

September 1971

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### Recommended Citation

Annelise Anderson, *Organized Crime: The Need for Research*, 24 Fla. L. Rev. 42 (1971).

Available at: <https://scholarship.law.ufl.edu/flr/vol24/iss1/3>

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Anderson: Organized Crime: The Need for Research  
ORGANIZED CRIME: THE NEED FOR RESEARCH\*

ANNELISE ANDERSON\*\*

In recent years increased efforts have been made to combat organized crime. New legislation has been passed; attempts have been made to improve cooperation and coordination among law enforcement agencies; and the level of effort itself has reached new heights.

A fundamental characteristic of organized criminal activity is the supplying of illegal goods and services to voluntary consumers, especially those illegal goods and services over which monopolistic control can be established through the use of violence or collusion with the police. This type of activity has resulted in the development of criminal organizations with undesirable consequences far beyond those engendered by the exchange of illegal goods and services itself. Criminal organizations are involved, in a variety of ways, with legitimate labor unions, business enterprises, and public officials. Their various activities are interrelated both financially and organizationally, and their activities and methods change with changes in the environment. These criminal organizations may survive individual members just as an incorporated business may survive its individual employees and founders.

Once an organized criminal group is established in response to an illegal market, such as gambling or narcotics, it may be in a position to perform certain other types of criminal operations, such as hijacking, fencing, the corruption of public officials, and criminal monopolization of legitimate industries. In other words, the economies of scale in one market that lead to the development of large criminal organizations may have consequences for other legal or illegal markets.<sup>1</sup>

Two strategies are now being used by law enforcement agencies to deal with the complex problem of organized crime. One of these strategies is the *violation-response* approach, which is characteristic of law enforcement in general. The initial requisite of this strategy is a violation of the law after which law enforcement agencies attempt to identify, prosecute, and convict the persons committing the offense. Illegal market activity is treated in the same manner as crimes such as burglary and assault. This approach is typified by the activities of vice and gambling squads of many city police departments.

The other current strategy for dealing with organized crime is the *attrition* approach adopted by the federal government. The Organized Crime and

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1. See Schelling, *Economic Analysis and Organized Crime*, in PRESIDENT'S COMM'N ON LAW ENFORCEMENT AND ADMINISTRATION OF JUSTICE, TASK FORCE REPORT: ORGANIZED CRIME 125 (1967).

Racketeering section (OCRS) of the Department of Justice designates particular persons as subjects of the drive against organized crime, encourages all federal law enforcement agencies to focus attention on these persons, and coordinates efforts among the various federal agencies. Efforts may even be directed toward finding a statute for which sufficient information exists to prosecute and obtain a conviction. Although the over-all approach of the OCRS program is quite broad, it may be simply stated: "[T]o identify, prosecute, and convict persons actively engaged in organized crime."<sup>2</sup>

The attrition approach reflects appreciation of organized crime as an institution rather than a collection of individual violations. The assumption that this institution can be dealt with by removing current participants from the scene is implicit in this approach. Thus, federal agencies periodically offer statistics on the number of indictments and convictions of individuals designated as subjects of the organized crime drive, and although the statistics do not show uniform increases, the annual number of indictments and convictions has generally increased since the late 1950's.<sup>3</sup>

Nevertheless, few law enforcement officials claim that organized crime is being eliminated or even controlled. The conviction of individuals does not necessarily reduce the volume of illegal goods and services exchanged or diminish the profits earned by illegal enterprises. The activity of organized criminal groups in legitimate business is generally believed to be increasing rather than decreasing. Actually, no one really knows how big organized crime is, how great its influence is, or how fast and in what areas it has been expanding or declining. Estimates of gross revenues from illegal gambling vary widely. In 1959 the Attorney General's Special Group, headed by Milton Wessel, estimated such revenue to be \$47 billion.<sup>4</sup> In 1967 a task force of the President's Commission on Law Enforcement and Administration of Justice estimated the gross income from gambling at \$20 billion, yet there was no claim that there had been a reduction in the volume of illegal gambling.<sup>5</sup> Revenue for loansharking operations and narcotics traffic is estimated to be about \$350 million each.<sup>6</sup> These estimates all relate to market size rather than the revenues or profits that actually pass to individual members of organized criminal groups. Few attempts have been made to estimate the extent of racketeer ownership or control of legitimate businesses.<sup>7</sup>

This lack of information makes it difficult to assess accurately the dangers of organized crime and to evaluate the effectiveness of current law en-

2. Miller, *A Federal Viewpoint on Combating Organized Crime*, 347 ANNALS, May 1963, at 98.

3. See 1970 ATT'Y GEN. ANN. REP. 50.

4. Cook, *Gambling, Inc.*, THE NATION, Oct. 22, 1960, at 260.

5. PRESIDENT'S COMM'N ON LAW ENFORCEMENT AND ADMINISTRATION OF JUSTICE, TASK FORCE REPORT: CRIME AND ITS IMPACT—AN ASSESSMENT 52-53 (1967). "Gross profits" are profits after winnings have been paid but before all other expenses have been deducted.

