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E. R. Hawkins

Willard Waller

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## CRITICAL NOTES ON THE COST OF CRIME

E. R. HAWKINS and WILLARD WALLER\*

A considerable literature on the cost of crime is already extant. Much of this literature is wholly fallacious. Most of it is misleading in its general implications. Only a very small part of it is written with any conception of the methodological difficulties inherent in the problem. It is strange that so many pages of printed matter should have been produced with such a small expenditure of reflective thought. It is the purpose of the present paper to test the truth of some of the premises of this literature by economic analysis and to point out a new direction of investigation.

Estimates of the annual "cost of crime" in the United States have ranged from a few hundred millions to nice round sums like thirteen billions or eighteen billions of dollars. The conclusion seems justified that no very well defined procedure has yet been developed for making such estimates. As Dorr and Simpson say:

The estimates vary enormously, and appear in most cases to be either mere guesses, or else simply repetitions of estimates made by others which, in turn, were guesses. In no case is there any thorough analysis of the elements of the cost of crime, and there is a considerable tendency to add together all sorts of costs related to crime without considering whether such procedure is permissible.<sup>1</sup>

### *The Dorr and Simpson Report*

The most completely thought out discussion of the cost of crime is the *Report on the Cost of Crime and Criminal Justice in the United States*, prepared for the National Commission on Law Observance and Enforcement by Dorr and Simpson. Dorr and Simpson carefully distinguish between individual and social costs of crime, or, as they put it, between immediate and ultimate costs. The ultimate cost of crime is the economic loss to the community as a whole as a result of crime, and is measured by the difference between our present national income and the income we should have were there no crime.<sup>2</sup>

The immediate cost of crime is the aggregate burden on the in-

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\*Pennsylvania State College.

<sup>1</sup>Dorr, Goldthwaite, H., and Simpson, Sidney P.: *Report on the Cost of Crime and Criminal Justice in the United States*; prepared for the National Commission on Law Observance and Enforcement; p. 466.

<sup>2</sup>It is perhaps not overly pedantic to remark that this statement presupposes that we regard the criminal as a member of society.

dividual members of the community as a result of crime. Dorr and Simpson have elaborated this distinction with the utmost clarity:

In general, it may be said that expenditures or losses which involve merely *transfers* of money or property form part of the immediate cost of crime, but are not, at least in their entirety, part of the ultimate cost to the community. In this class fall public expenditures for the administration of criminal justice, private expenditures for protection against crime, losses due to criminal acts other than those due to crimes against the person or involving the actual destruction of or injury to property, expenditures for insurance against crime, expenditures for the support of indigent dependents of prisoners. Expenditures of this character impose a burden on the property-owning and tax-paying portion of the community; but, while in most instances the amount of that immediate burden is measured by the sum total of such expenditures and losses, the amount so expended or lost does not necessarily measure an ultimate loss to the community.<sup>3</sup>

Dorr and Simpson understand that:

These two aspects of crime are for the most part mutually exclusive. The elements of the ultimate cost of crime are not, in general, elements of the immediate cost of crime, and the converse is also true. The ultimate cost of crime, for example, includes losses due to the uneconomic use of the potential productive labor of criminals and law enforcement officers, but does not include transfers of money or other property from injured individuals to persons engaged in criminal activities.<sup>4</sup>

It seems obvious enough, in view of this distinction, that the immediate cost of crime to individuals and its ultimate cost to the community are incommensurable. If Thomas A. Edison had taken up petty swindling in his youth, he might have succeeded in extracting only a few thousand dollars from the public, but the ultimate cost would have been enormous. Dorr and Simpson are likewise well aware of double counting which arises from the failure to distinguish between immediate and ultimate costs of crime. They note that:

it would obviously be improper to include both the public cost of administration of criminal justice and the potential amount that enforcement officers could earn in other more directly productive occupations as elements of the economic cost of crime to the community.<sup>5</sup>

That is, it would be improper because the social income would be increased only by the amount that the present enforcement officers would produce if released for productive labor, not by this amount plus their present salaries. Again, they say:

<sup>3</sup>*Ibid.*, p. 65.

<sup>4</sup>*Ibid.*, p. 35.

<sup>5</sup>*Ibid.*, p. 62.

In this connection, it should be noted that if the loss of productive labor of prisoners is to be regarded as an element in the cost of crime to the community, amounts expended for the support of dependents of prisoners can not be so regarded.<sup>6</sup>

The same reasoning holds here as was noted above.

