

Special Report

Economic Turmoil and Crime

What to expect. What to do.

February 2009

Expect crime to increase. Across America, as the economy worsens, there is growing anxiety that crime lurks just around the corner, from the city streets to the suburban enclaves and corporate office parks.

Crime is on the upswing, from street robberies to cybercrime to shoplifting, because the country is in an economic tailspin, with the highest unemployment in a quarter-century, a stock market in disarray, a bust in real estate values, rising bankruptcies and chaotic credit markets—the perfect storm for criminal behavior.

Is There a Trend?

Greenwich, Connecticut, a premier East Coast community for the rich and famous, and a redoubt for the now-shaken hedge fund industry, warned residents recently to lock their doors and second-floor windows after a series of burglaries.

Bank robberies in New York City—up 54% over last year—prompted the Police Commissioner to suggest criminals have turned banks into “virtual cash machines.” Other cities, including San Diego and Houston, have also seen a spike in bank heists.

The global financial crisis is being blamed by retailers for a jump in shoplifting. According to a survey of 52 national chain stores by the Retail Industry Leaders Association, there was an increase in shoplifting at 84% of the stores, while 80% indicated that organized retail crime was on the upswing. Burglaries and robberies had increased at more than half the stores.

Police departments nationwide say arrests for shoplifting are up from 10 to 20%, an artificially low estimate since some owners just don't report the crime.

Even though shoplifting, cybercrime and murder are up in some cities, and some companies report an increase in various types of workplace

theft, the question is whether our country would be able to affect a trend. Will criminal activity increase considerably if the recession deepens, triggering a national crime wave?

We believe the chances are good that this will happen and urge you to move now to protect yourself.

Police chiefs believe a strong force, with a sufficient number of officers and resources to fight crime, is an antidote to this trend. Therein lies the dilemma.

Increasing pressure to cut municipal budgets inevitably affects law enforcement.

Robberies, Theft, Domestic Violence, Recidivism

The worsening economy affects buying habits in predictable and peculiar ways. There's a sort of Darwinian survival of the fittest, even in the retail world. Formerly high-end shoppers have become customers of Wal-Mart and other bargain retailers during the poor economy, U.S. polls suggest.

Those who could barely afford Wal-Mart prices before the recession are expected to change their habits, too. Some could become thrift-store shoppers, while others might buy stolen goods on the underground market, causing a spike in robberies and petty theft typically committed by gangs.

The implications are enormous, not only for law enforcement, but also for the underground economy and retail sales.

Theft is up at many food stores, with baby food and other necessities among the most popular items. In Great Britain, theft is up by 36% over last year. Thieves supplying the black market and unemployed parents desperate to feed their families are thought to be the major culprits.

The worldwide recession has had a sinister effect on domestic violence. Those who work in domestic violence situations fear that rising unemployment will lead to more violence in the home, and that victims, typically women, will be forced to stay in those situations with their children rather than leave because they will have no prospects for a job or a better life as unemployment rises worldwide.

Similarly, spiraling joblessness makes it more difficult for incarcerated criminals to find work when they reenter society, increasing the likelihood they will break the law again and get a return ticket to prison on the taxpayers' dime.

Some observers even believe the lack of opportunity in the outside world will compel people to seek jail terms because they provide shelter and food.

White-Collar Crime

In the office, employers are confronting the financial threat of internal crime, ranging from theft of office equipment and supplies to padding expense reports, disappearing cash, illegal kickbacks and fictitious sales reports.

About 20% of 392 U.S. companies said in a recent survey that workplace theft had become a moderate to very big problem. 18% noticed an increase in fraudulent transactions or missing cash; 41% weren't sure. 24% noticed an increase in the theft of retail products, office supplies and other so-called non-monetary items, while 43% weren't sure.

Employees, sensing a widening gap between themselves and management, are stealing more. In recent months, the countless news headlines about senior management receiving bonuses despite losses and white-collar crime have only added to the reservoir of cynicism that pervades the workplace and contributes to employees rationalizing misdeeds.

Frequently, the most senior employees with the greatest access to systems and products turn out to be the biggest thieves of all. A 2007 PriceWaterhouse study indicated that senior-level workers with an average tenure of 7.5 years are responsible for one-quarter of all reported internal fraud.

Cybercrime

In the Internet age, connectivity has become an important consideration in criminal activity. Computerization, globalization and the deregulation of international financial markets support a freer flow of capital between countries, allowing investors to put their money almost anywhere in the world. While that has been a boon for investors for the most part, that co-dependence also has been a bonanza for another gigantic world system—cybercrime.

Organized crime has gone high-tech and international. Computerization, globalization and financial deregulation have made illicit transactions easier to conduct. A click or two of the computer mouse sends money or transmits messages anywhere in the world in seconds.

