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# Rising Crime in Latin America: Organized Crime, Illegal Markets and Failing States

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Crime has rapidly risen in Latin America. Over the last 25 years violent crime rates have been on the upswing in most cities of the region, and property crimes have at least double in many countries. Most people in the region have been victimized over the last five years, and public outcry has increased due to a disappointed performance of states in successfully fighting public insecurity.

Latin America is in the midst of a crime wave that despite some volatility is clearly showing signs of deterioration. Surprisingly, there are no significant theories advanced to explain this pattern. The literature lacks comprehensive explanations to address a problem that is clearly among the three top concerns in every survey in the region. Scholars have timidly offered institutional explanations such as the poor performance of police and courts, economic causes such as the rise of unemployment and the widening distribution of income, and classical sociological explanation such as the growth of poverty, larger marginality, and changes in family structure. However, there

have been few efforts to integrate these factors into a model that will make sense of the increase in crime.

In this paper I present the genesis of a theory of rising criminality in the region. Although most scholars recognize that all countries have seen dramatic surges in crime rates, to my knowledge no comprehensive efforts have been done to integrate these trends into a one coherent argument. Some books and papers have dealt with similar problems such as socioeconomic conditions (Fajzenbiller et al 2001) Institutional Reform (Bailey and Dammert 2006) or challenges to democracies (Bergman and Whitehead 2009). But no one has answered a simple question: What happened since the 1980s that ushered in an explosion of violence and crime in the region?

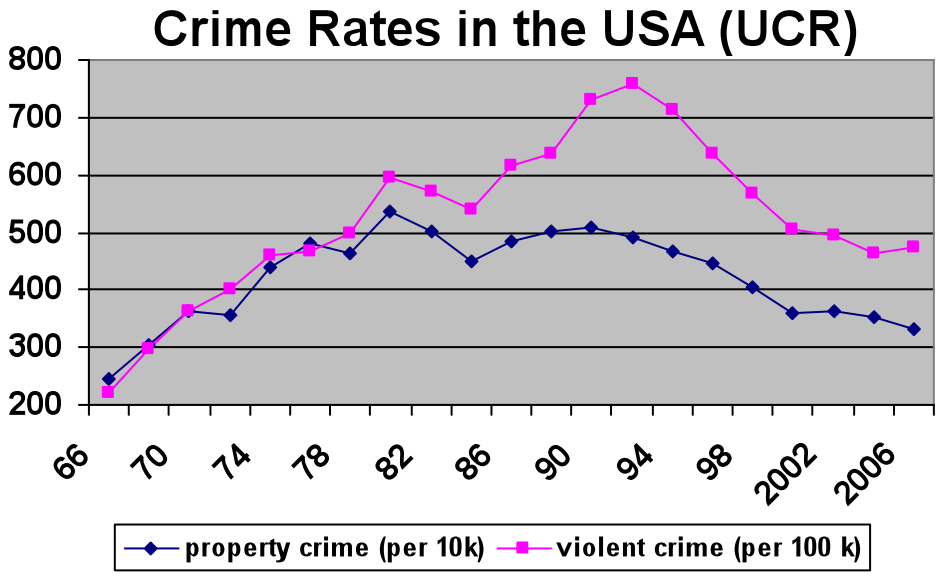
I argue that the rise in crime resulted from several social and economic transformations that affected the region since the early 1980s and that yielded the emergence of new markets of illegal goods that were supplied by expanding criminal organizations. These slowly relied on crime, corruption, and violence to meet the growing demand for cheaper goods. Once the spiral of criminality was unleashed the poor deterrence capacity of states were overwhelmed by these challenges. Reforms mostly failed because successful enforcement depends on the scale of the problem. Due to an array of reasons countries, for the most parts, reacted erratically, timidly, and late, after the critical mass of delinquents had already tipped the balance into an unfavorable equilibrium. Under this adverse equilibrium police departments and courts could not successfully diminish the scale of the problem.

The first section of this paper describes what has happened in the region over the last 25 years in terms of property and violent crime. The second section presents the salient components of the model. I describe how the growing demand of goods affected markets of impoverished economies. I also point how technological changes facilitated the emergence of illegal markets. I use the case of car theft as an example of how criminal groups have successfully organized to meet higher demands for auto-parts. The third section analyzes the states' reaction. I start with a theoretical discussion as of why law enforcement succeeds or fail, and then I integrate this discussion to debate the lack of success of justice and police reform, as well as incarceration policies. Finally, the last section summarizes the argument and it presents the implications of this study.

Property and Violent Crime

As happened in the USA since the mid 1960s, Latin America has witnessed a twofold and at times threefold rise in criminality. Conversely, as opposed to the US and Europe, crime has not yet abated since these crime epidemic began.

In the USA crime rose since the 1960s and peaked in the 1980s (violent crime still grew into the early 1990s). Then abruptly crime rates started to decline since the 1990s as shown in both FBI records and victimization surveys.

