

Criminality: The Latest Economic Paradigm

BY NORMAN A. BAILEY AND BERNARD TOUBOUL

*Globalization
has created its
own perversions.*

The ongoing process of globalization has accelerated during the post-Cold War era, especially in data-driven cyberspace and new communication technologies, remaining deeply embedded in an ever-stronger and more concentrated profit-seeking business context.

For at least a decade, this evolution has featured a striking duality largely ignored by the field of economics. Indeed, in the *zeitgeist* of the liberal order, globalization is the key driver of political and social progress for the world as a result of economic growth and development. The prosperity that it generates should serve the objectives of liberty and equality, with respect to the inter-generational social contract. However, the truth is very different.

Since the devastating international financial crisis of 2008, globalization has greatly facilitated the growing infiltration of the legitimate global economy by organized crime and terrorist organizations. The global economy, as it appears today, displays pervasive interrelationships between crime, politics, and business.

However, this crime-based segment of the world economy is studiously ignored by the field of economics. The culture of crime is extensively studied from the psychological, sociological, historical, legal, and political science standpoints and even by anthropologists. In contrast, the significant studies of the criminal economy with its trade and financial flows and its interactions with politics and business can be counted on the fingers of one hand. Since the 1990s, the interdependency of economics and politics has been largely emphasized in the literature but rarely showcasing the common nexus that both fields have with organized crime and terrorism.

Norman A. Bailey is the Professor of Economics and National Security at the National Security Studies Center, University of Haifa. Bernard Touboul is a consultant on international trade, border management, and security.

THE INTERNATIONAL
ECONOMY

THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY

220 I Street, N.E., Suite 200
Washington, D.C. 20002

Phone: 202-861-0791 • Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

We will first try to understand some of the reasons why, despite the factual situation, the criminal culture remains ignored by economists. Then we will argue that it is time for a wake-up call to accept and absorb the fact

*The global economy, as it
appears today, displays pervasive
interrelationships between crime,
politics, and business.*

that the interactions between crime, politics, and business are part and parcel of the mechanisms of contemporary economic activity. Finally, in order to illustrate what we are referring to, we will outline some of the various ways criminal economic activity permeates the European Union.

First, the direction and pace of the evolution of globalization are irreversible. Market-related technologies are deeply rooted in the liberal economic models. However, it is not so well understood that globalization has generated its own perversions. The global criminal economy is now deeply embedded in and often indistinguishable from the licit one. The openness of trade, finance, and communication technologies have generated growth but also social gaps and gross inequalities between people and between countries. Those imbalances are among the sources of increasing opportunities for criminals and terrorists to be ever more integrated into legitimate institutions and businesses. Crime is fueling corruption, hindering development, and undermining governance by empowering the criminals and their paid and/or intimidated collaborators in government and business. However, global organized crime also has unwitting legitimate winners. Illicit manufacturing represents a revenue source for input suppliers. High profit margins attract legitimate investors, producers, and manufacturers into sectors of the economy heavily infiltrated by criminal and terrorist organizations. The main benefits of illicit trade to consumers are lower prices and greater product variety.

In order to operate their profitable and influential global illicit activities, criminal syndicates today use the

Continued on page 49

Europe: Crime-Ridden Cesspool?

Several reports from the EU Commission and the United Nations Office on Drugs and Crime emphasize that Europe is a core destination for trafficking in persons for sex exploitation.

Europe is a prime target for smuggling migrants from Africa and Middle East. Europe is the second-largest market for cocaine from Latin America via transit routes in western, sub-Saharan, and north African countries, under the control of criminal gangs and terrorists. Criminal enterprises and terrorist groups export heroin from Afghanistan and elsewhere in Asia to Europe via Turkey, Albania, Russia, and Italy.

Counterfeiting is now one of the most lucrative crime sectors affecting all types of goods (electronics, food, medicine, jewelry, and luxury brands) at every stage of their value chain.

A recent investigation revealed that the entire agri-food industry value chain in Italy, exporting to European and world markets, is ruled by the Italian 'Ndrangheta, Cosa Nostra, and Camorra mafia syndicates, starting with abusing and manipulating the EU and public subsidies programs and reaching an annual turnover of US\$24 billion.

—N. Bailey and B. Touboul



Italian law enforcement officers bust an organized crime group trading adulterated olive oil. The olive oil, originating from Apulia in Southern Italy, was mixed with various substances, such as chlorophyll, beta-carotene, and soya oil, to modify its color. The product was then distributed to the German market as extra virgin olive oil. The group was sending 23,000 liters of adulterated oil to Germany every fifteen days.

Continued from page 13

transport, technologies, finance, cyberspace, regulations, and market frameworks that globalization has put in place. The underworld financially sustains itself with the cash flow generated by its activities in the upper world, that in turn provides the legal avenues, state-of-the-art technologies, banking channels, and licit trade mechanisms that are then used for increasing and accelerating the underworld's illicit activities.