Very few popular writers have grasped the meaning of this distinction, nor have all those who have written texts in criminology made the most of it. Perhaps the worst offender is Ettinger, who accepts without criticism the work of a writer in the *Manufacturer's Record*; this writer estimates the "Federal State and municipal police and prison budget" at \$1,000,000,000 and then, under the heading "Waste of Crime," includes "500,000 policemen at \$1,500 a year" (apparently the value that these men might have produced if they had not been forced to spend their lives in fighting crime), a total of \$750,000,000. He includes both of these figures in his grand total of nearly \$13,000,000,000.<sup>7</sup> Again, Ettinger quotes figures apparently taken from the Dorr and Simpson volume; he has compiled a table in which he includes both insurance against crime and insured losses; he then draws a line and adds.<sup>8</sup> Some other text writers have been more guarded, but have not given any really convincing evidence that they understand the problems involved.

One specific criticism of the Dorr and Simpson volume may be made at this point. They appear to have made a minor error in their discussion of the cost of insurance against crime. They say:

From the standpoint of the individual who purchases such insurance, the premium he pays is an immediate economic detriment which he voluntarily suffers because of the benefit he receives by receiving the insurance company's contract of indemnity. He is out of pocket the amount of the premium, and this, to him, is a financial loss; but he suffers no added financial loss if the risk insured against occurs and he is indemnified by the insurance company for the loss of his property. From his standpoint, the insurance premium is a cost of crime—or rather a cost due to the possibility of a crime.<sup>9</sup>

This much is correct. But Dorr and Simpson continue the discussion with this strange statement:

From the standpoint of all insured individuals as a group, the net loss due to crime is, of course, the total premiums less losses indemnified.<sup>10</sup>

<sup>6</sup>*Ibid.*, p. 63.

<sup>7</sup>Ettinger, Clayton J.: *The Problem of Crime*, p. 11.

<sup>8</sup>*Ibid.*, p. 13.

<sup>9</sup>Dorr and Simpson, *op. cit.*, p. 413.

<sup>10</sup>*Ibid.*, *loc. cit.*

This is manifestly erroneous. It could be said that the net expense incurred by the insured group for the insurance itself, that is, for the service of having the losses spread over the group, is the amount of premiums paid less losses indemnified, *i. e.*, the loading, but the loss due to crime for this group is simply the amount of gross premiums paid. A single example will make this clear. Individuals A, B, C, D, and E have each paid a premium of fifty dollars to a theft insurance company. They have accepted a voluntary loss of two hundred and fifty dollars. During the period covered, A suffers a loss of one hundred dollars, and D a loss of seventy-five dollars. If Dorr and Simpson's statement is accepted, the loss due to crime would be two hundred and fifty dollars, less one hundred and seventy-five dollars, or seventy-five dollars. Actually, this is the contribution to the expense of operating the insurance company; the company pays the claims, and the insured individuals have suffered at the end of the year a total loss of two hundred and fifty dollars which they paid in as premiums.

#### *The Ultimate Cost of Crime*

For Dorr and Simpson the concept of the ultimate cost of crime remains fairly vague. Any estimate of ultimate cost would involve an estimate of national income as it would be if there were no crime; since this estimate is impossible, they do not adumbrate the implications of the concept. J. M. Clark, in analysing the cost of the World War, found that even for a unique event of this nature, definitely located in time, a projection of trend would not yield a satisfactory estimate of what the national dividend would have been had there been no war.<sup>11</sup> When one attempts to visualize just what this ultimate cost of crime is and what it means, he is led to conclude that the notion is little more than an absurdity. Sutherland appears to be almost of this opinion:

Estimates have been made that the total financial cost of crime both direct and indirect, is more than ten billion dollars a year. The estimates of the financial cost are based principally on guesses. In addition, they start with the questions, How much would be saved if no crimes were committed and no precautions had to be taken against future crimes? This hypothetical situation could not exist if everything else except crime remained constant. In order to bring about a crimeless state of society it is possible that the annual expenditure would need to be greater than the expenditure for crime at present.<sup>12</sup>

<sup>11</sup>Clark, J. M.: *The Cost of the World War to the American People.*

<sup>12</sup>Sutherland, E. H.: *Principles of Criminology*, p. 21.