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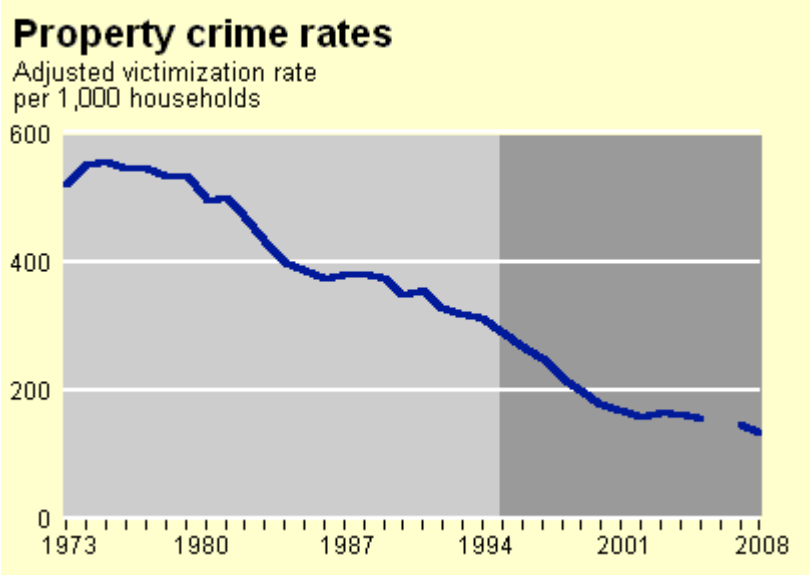


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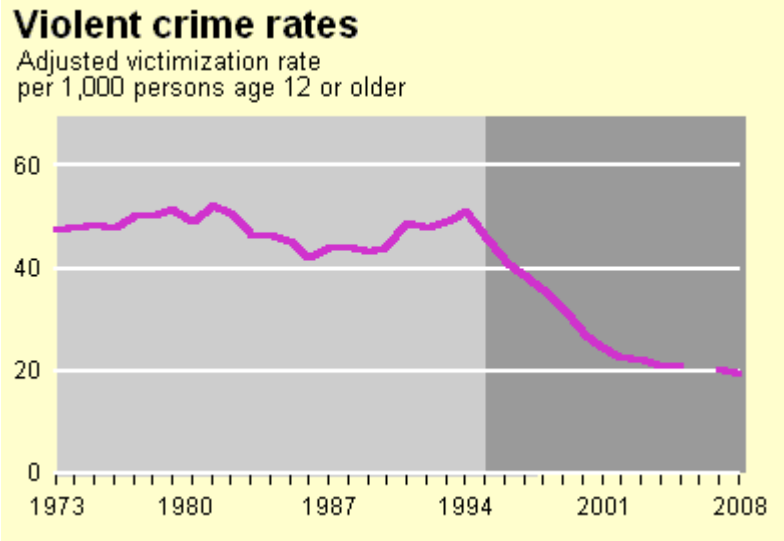


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Latin America presents a comparable trend however no significant and sustainable declines could be established. The scattered data from different countries show a rising trend from the 1980s and 1990s, a leveled pattern in the early 2000, and a recent upsurge.

I present several charts to illustrate what has been happening in the region. For most scholars outside the region the following graphs and tables do not pose serious questions. However, to integrate a comparative analysis of homicides and property crimes for most countries in the region is not an easy task. There are no single data source, no reliable organization that assemble this information, and no uniform criteria regarding categorization and validation of data. In short, putting together comparative trends of criminality represents a significant challenge.[1]