Therefore, if the criminal economy is not yet integrated into the study of economics, it cannot be because the phenomenon is insignificant or unimportant. Of course the statistics on criminal economic activity and finance are at best educated guesses for the obvious reason that those who participate in criminal economic activities either do not register their activities with the authorities or do so in an incomplete or inaccurate fashion. Due to its illicit nature, reliable data are missing to sufficiently capture the big picture of the crime phenomenon and its interactions with politics and business. However, it can be said with absolute certainty that in total it surpasses the GDPs of a large majority of the sovereign states of the world added together. In other words, criminal activity is currently a massive component of worldwide economic activity. Perhaps it is the lack of precise data that explains the lack of literature on the subject. Given the predilection of contemporary economics for statistical analysis, that may well be part of the explanation.

Nevertheless, we believe that the principal reason for the absence of meaningful analysis is because the phenomenon itself is widely misunderstood. The criminal economy is generally thought of primarily in terms of those kinds of activities associated with the traditional mafia-type organizations, such as extortion, shake-downs, bribery, and particularly, trade in illegal commodities, such as

*Criminal syndicates today use
the transport, technologies, finance,
cyberspace, regulations, and
market frameworks that
globalization has put in place.*

weapons and prohibited narcotic drugs. Sometimes trade in legal commodities undertaken to avoid differential regional tax rates, such as tobacco taxes, or punitive tariffs on car parts, is included.

Through corruption and money laundering, a large proportion of global criminal activity is engaged in by perfectly legal non-mafia entities such as governments,

*The crime phenomenon surpasses
the GDPs of a large majority
of the sovereign states of
the world added together.*

corporations, and banks. And their criminality-enabling activities can be categorized under the headings of production, trade, investment, and finance—in other words, the bread and butter of economic activity and analysis.

It is time for a wake-up call to accept and then explain that the world economy is to a large extent driven by the institutionalized interaction of crime, corruption, and money laundering with politics and business. Today, much economic analysis and commentary consciously or unconsciously ignores the fact that the major Western powers and their international financial institutions share responsibility for the situation or even often contribute to it. While they denounce “rogue” states and non-state actors, they seek and use the financial proceeds of criminal activity to support and stabilize the contemporary global licit economy, always in danger of a new financial crisis. With the globalization of financial markets, tax havens and offshore centers—where the front companies of the criminal and terrorist organizations meet and interact with multinational firms and banks—are ubiquitous. (The principal centers of such activity, of course, are and will continue to be New York, London, Hong Kong, and Zurich.) In addition, criminal and terrorist activities are themselves deeply intertwined (terrorists behave like gangsters and gangsters use terror tactics to intimidate and influence politicians and bureaucrats).

The latest technologies of the fourth industrial revolution have shaped production, distribution, finance, markets, and corporate organizations but are also used

to fashion their perversions through artificial intelligence crime, cybercrimes, crypto-currencies, and exchanges on the darknet. The West abandons to the tender mercies of organized crime and terrorism the bankrupt and failed states affected by the absence of governance and the endemic corruption of politicians and administrations. These countries are desperate to integrate themselves into the world economy by any means. As an illustration, recent revelations of some key details by the former intelligence chief of Venezuela confirm longstanding links between several officials in the regime of President Nicolás Maduro and organized crime networks from Mexico and Russia, and terrorist groups such as Hezbollah with its sponsor Iran.

The great powers of the West individually and collectively suffer from pervasive crime and terrorism. However, despite the liberal vision of nation states cooperating to achieve security and prosperity, they still refuse to agree on a common front. They also fail to provide themselves with the means of thwarting the tactics of the borderless criminal and terrorist actors, in so doing serving the geopolitical interests of sponsoring deviant and revisionist states. Russia, for instance, plays great-power politics when it offers support for resistance to the western democracies in Syria and Venezuela in exchange for military bases and exclusive rights to local oil and gas production.

Organized crime is a transnational problem and a threat to security, not only in conflict-ridden countries, or in countries such the former soviet states of eastern Europe and central Asia where expectations and hopes for a successful transition to a market economy and democratic political system have faded. The crime culture has permeated

*Through corruption and money
laundering, a large proportion
of global criminal activity is
engaged in by perfectly legal
non-mafia entities such as governments,
corporations, and banks.*

*With the globalization of
financial markets, tax havens
and offshore centers are ubiquitous.*

all sectors of even democratic and liberal societies. People, businesses, and even states feel comfortable in resorting to illegal methods for achieving their goals. Due to the failure of state governance, sometimes the population demonstrates in the street to demand that the government stop fighting the mafia-type enterprises in regions where they offer better paid work, protection against disturbing competition, and a shadow economy out of the reach of punitive and unequal tax systems. The social contract establishing the duty of obedience and compliance with the law by individual citizens and organizations in return for the guarantee of security and protection by the state is no longer respected by either side.