It may be noted that the correct economic adjustment would involve the expenditure of resources in the suppression of crime only up to the point at which the marginal expenditure would equal the marginal reduction in cost of crime.

It is necessary to understand what is meant by the somewhat vague term "cost." To the classical economist cost represented and was measured by subjective disutility. At bottom, cost arose from the pain of labor (and, later, abstinence). Rent was not included in cost because it was felt that land can suffer no pain in producing its utilities. Although this notion of cost persists in some economics text-books, its premises were cut away from underneath it with the collapse of hedonistic psychology. As a purely philosophic view of cost, it may be permissible; for any computation of market costs in an exchange economy, it is useless. There is no zero point on a pleasure-pain scale. The terms themselves are entirely relative. Cost is in essence a relative concept. Most men would work for a great deal less than they receive, if there were no alternatives. In the modern theory of "alternative costs," cost emerges because of a competition of alternative uses for limited economic resources. Any appraisal of costs must, therefore, be made in the light of alternative uses for the economic resources. The cost of crime, ultimately, is not the financial value of the goods and services absorbed by it, or the subjective value of these goods and services, but simply the additional goods and services that could be obtained if there were no crime.

Let us take one element of the ultimate cost of crime, the loss of productive labor, and see what is implied in the discussion. Criminals, convicts, policemen, guards, sheriffs, insurance men, etc., all occupy themselves with crime in some way. If there were no crime, the argument runs, they could expend their efforts in productive labor and could contribute to the welfare of society by increasing the social income. To this proposition, two comments should be made. First, how many criminals are, because of their physical and mental equipment, unemployable in any society? Second, could they find a means of expending their labor productively? The only justifiable conclusion is that they could do so only under a rather rigidly limited set of conditions. An expanding nation, like the United States of a few decades back, could absorb and utilize an unlimited supply of man power. A communistic society might possibly find a use for these extra men. But if these ex-criminals and ex-policemen were thrown on the labor market of the United States at the present time, they would have to be supported by relief, and would contribute little to the

social income. The concept of the ultimate cost of crime depends upon the assumption of something like a perfect utilization of man power, or, more accurately, upon that perfect and pure competition that exists only in the logical categories of economic theory. Undoubtedly, there would exist a tendency towards the productive employment of these men in the long run. However, "the long run" may be defined as any length of time that is required for the realization of the ideals of perfect mobility and rationality, and is a logical rather than an historical category. In the light of these considerations, it may fairly be questioned whether such a perfect economic system has any value in a realistic determination of the cost of crime.

### *Some Crime Economically Productive*

An assumption underlying discussions of the ultimate cost of crime, frequently explicitly present in the discussion, is that labor of criminals and of those who are paid to struggle against criminals is lost to "productive" labor. Many more or less eloquent passages from the pens of leading criminologists could be quoted to this effect. Nowhere does one find a statement of the fact which is very clear to the economist, that the distinction between crime and "productive" labor is a moral and not an economic distinction.<sup>13</sup> The economist is not supposed to allow moral considerations to intrude themselves into his analyses. He may not approve of advertising, he may not approve of sub-marginal farms, he may not approve of sweatshop labor, he may not approve of the life which human beings must lead "back of the yards" because of large-scale meat-packing, but he is not supposed to allow such considerations to enter into his analyses of the process of production and utilization of goods and services. The sober economist is therefore obliged to point out that much crime is economically productive. The prostitute, the pimp, the peddler of dope, the operator of the gambling hall, the vendor of obscene pictures, the bootlegger, the abortionist, all are productive, all produce goods or services which people desire and for which they are willing

<sup>13</sup>This distinction between economic and moral considerations has been hard-won even among economists. John Stuart Mill, in his *Principles of Political Economy*, i, 3, sec. 5, said:

"The annual consumption of gold lace, pineapples, or champagne, must be reckoned unproductive, since these things give no assistance to production, nor any support to life or strength, but what would easily be given at less cost."

In the Eighth Edition of his *Principles of Economics*, 1920, Alfred Marshall made a considerable concession to the exclusion of ethics from economics.

"It is true that all wholesome enjoyments, whether luxuries or not, are legitimate ends of action, both public and private; and it is true that the enjoyment of luxuries affords an incentive to exertion, and promotes progress in many ways" (p. 66). But note the word "wholesome"!

to pay. It happens that society has put these goods and services under the ban, but people go on producing them and people go on consuming them, and an act of the legislature does not make them any less a part of the economic system.