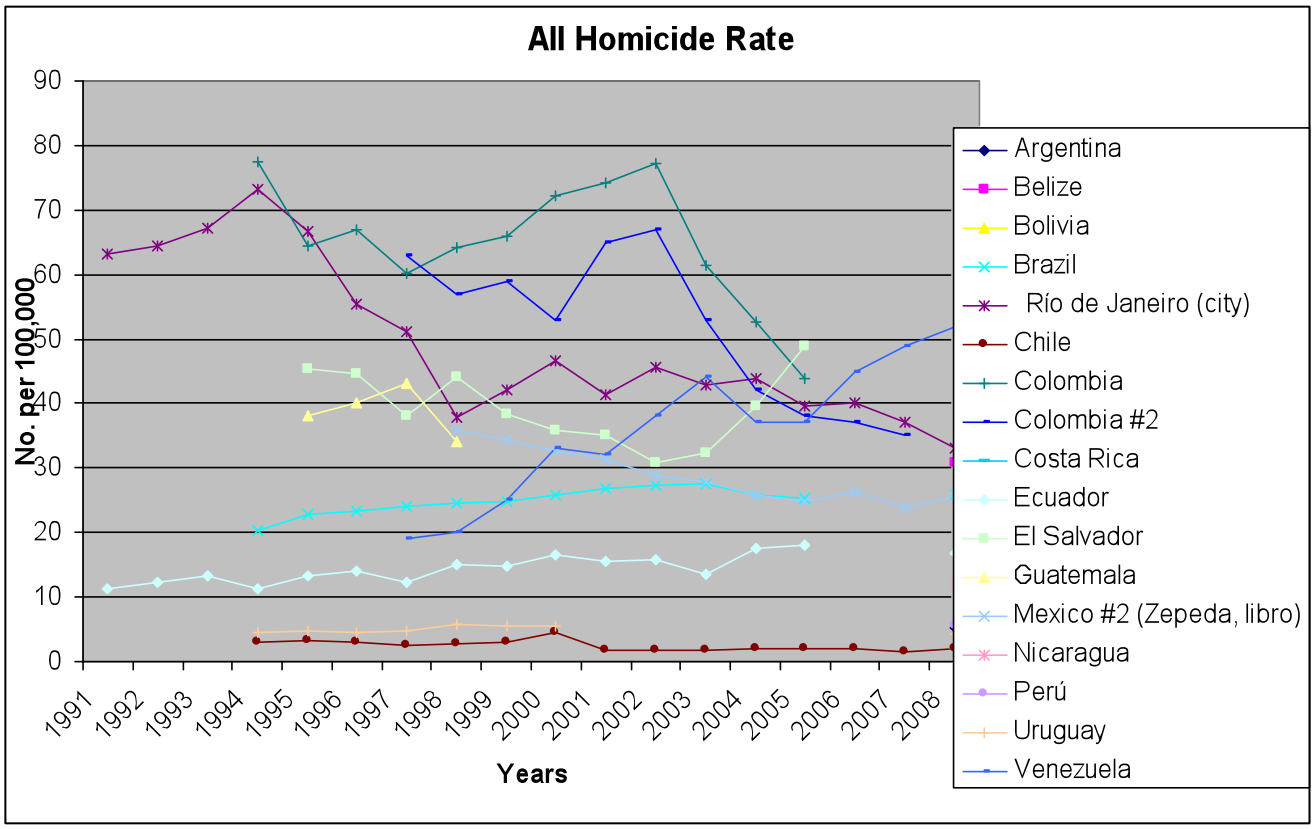
Figure 1 depicts the homicide rates for several countries and cities since the 1980s. As it is already known homicides are considered good measures of criminality

[1] Perhaps this is one of the reasons as of why there are no comprehensive theories or general explanation of regional crime surge.

simply because it is the best data available.[2] A warning note should be raised since homicides rates are sensitive to broader issues such as civil wars (central America and Colombia) political repression (southern cone), and other factors that are not commonly associated with street crime. There are also serious misreporting issues (particularly in rural areas) that can eschew the comparison.

Table I: Homicides rates for several countries since the 1980s

(Nicaragua 2003 12, 04 12, 05 14, 06 13, 07 13, 08 13)