6. *Id.* at 53.

7. For the most advanced and systematic effort to date, see Bers, *The Penetration of Legitimate Business by Organized Crime—An Analysis*, April 1970 (prepared for N.Y. State Identification and Intelligence System and the National Institute of Law Enforcement and Criminal Justice, U.S. Dep't of Justice).

forcement efforts. Furthermore, the two basic strategies now being used do not account for two important characteristics of organized crime:

First, *law enforcement itself is an important determinant of the form and functioning of organizations that provide illegal goods and services.* Deterrence increases the potential cost of most crimes without affecting the economic return from the crime. This is not true, however, of illegal markets. Unless deterrence itself makes a commodity more attractive to consumers, deterrence will decrease the amount supplied and cause an increase in prices. The effect on illegal firms depends on the elasticity of demand; an increase in deterrent efforts may raise or lower profits to those remaining in the illegitimate industry.

Law enforcement in illegal markets affects not only prices, but also the manner in which entrepreneurs in these markets organize to meet the demands of the marketplace. Corruption of law enforcement officials by a particular organized criminal group may enable it to control entry into several illegal industries. Law enforcement may also create a monopoly by eliminating competition, or alternatively, it may destroy a cartel, a dominant firm, or a monopoly and establish a competitive environment. On another level, law enforcement may encourage the fragmentation of contacts with customers so that the person who actually transacts illegal business is involved in the activity in only a limited manner.

To attribute the evils of organized crime to the existence of organized criminal groups is as unreasonable as saying that General Motors mass produces automobiles because it is big. Large criminal organizations can be expected to develop when there is widespread demand for illegal goods and services that can be easily monopolized. The form and functioning of these organizations result from market forces and the environment — including the crucial variable of law enforcement.

Law enforcement is, of course, only one factor affecting the growth and development of organized criminal groups. The general economic environment is also important as are the economic characteristics of the products and services provided, the demand for them, and the supply of labor to illegal activities.<sup>8</sup> An understanding of those factors affecting organized criminal groups and illegal markets is, of course, important; but understanding the effect of law enforcement activity is especially important because it is the one variable that is at least theoretically within our control.

Second, *with reference solely to market activity, organized criminal enterprises, like other industries, are part of the nation's economy. They have economic and social consequences beyond the criminal market activity itself, and these consequences are also influenced by law enforcement.* Thus, enforcement of laws relating to the numbers racket may increase or decrease the volume of police corruption, the profits to organized crime, the percent-

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8. "[I]n strictly economic terms, there is no relevant difference between the provision of licit and illicit goods and services." R. MERTON, *SOCIAL THEORY AND SOCIAL STRUCTURE* 79 (rev. ed. 1957).

age paid to winning bettors, and the degree of honesty or dishonesty with which the operators of a numbers game treat customers. Enforcement can also force the closing of small retail stores that may depend on the sale of numbers bets to stay in business; thus, it may destroy jobs. Enforcement of drug laws may affect the kind of drugs people take, the number of street crimes during a particular time period, the rate of new addictions, the rate of voluntary entry of addicts into treatment centers, and the migration of addicts into or out of a particular geographic area. The elimination of criminal monopolistic control of the supply of illegal goods such as heroin may result in an expansion of supply and lower prices, with a consequent expansion in use. Crimes per individual addict might decrease, but total addict crime might eventually rise.

Enforcement of laws relating to illegal market activity has varied consequences irrespective of whether the activity is one managed by organized criminal groups. Thus, any strategy of law enforcement in illegal markets or any strategy for attacking an organized criminal group can simultaneously have both desirable and undesirable effects.<sup>9</sup> An additional complication is that the long-run effects of a particular strategy may differ from the short-run effects.