A case study of the European Union showing various aspects of the infiltration by organized crime in the regional economy will highlight the danger of ignoring the criminal economy in economic analysis. The infiltration of investment, production, distribution, monetary policy, taxation, banking, and finance by illicit organizations is at the heart of the poisonous interconnection between politics and economics, in an atmosphere of ubiquitous corruption and money laundering.

Several reports from the EU Commission and the United Nations Office on Drugs and Crime emphasize that Europe is a core destination for trafficking in persons for sex exploitation. Europe is a prime target for smuggling migrants from Africa and Middle East. Europe is the second-largest market for cocaine from Latin America via transit routes in western, sub-Saharan, and north African countries, under the control of criminal gangs and terrorists. Criminal enterprises and terrorist groups export heroin from Afghanistan and elsewhere in Asia to Europe via Turkey, Albania, Russia, and Italy. Counterfeiting is now one of the most lucrative crime sectors affecting all types of goods (electronics, food, medicine, jewelry, and luxury brands) at every stage of their value chain. A recent investigation revealed that the entire agri-food industry value chain in Italy, exporting to European and world markets, is ruled by the Italian 'Ndrangheta, Cosa Nostra, and Camorra mafia syndicates, starting with abusing and manipulating

the EU and public subsidies programs and reaching an annual turnover of US\$24 billion.

Organized crime has a diversified portfolio of activities using ubiquitous business brokers and facilitators, white collar professionals in money laundering, and fraud schemes, as well as legitimate companies to cover illicit trade, launder dirty money, and invest in legal activities. The infiltration of legitimate business is a process encompassing a range of crimes including corruption, tax evasion, false invoices and transport documents, and accounting and financial manipulation.

Police reports, journalistic investigations, and economic analyses show evidence of organized crime investments in almost all EU member states but mostly focused in the United Kingdom, the Netherlands, Spain, Italy, and France, as well as some non-EU European countries. On June 12, 2018, the European Commission published a report ending their initiative to restrict cash use across the European Union, as earlier proposed by the same Commission in February 2016, stating that cash restrictions would not significantly address the problem of terrorism financing. In any case, twelve of the member states of the European Union have no regulation or limitation of cash payments for goods, services, real estate, antiques, art, luxury products, or anything else, including the United Kingdom, Germany, the Netherlands, and Sweden. The syndicates also permeate labor-intensive sectors such as flowers, food, and the clothing trade to exploit smuggled migrants.

Organized crime prefers to invest in sectors with a high degree of public involvement, such as EU subsidies and public procurement, that can be influenced and controlled through intimidation and corruption.

Real estate properties such as land, hotels, and apartment and office buildings are another investment target of particular interest for criminal enterprises because they generate high returns, are used for financial and mortgage fraud schemes, provide locations for sex exploitation and migrant smuggling, and facilitate territorial control by criminal groups in strategic regions such as the large consumer markets of mega-cities such as London, Paris, Madrid, Rome, and Berlin.

Also favored are Lombardy and the Mezzogiorno in Italy, the Provence-Alpes-Côte d'Azur region in France (at the border between Southern France, northwestern Italy, and Switzerland), and the eastern border regions of France (bordering Germany, Belgium, the Netherlands, and Luxembourg) for transnational frauds on VAT and on transit and subsidized goods, and the port and airport areas of Rotterdam and Amsterdam (first point of entry into the European Union for 40 percent of the in-transit foreign trade of Europe).

In order to infiltrate legitimate business, criminal syndicates adopt complex and opaque business ownership structures by using offshore locations in the Caribbean, the Middle East, and South Asia. The complexity of the business structure is important in order to reduce the chances of law enforcement agencies identifying real beneficial ownership. In Europe, Malta, Denmark, and Luxembourg show the longest ownership chains. They are places where mafia-type and criminal organizations from Italy, Russia, Turkey,

*Police reports, journalistic investigations,
and economic analyses show evidence of
organized crime investments in almost all
EU member states but mostly focused in
the United Kingdom, Netherlands,
Spain, Italy, and France.*

Albania, the Chinese triads, and other criminal actors prefer to locate, hidden behind opaque corporate structures. As argued by the journalist Daphne Caruana Galizia—assassinated in 2017 when her car exploded in Malta—from there, they build their webs of intertwined licit and illicit activities and businesses, and organize and manage their networks of local politicians, officials, and corrupt law enforcement officers in order to control and manipulate the markets, supply chains, logistics, and finances of their various enterprises.

If the analysis of the behavior of criminal and terrorist organizations continues to be biased by an irresponsible blindness, ignoring the nexus between them and both politics and business, the law enforcement authorities will keep fighting the criminal and terrorist groups frontally, instead of through their markets, money, and economic structures, winning the occasional battle but losing the war. This is a wake-up call not to continue to waste resources in pursuing ineffective measures for fighting the poisonous effects of crime and terror. The stakes, nothing less than the social cohesion of western society, demand it. ◆