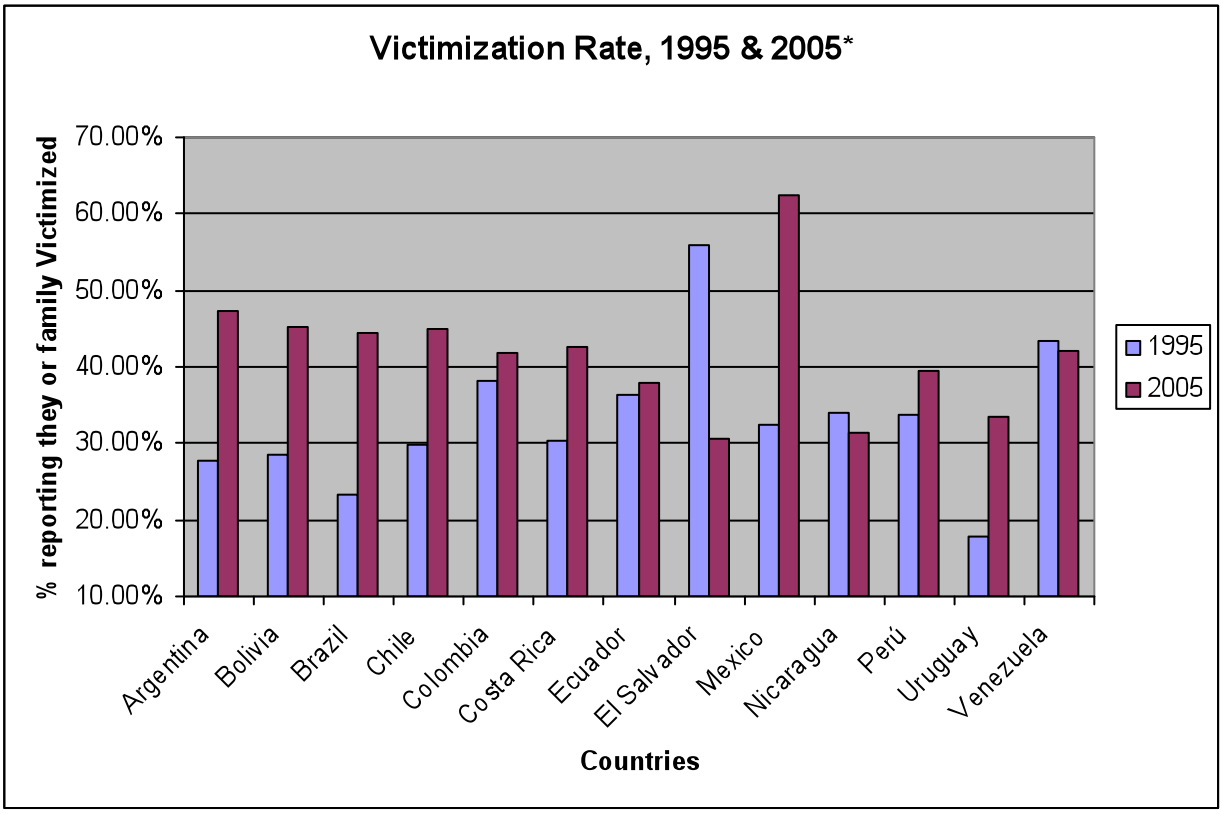



[2] It is well beyond the scope of this paper to debate the validity of this claim. Homicides could be the best "counted" crime, but might not reflect real trends in criminality. The high discrepancies in homicide data between the police source and health department sources raise questions about the reliability of the rates.

Homicides did not grow drastically over the last 10 years. On the contrary, for many countries they actually dropped. A clear distinction, however, must be made between countries that had very high rates (more than 30 per 100,000) and relatively low rates. The drop in homicides occurred only among the first group. This is explained for the most part to civil war previous condition declines (Colombia,, Central America), and not for crime reduction as in the USA. Countries with relatively low homicides have seen for the most part modest or high increases.

In addition, the decrease in homicides rates does not mean a drop of violence but more accurately a reduction in lethality. In effect, the progresses in urbanization and the proximity to hospitals and advances in medicines reduce the number of attacks that end up as homicides. In short, the data on homicides does not indicate a drastic rise in criminality. Countries with low levels of homicides had some increase, but those that resolved civil wars in the 1990s have lower but still very high homicides rates in the last years.

A better measure of the rise in criminality is to follow the victimization rates in each country. Victimization surveys have several methodological problems and limitations but a similar question in different countries provides a longitudinal measure of households that report being victimized over a given period of reference. The following chart depict the percentage of valid respondents that reported that one member of their household has been a victim of crime over the last 12 month. Latinobarometro started these surveys in 1995.

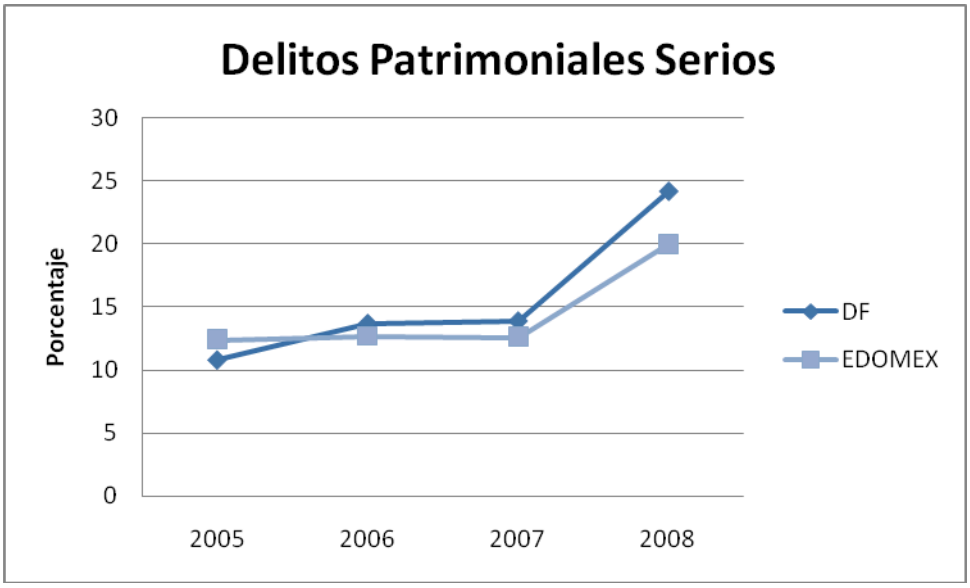



*Note: The first measure for Bolivia, Colombia, Ecuador, El Salvador, and Nicaragua was for 1996. The second measure for Mexico and Peru was for 2004.