#### RESEARCH AND PUBLIC POLICY

Public policy with regard to organized crime is complicated and involves value judgments beyond the straightforward enforcement of the law. Important decisions are currently being made with inadequate information, and often by default. Policy-oriented research on organized crime must start with the recognition that the violation-response and attrition strategies may be inadequate not only for the purpose of eliminating or controlling organized crime, but also because there are policy decisions to be made beyond the decisions concerning the effectiveness and level of effort of these approaches. The first step in designing a research program on organized crime should be to decide what types of policy decisions the program will be directed toward, and therefore what questions it will attempt to answer. These policy decisions are not as open to choice as they might first appear. The failure to make an explicit decision is itself a decision; some allocation of manpower exists whether or not the alternatives are debated on their merits. For instance, a narcotics enforcement program may affect market organization or the incidence of crime, whether or not we know that it does and whether or not we consider these effects in making the decisions about the level of effort and strategy of the enforcement program. Finally, some more basic questions affecting organized criminal activity—the legalization of marijuana and other drugs; legislation establishing state lotteries; legalization of off-track betting; and the level of excise taxes on cigarettes and alcohol—are being debated in the press and state legislatures.

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9. See Schelling, *supra* note 1, at 120-26 for a more complete development of these concepts and their application to a variety of illegal markets.

The policy decisions toward which a research program might be oriented can be grouped into several classes:

#### *Law Enforcement Strategy*

Given a criminal code and a budget (a strategic decision in itself), law enforcement officials have a variety of options for fighting organized crime. These options arise from either the selective enforcement or the nonenforcement of the law. For instance, the destruction of monopolistic control or its establishment in an illegal market are possible strategies.

Strategic decisions, whether made consciously or not, have important economic and social consequences (including an influence on the growth, structure, and functioning of organized criminal groups themselves) that are absent from strategies for catching bank robbers, counterfeiters, or car thieves. The takeover of certain illegal markets by new groups can, as a matter of policy, be encouraged or retarded—and the policy will exist whether or not it is intended.<sup>10</sup> Similarly, law enforcement in illegal markets might seek to establish standards demanded in legal markets, such as the absence of force and fraud. In many illegal markets the extent of force and fraud may be a function of law enforcement strategy, rather than simply a function of the extent of illegal activity. Obviously, law enforcement strategy requires, or implicitly reflects, value judgments.

#### *Law Enforcement Tactics*

Given a strategy, law enforcement agencies must make decisions concerning the most efficient means of carrying out the strategy. Some of these decisions are related only to internal operating efficiency, such as whether to use a computer to analyze particular types of data. Research on organized crime itself will not contribute to such decisions. Such research may, however, contribute to the selection of legislation under which to prosecute, including the possibility of using antitrust or other civil legislation rather than criminal codes.

#### *Strategic Legislation*

Strategic legislation refers to legislative changes in the economic environment that provides a profit incentive for the activities of organized crime. The most obvious strategic legislation on which policy decisions might be made is whether to legalize currently illegal goods and services and, if so, how to do it.<sup>11</sup>

Research directed toward strategic legislation should address some fundamental questions. It may be that gambling and the use of drugs are, like

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10. See R. SALERNO & J. TOMPKINS, *THE CRIME CONFEDERATION* 376-82 (1969).

11. Another area in which effective strategic legislation might impair the activities of organized crime is that of excise taxes, specifically interstate tax differentials and federal excise tax levels on alcohol and cigarettes.

prostitution and the consumption of alcohol, activities that cannot be eliminated solely by legislation and law enforcement. If this is the case, it becomes important to determine whether revenues from illegal goods and services are essential to the continued existence of large organized criminal groups; to identify which illegal activities are most important in determining the current structure of organized criminal groups; and to determine the effects that legalization of these activities might have on organized criminal groups. Whether techniques can be devised to take the revenue from major illegal markets away from organized criminal groups and eliminate associated corruption is an important problem for research.<sup>12</sup>

To make market activity illegal is, after all, only one method of dealing with the undesirable consequences of the exchange of certain goods and services, and it may not be the best way. The activity may not be eliminated. The operators are removed from social respectability and a respect for government. Neither buyers nor sellers have protection of legal institutions such as the law of contracts or court procedures; the activity is forced underground and is therefore outside the reach of established methods for dealing with it. Moreover, law enforcement personnel suddenly possess a highly marketable service — the sale of nonenforcement of the law.

Also relevant to policy decisions on strategic legislation are answers to such questions as: Can a state lottery be operated in a manner that provides effective competition to the numbers racket? What portion of loansharking would be eliminated if gambling debts were made legal contracts? What reduction in the real crime rate would result from various approaches to the legalization of narcotics?

