities in the different European countries are likely to spend more on the police and make the penalty systems harsher in the hope that mobile criminals may jump their countries. The end result might become that all

countries choose a more repressive penal system than they would have done if the criminals have stayed domiciled.

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