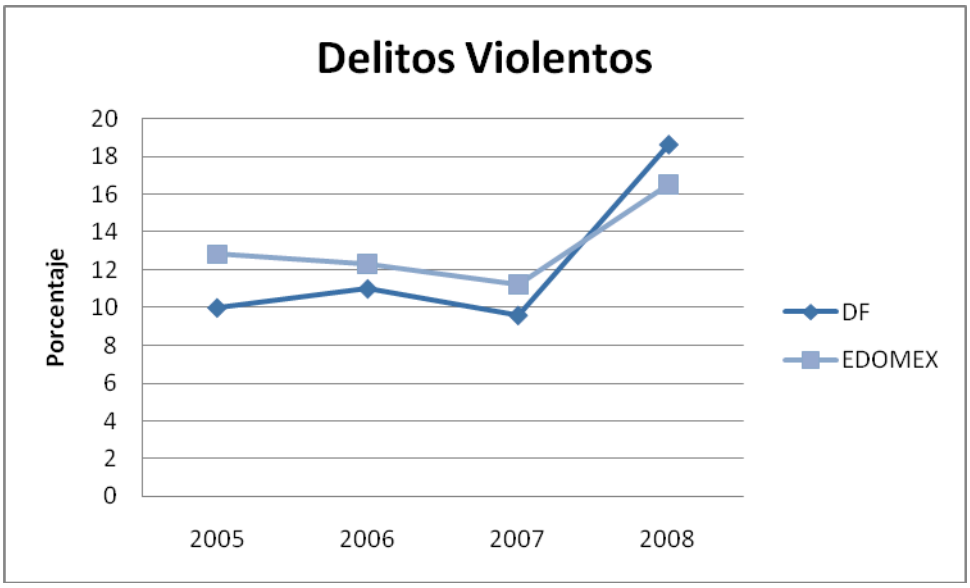
This initial evidence suggests that rising crime is a regional rather than single country trend. In most countries the level of victimization has increased significantly over a decade. This is particularly dramatic in countries with relatively modest rates of victimization such as Argentina, Bolivia, Chile, Costa Rica and Uruguay. While in 1995 most countries have lower than 25% victimization rate, by 2005 none has lower than 30% and most have higher than 40%.

These surveys, however, lack depth and specificity of the trend and types of victimization. They do show that at least since 1995 crime has been growing. As it will be shown later, by 1995 the crime wave was already rising, and probably started in the

1980s. Since 2005 I have conducted regular victimization surveys in Mexico.[3] As figures… show, crime is still growing and very dramatic since 2007. The results describe the percentage of household that have at least one member of their families victimized on certain crimes.[4] The increase in criminality includes both violent and property crime. But the most significant increase has been in personal theft such as cellular phones, personal belongings, cash, computers, etc




[3] It covers Mexico city and urban populations of the state of Mexico, the largest state in the country
[4] For a complete explanation of the indexes and results see Marcelo Bergman and Rodolfo Sarsfield…. We define patrimonial serious crimes as theft valued as higher than 1000 pesos (approximately 80$) Violent crimes are property crimes committed with the use of weapons or under the threat of use, as well as aggression, assault, kidnapping.




Source: Victimization Surveys: CIDE 2005-2008

## 1. Yearly rate of victimization for several crimes (2005-2008)

| Delito | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| **Car theft *** | 4.70 | 5.05 | 3.70 | 5.00 |
| **Attempted or actual theft of auto parts *** | 18.95 | 19.55 | 12.85[5] | 20.95 |
| **Burglary** | 2.50 | 2.50 | 2.10 | 3.00 |
| **Personal theft** | 5.80 | 6.40 | 7.05 | 12.75 |
| **Kidnapping** | 0.45 | 0.20 | 0.20 | 0.45 |
| **Aggression** | 3.10 | 2.40 | 2.30 | 3.60 |

Source: Victimization Surveys: CIDE 2005-2008

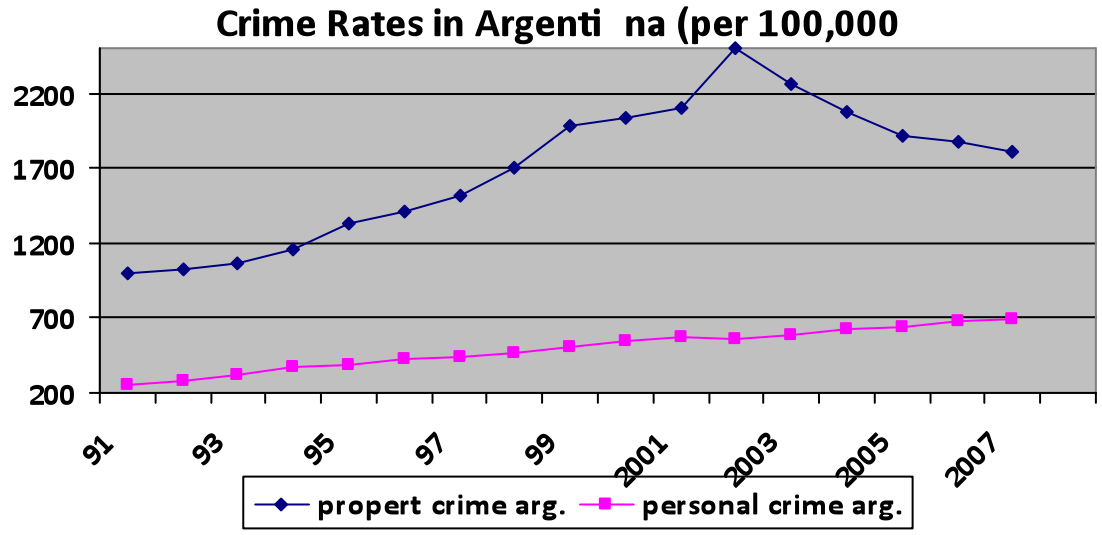
Esta caída en la tasa es producto de una modificación de la pregunta en el año 2007. En los dos años anteriores la pregunta de robo de autopartes contenía además el robo de efectos personales que habían sido dejado en el auto. Para el 2007 estos robos son capturados en robo personal mientras que en la categoría robo de autopartes sólo se incluyen solamente las partes del auto robadas.