### *Tactical Legislation*

Tactical legislation refers to legislation directed toward facilitating identification, prosecution, and conviction. It may be related to rules of evidence, to jurisdiction, or to the use of certain intelligence-gathering methods such as wiretapping and electronic eavesdropping, or to immunity statutes or the definition of what constitutes a criminal act. The Travel Acts passed by the federal government in 1961 are a good example of tactical legislation.<sup>13</sup> These acts expanded the jurisdiction of the federal government and defined as criminal certain activity related to the sale of illegal goods and services other than the sale itself, such as transmitting information related to betting across state lines; transporting gambling paraphernalia across state lines; and crossing state lines to promote crimes of gambling, narcotics, bootlegging, bribery, and extortion.

A great deal of effort has been devoted to the development of tactical legislation. Such legislation is important because it can greatly increase the success of efforts to identify, prosecute, and convict.

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12. See Schelling, *supra* note 1, at 115.

13. Travel Act, 18 U.S.C. §952 (1964), *as amended*, (Supp. V. 1965-1969).

### *Individual Decisions*

Many people, including consumers, businessmen, and voters, make decisions that affect organized crime. People borrow from loansharks when they could borrow elsewhere, perhaps because they are not aware of their alternatives. Even with knowledge of alternatives, businessmen sometimes borrow outside institutionalized financial markets, where it is difficult for them to assess the character of those with whom they are dealing.<sup>14</sup> Exposure of corruption and criminal activity may enable the voting public to bring pressure on public officials or vote them out of office.

Ultimately the general public determines basic policy decisions. This is especially true in light of the strongly held moral convictions in the area of illegal goods and services. The public, too, needs to know about the far-reaching consequences of the establishment of illegal markets and the law enforcement strategy implemented in combating these markets.

### RESEARCH RESULTS

In designing a research program on organized crime, the kinds of research results necessary to make policy decisions must be determined. Keeping policy decisions in mind as the ultimate purpose of research will help prevent useless studies. Information or research results have little value unless they change at least one decision, because otherwise the same outcome would have been achieved without the effort and expense of the research. Nonetheless, both the basic data needed for research and the research results will help resolve a great many policy problems. A one-to-one relationship between data and a specific research project, or between a research project and a specific decision, will seldom exist.

Research results can be structured in three ways:

#### *The State of Organized Crime*

An important input to decisions on law enforcement tactics and strategy is knowledge of the state of organized crime at given points in time. This includes the level of economic activity, both legal and illegal; the organization of illegal markets; information about predatory organized activities such as hijacking; the structure of organized criminal groups; the extent of corruption; and the relationship between the organization, the illegal markets, and legitimate activities. Some of the information will be qualitative; some of it, such as the level of economic activity, can be presented in the form of published statistical series once the necessary data and methodology are developed.

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14. J. Seidl, "Upon the Hip"—A Study of the Criminal Loan Shark Industry, Dec. 1968, at 89 (unpublished thesis in Harvard University Library). Seidl explores a variety of reasons for the selection of loan sharks as a source of funds rather than legitimate lenders.



*The Nature of Organized Crime*<sup>15</sup>

Besides measurement and description, an understanding of the nature of organized criminal activity in legal and illegal markets is necessary if the effects of strategy decisions are to be predicted. This involves an analysis of the market forces and the other factors, such as law enforcement, that have led to particular industrial structures and particular patterns of business infiltration, as well as an analysis of the economics of these businesses. A sociological understanding of established criminal groups is also important to policy decisions.

*Prediction*

It would be useful to be able to predict new illegal markets, new areas of legitimate business infiltration, new labor racketeering activities, new organized criminal groups, changes in the hierarchy of an established criminal organization, the response of criminal organizations to law enforcement strategies. It would also be useful to predict the potential growth or decline of illegal markets that results from economic changes, such as changes in income or interest rates, rather than law enforcement.

Economic forecasting, both for the general economy and for specific goods and services, is a well developed field despite the sometimes inaccurate results. Nevertheless no one attempts to forecast without considerable information on and understanding of the business for which the forecast is being made. In predicting entry into new fields, a general prerequisite is an understanding of the reasons for current market activity, the risk and rate of return on investment, changes in these markets, and the problems of growth and expansion.

Reasonably accurate predictions should follow from research on the state and nature of organized crime as it exists today. Some basic predictions may be possible, however, without much additional research. For example, the federal food stamp program could be analyzed to determine the return and risk from counterfeiting food stamps and whether the program might expand the inventory requirement of small food retailers and increase their need for working capital, thus creating a new market for loansharking. As another example, increased activity of organized criminal groups in the areas of real estate and mortgage lending might be expected in any period of unusual financial pressures in mortgage markets.