Reasoning based upon this false distinction sometimes leads to ridiculous misapprehension of economic concepts. "Our national income," remarks a popular orator, "is only seventy billion, and if we spend ten billion for crime, that leaves only sixty billion for legitimate industry." Criminologists do not fall into this error, and yet there is some reason to believe that it underlies some of their reasoning. Obviously the national income is not expended in that way. In estimating what the automobile industry produces annually, one takes the sum of money expended for automobiles as a measure of the value produced by the industry, and says that the industry contributed so much to the national income. We must treat economically productive crime in the same way. The sums of money diverted to bootleggers must be added to the national income, not subtracted from it.

#### *Crime and Economic Waste*

It is usually taken for granted that enormous wastes are connected with crime. It does not seem possible to question the truth of the statement, but a careful analysis of the relation of crime to economic waste, and of the meaning of this waste in our economic system, has been wanting hitherto. The interrelations of law, crime, and waste are very complex and it is not easy to frame an ordered conception of them. There are many kinds of waste and they impinge upon the law in different ways. Waste may be defined as a net loss of utilities, which may be brought about by a destruction of utilities or by creation of utilities with a greater expenditure of economic resources than would be necessary whether under this economic system or another. Four general statements may be made: 1. Many crimes involve destruction of utilities. 2. Some crimes cause wastes that have been specifically outlawed. 3. Some crimes effect saving of wastes required by law. 4. Some crimes effect a saving of the wastes of competition.

1. Physical destruction of property frequently occurs because of the haste and irresponsibility of the criminal. For example, a box-car thief may carelessly damage much of the contents of the car. A safe-cracker may ruin a five thousand dollar safe to obtain a few hundred dollars. Such destruction is a loss to society and to the individual owner, and is not even partially offset by a gain to the

criminal. Similarly, stolen goods frequently suffer a shrinkage of value even though not physically destroyed. The value of a car is lessened by the common practice of car thieves of "stripping" the car and selling the parts. Stolen goods are frequently put to a lower use than that intended, with a consequent shrinkage in value.<sup>14</sup>

2. In the cases noted above waste is incidental to the crime. Some actions, however, are criminal because they violate specific laws against certain types of waste. Waste of natural resources and wild life has come within the jurisdiction of law through regulations aiming at conservation. Some of the New England states have found it desirable to conserve the lobster business by making it illegal to retain lobsters of less than a certain size. This regulation has been to the advantage of lobster men and has been for the most part observed. Yet there has grown up a flourishing illegal business in "short lobsters."

Again, illegal oil drilling is a crime that presents the curious picture of restoring a waste that has been outlawed. The same may be said of violations of the fish and game laws. Violations of the N. R. A. codes' provisions against wasteful methods of competition may also be cited, if convictions are upheld by the higher courts in cases now pending.

3. Contrariwise, some crimes effect a saving of wastes that are required by law. A certain mine is operated to remove and put on the market a one-foot vein of coal. In mining this coal it is necessary to cut out and throw away a much larger vein which cannot be put on the market because it is below the ash fusion point required by the state law. Otherwise this is excellent coal; it might be used for domestic purposes, would be mined very cheaply, etc. It can never be mined now, according to experts. This is a waste required by law, avoided by the crime of "coal bootlegging." Bribery of police officials to evade the requirements of ordinances is sometimes cheaper than compliance. Presumably some social end is served by the ordinance, and the social loss of the evasion may be greater than the individual gain of the briber. Yet it is to be suspected that many ordinances are enacted that do not serve social ends commensurate with the cost involved, and that some of them even have been passed to create opportunity for "shake-downs." It may conceivably be argued that such ordinances themselves constitute crimes, and that the

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<sup>14</sup>Such shrinkage, however, can be assessed only in terms of lowered market value, if the goods are resold. Even though the criminal uses the stolen goods carelessly or assigns them to lower uses, he may derive greater utility from them than the original owner.

cost of complying with them or evading them alike is a cost of crime; such a view would involve a conception of crime that would be acceptable to the welfare economist but rather novel to the penologist.