Source: Victimization Surveys: CIDE 2005-2008

Official records

In addition to victimization surveys, the official records of criminality provide an approximation to the scale and depth of the problem. There are some caveats to these measurements. First, most crimes are never reported to the authorities, particularly low value property crime. This means that an increase of petty crime will not be properly captured by official records. Second, as it is well known in the literature, official records in the region have multiples flaws regarding reliability and validity questions. Authorities have never developed serious attempts to collect data and therefore there is no good screening, categorization, auditing and many other requirements to have sound data systems. Third, and this is happening everywhere (see op-ed by Bratton in NYTimes 2-17-2010), officers tend to underreport crimes because the data they collect is being used to measure performance. Fourth, as authorities become less effective in resolving crime and provide public security, people become more reluctant to report crimes to the police. Despite these and several other pitfalls, official records provide some measure of trends. The following charts describe trends for Argentina and Mexico for a period of almost 20 years. The data on Argentina illustrates that crime rate has been rising steadily since the early 1990s. Moreover, it is very likely that this has been a trend that started in the 1980s.

For instance, from scattered information reported elsewhere (Bergman 2001) total crime rate was 9 per 1,000 in 1980, 11 cases per 1,000 in 1984, and it reached 15 per 1,000 in 1991. In sum, by the time complete information began to be assembled in 1991, there was already a sensible rise in crime rates. The following chart presents one of the longest series of the region. It is based on reported crimes to the police that include aggregates of personal crimes (homicides, violent aggression, assault, injuries, etc) and property crimes (robbery, burglary, personal theft, larceny, etc)[6]




Source: Official report by the Ministry of Justice http://www2.jus.gov.ar/politicacriminal/TotalPais2007_evol.pdf

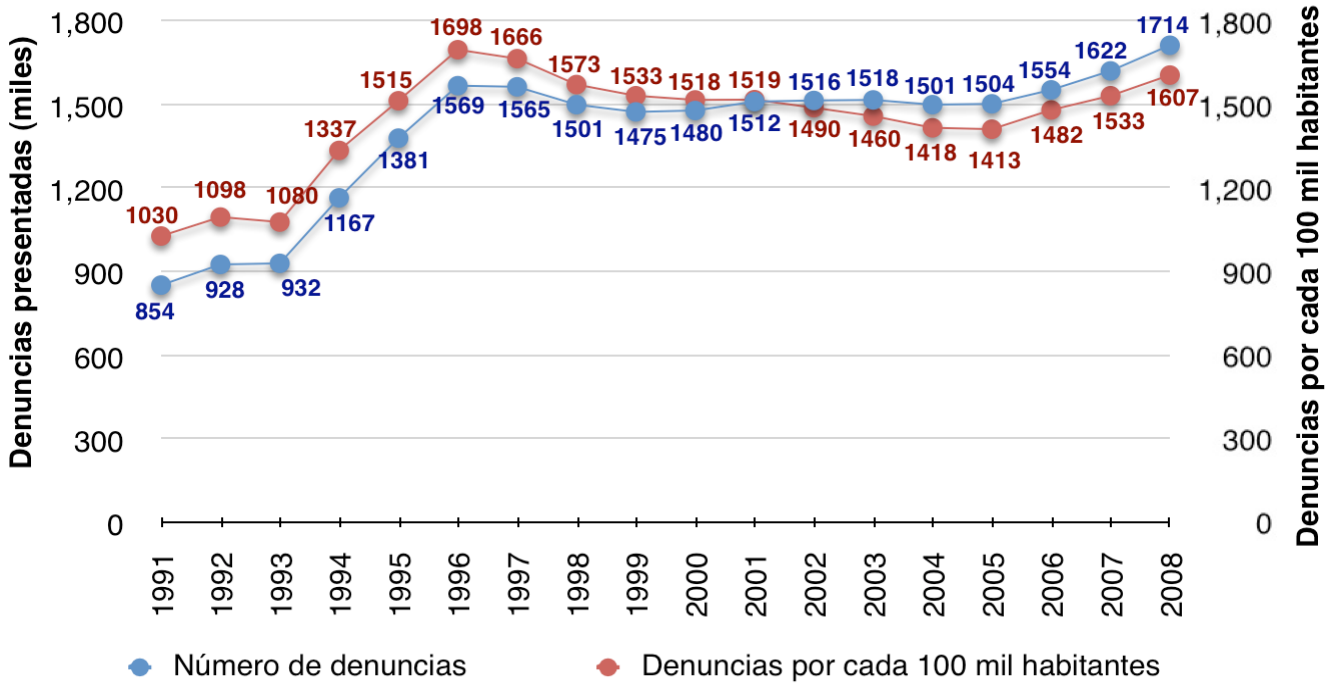
The data clearly signal a dramatic increase in criminality. First, personal crimes rose every year through the entire series except for just one (2002). Second, the increase has been significant, tripling the rate over the span of 16 years from 255 per 100,000