## INFORMATION FOR RESEARCH

Although the call for experts from a variety of fields, such as economics and sociology, to study organized crime is not new<sup>16</sup> the response has been

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15. The distinction between state and nature is borrowed from Likert, *The Dual Function of Statistics*, 55 J. AM. STATISTICAL ASS'N 1-7 (1960).

16. Tyler, *An Interdisciplinary Attack on Organized Crime*, ANNALS, May 1963, at 104-12.

minimal. The vast majority of published material on organized crime is composed of legislative or journalistic exposé based heavily on information provided by government agencies. Much of the basic data on which interpretations and conclusions are based, even in carefully researched writings, is unavailable to other people; and thus the benefit of critical examination of research data, methods, and findings by other members of the academic community is lost. It is difficult to identify, and even more difficult to obtain some of the good published materials on organized crime. No adequate library or institutional collection of published materials on the subject exists anywhere in the nation.

Obtaining data suitable for research is a problem of a different magnitude altogether. The only ongoing, systematic attempt to collect information about organized crime is made by government investigative agencies. These agencies are primarily concerned with providing information leading to prosecution and conviction rather than monitoring the state or nature of criminal groups and illegal markets. Thus, they do not necessarily collect the information needed for economic and sociological studies. Considering the extent of investigatory and prosecutory efforts, as well as the efforts of legislative committees and journalists to expose organized crime, it is symptomatic of the magnitude of the problem that we do not have even one comprehensive, published case study of a business enterprise operating in a major illegal market.

Investigating and prosecuting agencies continue to be the only groups collecting the data needed for research purposes. Sometimes the information needed for research will be more extensive than that needed for prosecution and sometimes far less so. Often such information will no longer be relevant to current investigations, and often it will lack the confidential aspects of some prosecution-oriented information. Sometimes data will have to be collected over a period of time, and thus collection procedures will have to be set up before the actual research is to be done.

A good information base would be useful for many specific projects. In many of these projects, a specific research design will not be available at the time the procedures for collecting and storing research data are created. Nevertheless, identification of the kinds of data that need to be systematically collected should be possible through an understanding of the research needs in organized crime, and the differences in needs for research and operational purposes.

At times, investigators, intelligence analysts, and prosecutors will need encouragement to devote time to identifying and collecting data important to research in order to establish an information system on organized crime. There are many problems in providing researchers with access to information: security, right of privacy, the academic freedom of researchers. An initial goal of organized crime information systems might be the development of simple publishable statistics on organized crime, such as the number and age distribution of members of identifiable organized criminal groups, the main activities or sources of income of members by age category, the number of businesses in each industry owned or controlled by an organized criminal

group in a particular geographic area, comparative experiences with the criminal justice system in comparison to others who enter the system for the same offenses. A research-oriented subunit in a data collection agency might also collect materials from gambling raids or narcotics arrests and develop procedures for summarizing such information. A supplement to agency data is a public information system based on the public records of the criminal justice system, mass media, public hearings, and perhaps something comparable to oral history — a collection of the observations and views of knowledgeable investigators and prosecutors.

### SPECIFIC PROJECTS

Social and economic factors affect organized crime. The relevant policy decisions are interrelated and complex, and it is necessary to understand the whole before any of the parts can be completely understood. The application of systems analysis to organized crime, including everything from illegal market economics to funds flows and the costs and benefits of specific strategies, is the obvious ultimate research goal. Systems analysis would include various submodels — for example, an analysis of each of the major illegal organized crime markets and an evaluation of the extent of organized criminal activity in legitimate business and labor unions. Specific research projects in narrowly defined areas will permit the larger analysis, while providing some interim results, although the results may lead to suboptimal decisions.

Some of the specific projects or groups of projects that might be undertaken, the purposes of the projects, and possible approaches are discussed in the following paragraphs. They are not research designs, but they do indicate an approach that might be followed in developing the research designs and the data that should be collected in order that research goals in these areas can eventually be met.

#### *Illegal Markets — A General Approach*

*The Level of Economic Activity.* To develop methods for monitoring the level of economic activity in illegal markets, including the legitimate business activities of organized criminal groups, is to do for illegal markets what the Bureau of Census does for legitimate business in its *Census of Manufactures*. However, far greater use will have to be made of indirect estimating methods, and effective monitoring will depend on a clear understanding of illegal markets. Knowing the direction and magnitude of change in illegal market activity will be more important for many purposes than knowing the absolute level. If the absolute level could be estimated at different points in time, the direction and magnitude of change would also, of course, be known. However, in the absence of absolutes, an index of activity will be more useful than an estimate of the absolute level so rough that change cannot be perceived.