4. Some criminal activity illegally effects a saving by reducing the wastes of competition. In the main, our automatic economic mechanism relies upon the self-interest of producers and consumers to achieve maximum utilization of economic resources. Yet social waste may follow from the self-seeking activity of individuals. In our individualistic economy these wastes inherent in competition have not been subjected to much regulation until comparatively recent times. Indeed, in the endeavor to enforce free competition, government has forbidden business men to regulate competition for the reduction of wastes. Some of the most conspicuous wastes involved in free competition are duplication of capital equipment, cross-hauling, and competitive selling effort. Many associations and combinations of producers have had as their purpose, at least in part, the reduction of these wastes. Thus, the American Malt Company effected a saving in salaries and cross-freights, the United States Leather trust effected savings by using bark lands nearest the various plants, the American Tobacco trust spent far less in advertising than the constituent companies after dissolution, the whiskey and sugar trusts saved by closing some plants and running the others continuously and to capacity. Examples could be multiplied. Yet most of these trusts and associations have been declared illegal, in violation of the Sherman Act.

Other business men have sought to eliminate the wastes of competition by less formal and more clearly criminal methods. Dorr and Simpson have observed that racketeers frequently do not force themselves upon business but are invited by business itself.<sup>15</sup>

In an earlier study, Landesco says:

The racketeer does not always impose himself upon an industry or an association. He is often invited in because his services are welcome.<sup>16</sup>

This fact suggests that the racketeers are in reality performing some kind of valuable function. That function is in part the reduction of the wastes of competition. It has long been recognized that unrestrained competition may not be the life of trade, but the death of trade. Our economic system, having as its keystone the legal guarantee of the freedom of contract and individual enterprise, makes

<sup>15</sup>Dorr and Simpson, *op. cit.*, p. 410.

<sup>16</sup>Landesco, John: *The Illinois Crime Survey; Part III, Organized Crime in Chicago*, p. 982.

possible in many fields a continual influx of aspiring entrepreneurs possessed of little capital and vast ignorance. Not knowing their costs, such entrepreneurs are frequently price-cutters selling below their true total prime and supplementary costs. True, they are ultimately forced out of business, thousands of them annually. But there are always others to take their places. The net result is that there are always sufficient numbers of such entrepreneurs to dislocate and disorganize the industry. Their operations result in a net social loss, even though they sell at lower prices, because the economic resources employed by them are true costs that must be paid by somebody. They unproductively lose their own capital, and when they are finally forced out of the field they typically leave behind them credit losses that become part of the cost of doing business of those who supply them. . . . It is no coincidence that the rackets have been most significant in those fields that are most harassed by entrepreneurs of this sort by reason of their easy access to those of small capital and competence. Witness the rackets in the fields of laundry, cleaning and dyeing, drug stores, grocery stores, etc. Nor is it a coincidence that the gunmen are often associated with the larger and more substantial business men in these fields. These are business men who have large capital investments to protect, who intend to cover their costs and stay in business.<sup>17</sup> A dictatorship of force is set up to impose upon competitors a schedule of prices at which they must either cover their costs and permit others to do so, or be driven out of business by the loss of their price appeal. In the distribution of milk the same effect has been achieved by regulations necessitating expensive equipment. These regulations, fostered by big distributors, discourage small distributors from entering the field. An interesting parallel is found in the fact that chief support of the N. R. A. dictatorship of

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<sup>17</sup>Landesco's comment is particularly revealing. He says: "The Chicago Laundry Owners' Association, doing finished work, has always opposed these little fellows who can start up with nothing." (Landesco, John, *op. cit.*, p. 983.)

Again, we read: "The Chicago Hand Laundry Owners' Association are 'little fellows' who send their work to large wet wash laundries and upon return iron it, return it to the customer and collect. They do a 'drop' trade, which means that the customer drops his bundle at their store and comes in to get it. This organization was originally formed by Hirschie Miller as an aid in organizing the inside laundry workers. In this instance Gorman was not invited in, but the Laundry Owners' Association sent him to take these 'little fellows' in hand, relieving Hirschie Miller. But Gorman has not worked to the entire satisfaction of the Laundry Owners' Association, because he has permitted new 'little fellows' to start as long as they did not open places of business too near association members. He was always partial in designating wet wash laundries to receive work from those 'little fellows' to the exclusion of certain other wet wash laundries. He then permitted a group of hand laundrymen to establish a new wet wash laundry (a new competitor for the 'big fellows'). In this new laundry he took a fair size amount of stock as his share." (*Ibid.*, pp. 984-985.)

prices and costs is given by the largest and most highly capitalized businesses. The analogy may be pursued further. In a sense the N. R. A. also represents the use of compulsion for the purpose of controlling the disorganizing forces of unrestrained competition.