[6] Crimes are consistently underreported to the police. It is difficult to estimate actual crime rates without victimization surveys series. Very likely, over the time the number of reports diminished due to the inability of police and courts to detect and punish delinquents. If that is the case, the trend of criminality has actually risen even more through these years. In addition, a large victimization survey conducted in the city of Buenos Aires in 2007 shows that the report rate of crime to the police was approximately 28% for personal crimes and 22% for property crimes. If that rate holds for the entire nation and across the years the actual rates of criminality would be approximately four times larger.

(1991) to 697 (2007). Third, the reported property crimes doubled in this period from 994 per 100,000 to 1,809. Although the trend shows a modest decline after it peaked in 2002 in the midst of a deep economic depression, it is still very high compared to Argentina´s historic trends.

The Mexican series also signals a dramatic rise in criminality. Unfortunately there is no breakdown for the type of crime, but it is safe to assume that the vast majority are for property crimes. As in Argentina, crime rose drastically in 1994 at the onset of an economic crisis (Bergman 2009) By 2000 it leveled off at about 1500 crimes per 100,000, but it began to climb again over the last three years. Despite the fact that people are reporting less crime, the rate has increased by 60% over the last 17 years.

**Reported Crime to Authorities in Mexico**

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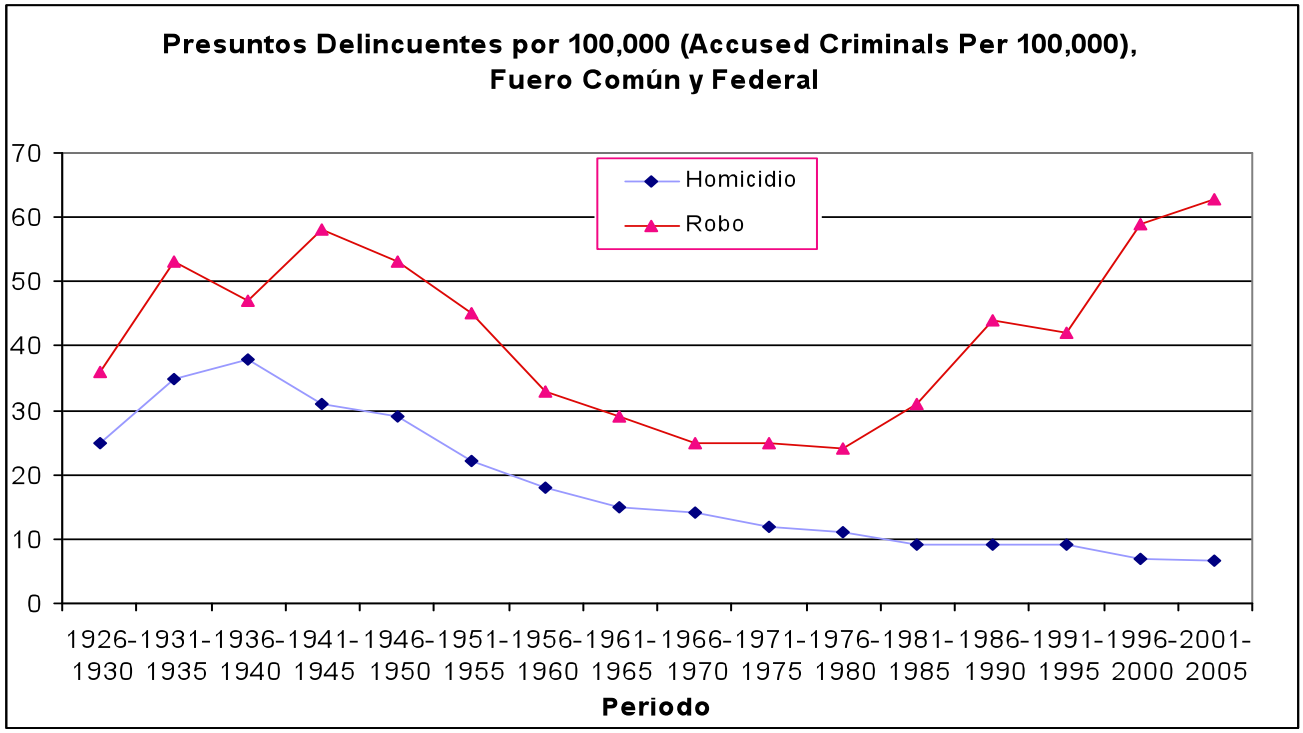