*Economics of the Business: Industrial Organization, Markets, and Problems of Growth and Expansion.* The number and size of firms, their structure, the competition among them, the investment required and rate of return on investment, market demand, marketing and distribution methods, and risk are all important components in understanding the nature of illegal, as well as legal, businesses. The analysis of risk should include not only business risk, but also the probability of arrest and conviction and the likely sentence if convicted. At this point, consideration of law enforcement efforts as a determinant of industrial organization and profitability is especially important since counteracting these efforts with funds to corrupt criminal justice officials can be expensive and corruption itself can influence law enforcement strategy. Comparisons of the industrial organization of a particular illegal business in different cities is a possible approach to developing and testing hypotheses on the reasons for various differences.<sup>17</sup> An understanding of the industrial organization and market problems of illegal businesses should facilitate the development of models for estimating the level of illegal activity and the potential for growth in these markets.

*Effects.* Illegal businesses affect people in a variety of ways, through employment, corruption, and street crime. Whether labelled side-effects or secondary effects, law enforcement influences them and they are part of the problem of organized crime as an institution. These effects need to be identified, measured, and understood so that they can be considered in making various decisions about illegal markets and organized crime in general.

#### *Illegal Lotteries*

Illegal lotteries sell a low-price service to a broad and apparently stable consumer market. The initial step toward monitoring illegal lottery activity and understanding its economics is the establishment of a system for collecting and storing raid data.

By using raid data in combination with interviews and other available intelligence, it should be possible to monitor the level of illegal lottery activity and develop a fairly comprehensive view of the profit economics of the business—revenues, expenses (by category, including corruption expense and the cost of raids), investment needed, and rate of return. Raid data will provide price and quantity information, which for a numbers lottery includes information on payout rates—not only the basic rate but lower rates (cut numbers), the quantity of cut numbers, and the distribution of amounts bet over the individual numbers, both cut and uncut. The economic relevance of such information and its potential contribution to estimating required investment, rate of return, and minimum efficient size of a numbers operation is often overlooked.

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17. See generally Seidl, *supra* note 14.

The number of lottery operators, their relationship to a larger criminal organization, problems of competition, recruiting and keeping employees, cheating *within* the business, the division of labor, and bankruptcy are economic aspects of the business that raid data alone will not entirely resolve. Raid data itself will also fail to reveal the presence or absence of opportunities for market expansion. However, if raid data can be related to the geographic area in which the bets were placed, a relationship between amounts bet, number of bettors, and other economic and demographic variables, such as income and unemployment, can be developed; thereby making it possible to estimate the volume of illegal lottery betting in areas where raids have not been made or, alternatively, to identify an underdeveloped market.

Some numbers lotteries are fixed; some are based upon biased (rather than random) devices for generating the winning number. Additionally, winning bettors are not always paid. These matters are important for economic analysis and for an evaluation of the effect of the numbers racket on a community. Such fraud would not be accepted in a legal lottery. Furthermore, some retail stores in a particular neighborhood may stay open and employ people other than bet takers only because of the illegal lottery business. These effects of illegal lotteries are probably subject to influence by law enforcement strategy.

Law enforcement strategy may also affect the percentages of gross revenue that goes to bettors in the form of payouts, to policemen for purposes of counteracting law enforcement efforts, and to the operators as net profit. If a particular strategy were able merely to transfer revenues from the operators to the corrupt policeman, the decision would obviously be difficult to make; but the problem may exist whether or not it is recognized and a conscious decision made.

Given a comprehensive analysis of an illegal lottery, a description of its relationship with the organized criminal groups in the area would be beneficial in measuring the extent to which the lottery provides funds for other activities, in predicting which groups or individuals might move into the lottery in the future, and determining to what extent the lottery affects the structure of organized criminal groups and assists with their survival by employing lower level members of these groups. Ultimately, a computer simulation model of the numbers racket may be developed to test alternative law enforcement strategies and their various effects.

Such an understanding of the numbers racket would be helpful in making virtually all types of policy decisions, strategic and tactical, legislative and administrative. It would illuminate the effects of legalization and help determine whether a particular method of legalization might succeed in eliminating corruption and illegal lottery activity as a source of funds for organized crime.<sup>18</sup> The effectiveness of strategies adopted in the past, in-

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18. Several states have recently legalized lotteries and are operating them under state control. *See, e.g.*, N.Y. CONST. art. I, §9 and N.Y. TAX LAW §§1300-15 (McKinney Supp. 1970); N.J. CONST. art. IV, §VIII, ¶2 and N.J. STAT. ANN. §§5:9-1 to -25 (Supp. 1971).

cluding legal state lotteries, could also be evaluated and their effect separated from the other social and economic influences affecting illegal lotteries.