A case similar to the one outlined above is to be found in the familiar circumstance of too many enterprises in a given field or locality, none of them cutting prices below costs, but all of them operating at unduly high cost by reason of spreading their overhead over too small a volume of sales. The overhead of each one of these enterprises is a cost which must be borne by the consuming public. A socialistic society would immediately eliminate such needless duplication. It is conceivable that the racketeer may produce the same beneficent effect by the use of his bombs and intimidations. A frequent clause in the code of racketeering aims at a restriction of the number of enterprises in the field and a prohibition of new enterprises. The result is a greater sales volume for the remaining enterprises, which enables them to allocate less overhead to each unit of sales, and provide for the racketeer's tribute and their own usual profits without raising the price to consumers.

It is interesting to note that in this case competition would produce the same effect if it worked perfectly. The theory of pure competition contemplates no such waste as is involved in the observed fact of needless duplication of stores and other enterprises. In the theory of pure competition, any one enterprise could immediately gain all the business of its rivals by a slight reduction in prices. Price competition would continue until there would remain in each field only enterprises operating at the size of greatest efficiency and lowest average cost. The reason that this does not happen is that competition is not actually pure, but is tinged with monopoly elements. Each seller who has a trade mark, or a place of business different from others by reason of its location, atmosphere, or personality is a monopolist in the sense that he is the only one selling precisely that bundle of utilities. His customers cannot be taken from him *en masse* by a slight price differential. Instead, varying numbers of customers would shift at different prices, depending upon the degree of consumer preference. This is just another way of saying that the seller can dispose of different quantities at different prices, instead of an unlimited quantity at the market price and none above the market price, as would be the case in pure competition. It is to these monopolistic elements that we must attribute the excessive number of enterprises, each with its own more or less loyal clientele.

*Shifting and Incidence of the Cost of Crime*

Such fragmentary examinations of the shifting and incidence of the cost of crime as have been made are rather unsatisfactory. Dorr and Simpson, for example, say:

The racketeer exacts tribute from his immediate victims, and in some cases the matter ends there. In such case, in the absence of monopoly conditions, the immediate victim cannot pass on his loss to the purchaser of his wares or services, and it is he who is out of pocket.

This statement is diametrically opposed to the usual economic analysis, which holds that in the absence of monopoly conditions such costs, like taxes, *must* be passed on by the seller, and would be borne by him only if monopoly were present. The confusion arises from the common mistake of regarding our actual system as one of pure competition, whereas in reality it is tinged with monopolistic elements. The theory of monopolistic competition outlined above provides us with the correct attack on the problem. Each monopolistic competitor, having an individual market demand curve, has the option of selecting the price along that curve which, considering sales volumes at that price and unit costs at that volume, will yield him the greatest profit. This price need not be equal to average cost, since by definition the enterprise is monopolistic to a degree, depending on the degree of consumer preference, and presents difficulties to anyone who might otherwise, attracted by high profits, attempt to enter the same market. It is quite possible for the seller of a product differentiated by trade mark, location, or atmosphere, to continue operating above costs permanently, or as long as the consumer preference lasts.

This suggests that there is a fallacy in the popular belief that the seller must pass the costs of racketeering along to the public because he is operating at cost and cannot bear them himself. It is possible and probable that the consumer is spared the cost of racketeering in some instances because the merchant bears it. The merchant would bear the costs if the shape of his demand curve indicated that an attempt to raise prices to cover the added cost would lower his sales volume sufficiently to lower his total revenue by more than the amount of the racketeer's tribute. The more cognizant of his best interests the merchant, the more this would be true. This principle would apply also for a whole industry. If the cleaners and dyers of a particular city attempt to use a gunman-enforced price schedule that is too high they will quickly discover that loss of sales volume to substitutes will decrease their total revenue.

<sup>18</sup>Dorr and Simpson, *op. cit.*, p. 410.