Law-enforcement officials are learning that tracking cybercriminals is extraordinarily difficult and that a single piece of spam might represent the collaboration of several different entities, if not dozens. One business might sell an email list. Others sell credit-card numbers or specialize in product fulfillment. Another "specialist" might launder the money from spam transactions so it cannot be traced. 4 Instances of computer fraud are numerous and involve partners from all corners of the globe. Authorities in the United States and Romania alleged last May that 38 people in the two countries participated in a scam. Spam messages were sent to lure victims to fraudulent Web sites, where they were tricked into entering personal credit card and Social Security numbers. The personal information then was transferred onto magnetic strips on the back of credit and debit cards, which were used to withdraw money from automatic teller machines.

Cybercrime is extremely lucrative. A computer services graduate in Romania can earn about \$400 a month in the legal economy, but thousands—maybe 10 times that figure—working in cybercrime. In the United States, the fear is that unemployed information-technology workers will turn to cybercrime to make ends meet.

Ironically, these criminals also have taken advantage of the same loopholes that have allowed legitimate businesses to use offshore operations to avoid taxes and regulation in the United States. The same deregulation that makes it difficult for some of the world's most respected financial institutions to pinpoint losses in the collapse of the sub-prime mortgage market also enables criminals around the world to launder ill-gotten funds.

Police And Law Enforcement

With the potential for criminal activity increasing because of a troubled world economy, the prospects for increased law enforcement are problematic because government services are expected to take a big hit this year as tax revenue decreases.

Many police forces are shouldering the burden, along with other departments, by cutting overtime, manpower and training costs. New York City's police department, the nation's largest, is cutting \$45 million this year and \$167 million next year. Smaller departments face some stark choices. Sacramento's police force has chosen to investigate only 10% of property crime, including auto theft and home burglaries, to conserve some of its resources.

But the biggest of the big-city police chiefs argues that, even with crime in many categories at historic lows, spending on law enforcement is more critical now than ever. Ray Kelly, New York's Commissioner, maintains there will be no crime wave if there are enough officers on the street. He says New York City post 9-11 crime statistics support his view. Many people predicted rioting, looting and lawlessness after the World Trade Center towers fell, but it didn't materialize

because the police force was sufficient.

Los Angeles is adding 1,000 police officers this year, for a total of more than 10,000. Chief William Bratton cites the economic benefit of lower crime. The murder rate has dropped in L.A. by 300 over the last six years, he said, saving about \$300 million in investigation costs for the city. Taxpayers also save because they spend less to try murderers and imprison them.

When added to lower rates of auto theft and other property crimes, Chief Bratton said the city's police force saves about \$1.3 billion per year, covering its own budget, in a city where unemployment has been rising for the last few years.

"The irony is that as we go into this economic downturn, we're expanding," Mr. Bratton told *The Wall Street Journal*, "which is exactly what you need to do when the economy turns bad."

What To Do

Most crime victims recognize afterwards that prudent forethought and reasonable measures would more than likely have averted the risk that led them to victimization.

Something from the gene pool tells us instinctively to stay out of that dark, menacing alleyway we may peer into. Why is it that we are more trusting, or more naïve, when dealing in the modern world modalities of electronics and computers, of boutique—though under-regulated—wealth managers, of sophisticated looking corporate logos and letterheads, which can mask sinister human designs aimed at accessing our material assets?

We know to both lock and alarm our homes and offices. It comes down to that old balancing act of "risk versus consequences." The individual risk may vary, but the consequences can be staggering. Just pick up the newspaper—or scroll through the Internet news media on any given day. Victimization takes a terrible human and capital toll.

Consider a professional assessment of your risk. Risk to you, your family, your fortune and your firm. Consider it worth your time, effort and expense. Safety, security and peace of mind are quality of life “line items” worthy of your investment. For your reflection, we have included a checklist of questions you should ask yourself.

If you find your responses to any portion of the checklist to be in the negative and you would like to receive a private consultation about ways to address these serious issues, please contact us. We would be pleased to arrange a meeting with Mark Mershon, who formerly served as Assistant Director of the FBI and who commanded the greater New York offices of the Agency.

A Check List

- Are my employees safe?
- What policies and practices do we have in place to control company theft?
- Are there safeguards to protect my company against fraud?
- Is there a high level of satisfaction with the security services that my company provides?
- Are my suppliers honest in their dealings with me? What check do I have on these actions?
- Are any groups with which I am associated engaged in potentially criminal activity?
- Do I have safeguards in place to protect my workplace from violence? What can I do to make it more secure?
- What can I do to make my family members more secure? Is my home secure? Is my office secure?
- Am I knowledgeable about the various schemes that come via the Internet, email and telephone solicitation?
- Do I take the necessary precautions to avoid identity theft?
- What can I do to educate my family members about what they must do to avoid becoming the victims of violent crime, identity theft or fraud?