### *Bookmaking*

Bookmaking has a more varied and geographically dispersed market and a less formalized, extensive organizational structure at the local level than the numbers racket. Unlike illegal lotteries, the business structure of bookmaking cannot be solely a local one. Developing an economic model of this activity and estimating its scope will require, in addition to raid data, descriptive information about the information systems necessary for bookmaking and other sports betting and quantitative data on the flow of this information. With such information the number of bets placed and the location of activity can be determined.

Bookmaking is a complex activity. The amounts wagered on horse racing and especially sports contests probably vary considerably from day to day because people are interested in the outcomes of these contests whether or not they place a bet. Thus, the volume of betting on any particular contest may vary directly with general public interest in the event. The amount of betting could be related to some other index of interest in that event, such as television viewing of a particular football game. Furthermore, bets on horses can be placed legally at racetracks and sometimes off-track, whereas there is no close legal substitute for betting on other sports contests, except in Nevada.<sup>19</sup>

Although many bookmakers are not members of organized criminal groups, the information and the lay-off system necessary to provide full-service bookmaking has apparently been monopolized by organized crime, and bookmakers must thus have ties to members of these groups.

Bookmaking is probably an extremely important source of funds to organized crime and one with considerable growth potential. Raid data, systematically collected, is probably the most promising source of data for the study of bookmaking.

It would be desirable to have such information about bookmaking as: the gross amount bet on each type of contest and the seasonal variations in these amounts; the organization and economics of the business, including the price at which bets are sold and data on the lay-off and information services; the sociological aspects of betting, such as what types of people bet, how often they bet, the size distribution of the bets, the incidence of compulsive gambling among bettors, and the volume of loansharking arising out of this type of gambling; and the effect of raids on changes in volume. A survey by the National Opinion Research Center<sup>20</sup> attempted to answer some of these questions by asking people how often and how much they bet. Some of the results, however, were inaccurate indicating that this approach has unsolved methodological problems.

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19. See generally U.S. NEWS & WORLD REP., Jan. 25, 1971, at 80.

20. See PRESIDENT'S COMM'N ON LAW ENFORCEMENT AND ADMINISTRATION OF JUSTICE, *supra* note 5, at 52.

Another source of information might be informants. Unfortunately, prosecutors have found that bookmakers view their relationship with customers as highly confidential, and are generally unwilling to provide information on the lay-off and information services they use.

### *Narcotics*

Narcotics addiction is harmful not only because of its degenerative effects upon individual users but also because of its secondary effects on nonusers through street crime, burglary, and theft; and its impetus for the establishment of organized fencing operations for stolen goods. With data on price, purity, seizures, and crime rates by precinct it should be possible to quantify the relationship between crime and drug addiction.

The retail market for narcotics is, at times, heavily influenced by drug seizures by law enforcement officials. These seizures affect short-run supply and therefore prices. If demand is inelastic at the market price at which the seizure takes place, the seizure may result in an increase in crime by addicts who must raise more funds in order to maintain their habits. Seizure may also result in increased voluntary entry of addicts into treatment centers; a decline in new addictions; a decline in the average amount taken by an addict; or substitution of other drugs for the drug in question. Thus, a price change has both desirable and undesirable consequences, and from the public viewpoint an optimum level of narcotics entering a particular city might be determined (barring complete elimination of supply).

Because such a study would enable prediction of increases in certain types of crime and the addict's demand for treatment, the results would also be useful in planning the response of police and treatment personnel to a large seizure. The police department may, for example, wish to reallocate personnel among certain areas of the city to counteract a predicted increase in street crime.

Similarly, price changes have desirable and undesirable consequences for importers, and it is also reasonable to assume the existence of an optimum quantity the importers wish to place on the market at any given time. Importers can therefore be expected to respond to seizures. The response will depend in part on several factors: the extent to which the basic importing activity is monopolized or cartelized; inventory practices at various levels of the distribution chain, which may change when market organization changes; and financial arrangements at each point in the chain. As one commentator notes: "The authorities are in a position to reinforce the monopoly or make the trade more competitive . . . it is not so certain that a smaller industry is to be preferred."<sup>21</sup> Destruction of monopolistic control of the importing activity is likely to produce a one-time expansion of the industry,

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21. Rottenberg, *The Glandestine Distribution of Heroin, Its Discovery and Suppression*, 75 J. POL. ECON. 88 (1968). Rottenberg discusses several variables affecting alternative strategies in the enforcement of narcotics laws, including market organization, inventory practices, and the addiction mechanism.

a drop in prices, and a decline in street crime. Over the long run, however, the market's rate of growth may be increased.