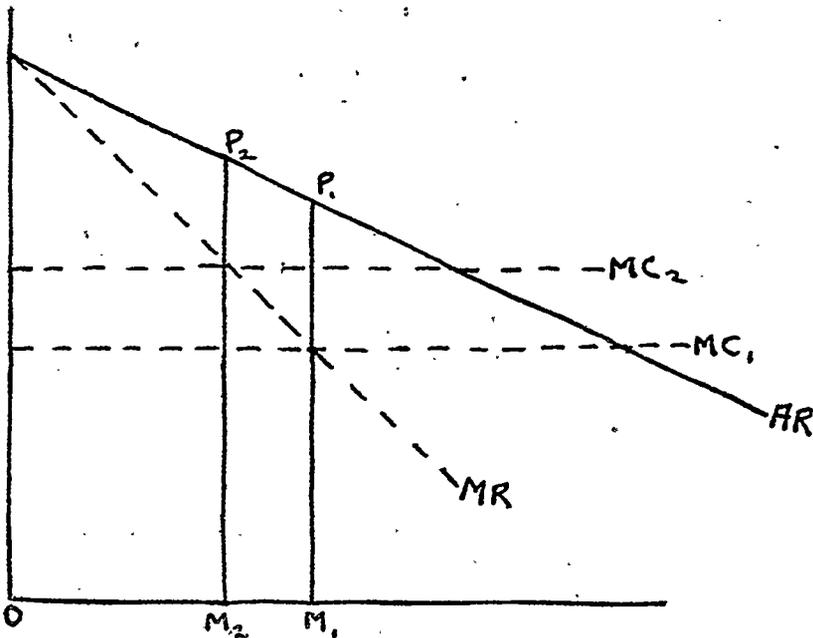
This happened to the barbers and cleaners of Chicago. When Chicago cleaners raised their price to \$1.75 and more for cleaning a suit of clothes they suffered such diminution of demand that ultimately the racket broke. It is even conceivable that a racket would *lower* prices in an industry, in two ways: (1) by increasing sales volume for the smaller number of permitted enterprises, thus permitting prices at a point of lower marginal cost; (2) by taking price-fixing discretion out of the hands of many partial monopolies and concentrating it in the hands of the broader monopoly, which, through the hiring of expert advice, is better able to select the price of maximum returns in competition with other industries and substitutes.

A final comment may be made. Even in cases where the consumer does pay the cost of racketeering, because of the shape of the demand curve, the matter is by no means ended there. If consumers as a class pay more for this particular commodity, they have less to spend for other commodities. In a sense, other industries really pay for the cost of racketeering. More, a reallocation of economic resources may be involved. The consumers who pay more to the racket-ridden industry are not precisely the same as those who previously patronized it. Some, the marginal buyers, shift to substitutes with the price rise; the substitute commodities are actually benefited by racketeering. Tracing the numerous strands of social effect becomes an extremely difficult and complex proceeding. Enough has perhaps been said to indicate that the problem is by no means so simple that it can be dismissed by adding up the sums racketeers receive.

Much the same principles apply to other crimes commonly listed in computations of the cost of crime. Loft robbery, truck hi-jacking, etc., are properly regarded as constituting costs of the industries involved. Usually the losses are made truly costs of the entire industry by the device of spreading those losses over the entire group by means of insurance. What is not recognized in such computations is that the losses may not be borne by the consumers entirely, but to some degree by the business men. Take the case of robbery of silk from trucks or lofts. Certainly such loss raises the cost of silk to the merchant. It does not, however, proportionately raise the price of silk dresses sold by a smart store or trademarked with a prestige brand, if any part of the previous price had gone toward payment for the atmosphere or prestige of the brand or store. The seller would have previously fixed his price at the point which would give him the greatest aggregate revenue. He would again do this. If his demand curve were a straight line, the rise in price would be exactly

half the increase in marginal cost. If marginal costs were constant, which is not improbable for realistic volume ranges, the increase in price would be exactly half the insurance cost per unit of sales.<sup>19</sup> If marginal costs were decreasing, the price would increase more than half the insurance costs. If marginal costs were increasing, the price would increase less than half the insurance costs. If the demand curve were not a straight line, the effect of the crime cost in raising price would be greater the more concave is the demand curve, and less the more convex the curve.

The simplest case, that of a straight demand curve and constant marginal costs, may be illustrated with a chart.



AR represents average revenue; MR, marginal revenue; MC, the original marginal cost and  $MC_2$  the marginal cost increased by crime cost (or insurance) of a constant amount per unit. In accordance with the principle of pricing at the point at which  $MR=MC$ ,  $M_1P_1$  will be the original price and  $M_2P_2$  the price resulting from the added cost burden. In this case the rise in price is half the rise in marginal cost. It is assumed that the AR curve does not change.

### *Crime an Integral Part of Economic System*

Without in the least apologizing for crime as a moral phenomenon,

<sup>19</sup>For the somewhat intricate geometrical proof of this statement, the reader is referred to Robinson, Joan: *Economics of Imperfect Competition*, London, 1933; II, 5.

we are forced to the conclusion that it is an industry like other industries, bound together in inextricable interdependence with all the other institutions and activities by means of which man makes a living. Sutherland has made some extraordinarily penetrating comments on "the pervasive nature of criminality"; he shows that crime permeates the whole of our economic structure.<sup>20</sup> But even professional and avowed crime is an integral part of the economic system. As an industry, it gives direct employment to thousands of persons who would otherwise be in competition in the labor market; indirectly, it contributes to the financial welfare of those who supply it with equipment and those who benefit by the spending of the spoils. Most immediately, it supports the manufacturers and sellers of the weapons and tools of criminals and policemen, the landlords who rent houses of prostitution and offices of private detective agencies, and a host of others. More remotely, the most diverse and respectable industries are involved through our delicate interlocking exchange mechanism. The automobile manufacturer, for example, need draw no distinction between cars that are wrecked by criminals, through carelessness or intent, or "stripped," for the parts, and those that wear out in the normal duties of producing utilities for law-abiding citizens. Wastes involved in crime are as useful from the producer's point of view as legitimate consumption.

People depend upon crime for a living who do not realize what they owe to the bootlegger and the pimp. The "decent elements" in the community derive from the conditions that produce sordidness and crime the income that enables them to struggle against sordidness and crime just as the druggist's wife puts in the collection plate on Sunday the quarter that bought the ginger ale for someone's Saturday night spree. Upon this paradox, reform movements have often broken, for in proportion as reform movements succeed they "hurt business," and in proportion as they hurt business they lose support! Nor is the opposition to reform solely a selfish action on the part of the interests immediately affected. If it were somehow possible to eliminate all crime suddenly, the effect on our entire economic structure would be as disastrous as the collapse of any other industry of similar magnitude. The repercussion would be the same in kind, if not in degree, as that which typically follows a great war.

It would be a false inference to conclude that efforts to reduce crime should be halted. Realistically, we know it to be extremely improbable that the fight on crime could succeed completely and quickly

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<sup>20</sup>Sutherland, *op. cit.*, pp. 31-38.

enough to cause serious dislocation of industry. This disrupting effect is purely a phenomenon of the short run. In the long run, no economic system can prosper by "making work." The "creation of purchasing power" by unproductive work is fundamentally fallacious, despite the widespread currency of the belief to the contrary. If crime were suddenly to be eliminated, there would begin immediately a shifting of the factors of production. The length and severity of the period of readjustment would depend solely upon the degree of mobility or immobility of those factors. For example, if safe-cracking could be entirely prevented, manufacturers of safes would suffer a loss of business, which would be spread to other industries because of the decline in the personal incomes derived from the safe-manufacturing. But those who formerly purchased replacement safes would be enabled to buy other goods in an equal amount, possibly from the safe-manufacturers themselves if they shifted in appropriate fashion. The net gain would lie in the additional goods which would be bought instead of replacement safes.

Several of the credits on the economic balance-sheet of crime are not purely short-run, but are more permanent in their nature. Activities that are legally criminal but economically productive of utility must be regarded as credits even in the long-run view. So also must the various crimes that involve savings of the wastes of natural resources and of the other wastes caused by free competition. It is not argued that these credits can be even approximately assessed, for proper cancellation against the economic debts of crime. We can measure some elements of the cost of particular crimes, but we cannot measure the cost of crime.

The significant point to be emphasized by the present analysis is that instead of attempting to discover the cost of crime, an enterprise foredoomed to some absurdity, we need to study the economic effects of crime. We need to know the nature and magnitude of the probable immediate results of a crime crusade. We need to be more cognizant of the permanent consequences of crime as an organic part of our society. How does crime operate to introduce expensive goods to new price classes? What is the effect of crime in redistributing the national income? What unintended consequences for the larger social order have such crimes as bank robbery, embezzlement, counterfeiting, and racketeering? Who pays for goods that have been stolen or destroyed; what problems of shifting and incidence appear? What are the roots of crime in legitimate business? These, it seems to the present writers, are some of the significant questions that arise from a study of the cost of crime. It is within the power of the human mind to answer them.