The initial task in this area is, then, to collect and store the data during the time needed for research. In collecting price and purity data, it may be worthwhile to note the area of the city from which the information comes, since prices may not change simultaneously all over the city. It would also be helpful to know whether prices change in response to public information on seizures or in response to increased prices at distributor and wholesaler levels, and what kind of time differential is involved in these changes. Differences in retail price changes among sections of a city and price changes at the higher levels of the business (if available) can thus provide insight into the organization of this business and its inventory practices. One problem with this approach to the narcotics market is that to some extent the market is a national one—seizures in New York City may affect prices in Washington, D.C. The extent to which this will influence the results and the required procedure depends on the size of the different markets supplied from a major importing center and the extent to which decisionmaking on distribution among different cities is centralized. The research should attempt to deal with both the short-run effects of changes in supply in the narcotics market and the longer-run effect of these policies, so that both aspects of various strategies (including steps to reduce importing by actions directed toward the sources of supply in Turkey, France, and elsewhere) can be analyzed.

### *Loansharking*

There is no systematic source of data on loansharking that would provide estimates of total loans (by purpose, size, interest rate, and type of borrower), total revenues, default rates, or total number of loansharks and loanshark organizations. If some of these things were known—for example, the proportion or volume of illegal loans that are made for gambling and other illegal purposes—it would be easier to evaluate the extent to which usury laws have promoted or helped control the loanshark industry, and the possible benefits of the legalization of gambling debts. Knowledge of the volume of loansharking to borrowers who are able to meet the standards and requirements of legitimate financial institutions would make it possible to evaluate the benefits of a public information campaign to inform such borrowers about legitimate alternatives and encourage selection of legitimate sources. Other useful research on loansharking might include studies of particular markets, such as the relationship between loansharking in an industrial plant and the presence or absence of a credit union in that plant.

The proportion of illegal loans made for different purposes can be expected to vary over time, especially because the demand for loans by small businesses changes with economic conditions. If a prediction of those specific lines of trade under unusual pressures for funds would assist law enforcement agencies or other agencies in preventing the evils of loansharking within a particular line of trade, development of a prediction method would



be worthwhile. The usefulness of the results depends on whether loansharks actually respond to such variations in the need for funds and whether early knowledge of such demand could lead to an effective response.

Loansharking is interesting economically because, although profit rates appear to be extremely high, members of organized criminal groups often choose other outlets for funds; and interest rates are often high for loans *within* a criminal group as well as for loans to outsiders, in spite of a presumed surfeit of funds from illegal gambling operations. Information on internal lending, such as rates or purpose of loans, and information on outside sources of funds might contribute considerably to an understanding of funds flows and investment choices of members. The available information indicates that the upper level members of organized criminal groups are unwilling to lend to lower level members except for temporary emergencies or loans to finance illegal market activity. The loans for illegal operations may be related to the provision by upper level members of a group of services such as corruption of criminal justice officials.

### *Bootlegging and Illegal Production*

Organized crime has been involved in the bootlegging of both liquor and cigarettes at one time or another, and in the production of illicit liquor. Certainly one contribution of research on organized crime ought to be an analysis of the effect of interstate tax differentials and excise taxes as an incentive for such activity, so that legislators and the general public can be advised of the consequences of decisions on such matter. The traffic in contraband cigarettes is the only illegal market in which members of organized criminal groups are involved for which a monitoring method has been developed and tested; furthermore, the method is based entirely on public data.<sup>22</sup> A continuing, published series based on the estimating method for contraband cigarettes would be worthwhile not only because of its relevance to decision-making, but also because of its uniqueness at the present time in providing objective information on an illegal market independent of the opinions of law enforcement officials.

### CONCLUSION

This article has addressed the need for research on organized crime, emphasizing the multiple effects of law enforcement itself on illegal markets and organized criminal groups, as well as the social and economic effects of law enforcement in illegal markets. Research is important if legislative and law enforcement decisions are to be made with full knowledge of their consequences.

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22. L. Gasper, *Organized Crime: An Economic Analysis*, 1969 (unpublished thesis in Duke University Library). Gasper's work is a substantial contribution in this area. He has developed a method for estimating the volume of cigarettes sold on which state taxes have not been paid for each state and provides an analysis of the industry and some comments on its organization.