Source: Donnelly and Shirk *Police and Public Security in Mexico* p.4

Scattered data from other countries also show similar trends. In Uruguay I estimate on the basis of official data reported by *División de Estadísticas y Análisis Estratégico-Ministerio del Interior* that using 1990 as a 100 base, that in 2009 crimes against property grew by 92% and crimes against the person by 190%.7 Chile…..

In Nicaragua, which has a police department considered among the best in Central America the total number of crimes reported to the police went from 97,500 in 2003 and 155,500 in 2007 (60% increase in just four years)[8]

In sum, although no uniform pattern could be established from homicide data, clearly from victimization and from property and violent official crime records it can be

[7] http://www.presidencia.gub.uy/_web/noticias/2009/06/observatorio.pdf

[8] Reported by Comisionada Mayor *Rossana Rocha López* Policía Nacional de Nicaragua, in her presentation "El Modelo Policial de Nicaragua" It can be found in http://www.insyde.org.mx/expages/seminario.asp

established that criminality has been rising considerably over the last 20 years. Perhaps, the onset of this crime wave goes back into the 1980s, however, we do not have data to firmly confirm when it started. The historical data for Mexico provide validity to my claim. Both the homicide data and the property crime data followed a similar trend from the 1920s until the early 1980s. However, while homicides continued its declining trend, property crime began to rise. The gap between the two curves has been widening, suggesting that we are in the midst of a crime wave driven by a rise in property crime. Violence has been the consequence and not its cause.

Towards a general model of rising criminality

Why crime in Latin American had steadily risen since the 1980s. There are little similarities between Buenos Aires and San Salvador, or between Rio and Quito and still crime rose all over the region. Chile and Mexico, despite the great disparities have had similar increases in crime rates. Countries with weak states such as Venezuela and Colombia have witnessed spikes on crime, but so have countries that in the 1980s and 1990s have relatively strong states such as Chile and Costa Rica.

Some theories have subtly claimed that the transition to democracy ushered in unintended consequences: Police and repression forces whose hands were tied after transitions to democracy enabled delinquents to feel less threatened by legal enforcement agencies, generating higher criminality. But how to explain Mexico, that has in the 1980s and early 1990s the same authoritarian regime that has governed since the 1930s? Why Chile under Pinochet also had a spike in criminality. On the other hand, although it is true that police forces have been subjected to tightly civilian control since transition, the large spike in criminality in Argentina occurred 10 years after democratization began. In short,

although there are some merits to the diminishing enforcement capacities of new democratic governments in the region, there are numerous gaps that cannot be addressed successfully.

Another line of argument establishes that violent crime (particularly drug related) increases when the monopoly of enforcement capacities breaks down due to either governmental decision or the demise of authoritarian regimes (Snyder and Duran-Martinez 2009) The executives and the police that formed "rackets" provided protection for illicit activities in exchange for "peace" delivered by criminal organizations. These "truce" they theorize, depended on the number of players and the geography of operation. Although there is also merit to this claim, it does not fully explain why new players emerge, why enforcement changed, and how markets of goods played a role in the new complexion. In short, the political factor is just one of the explaining variables, but certainly not the only one.[9]

I claim that crime rose in response to massive transformations in the region. Large social changes occurred from the 1980s. As the ISI model of development began showing its limits and fiscal crisis erupted in 1982, new generations of migrants into large cities that have already born in depleted and marginalized neighborhoods of big metropolitan areas have found difficulties in finding traditional paths of formal inclusion and mobility. Formal employment began to dwindle and formal union affiliation and structured social mobilization faded. New generation of citizens abandoned prior paths of insurgency and violent struggle to overturn regimes. The new democratic governments have found new

[9] The historical data on crime in Mexico (see chart above) show that property crime climbed since the late 1970s and the beginning of the 1980s. Authoritarian PRI still exerted during those years a strong social and political control.

ways to gather political legitimacy by promoting policies that increased public consumption.

It is well beyond the scope of this paper to delve into these important topics. But I assert that the 1990s has brought to most Latin American countries along with new wave of foreign and local investment a new optimism that translated into a middle classes high level of consumption. Economic growth has been explained largely by individual spending (more than 2/3). But also lower and marginalized classes have found in consumerism a path to citizenship (Garcia Canclini 2001. See also Bauman).

I claim that a particular mix of these two major variables (the fragmentation of deterrence and the appetite for rampant consumption) led to the emergence of groups willing to meet a new market demand. In short, conditions were ripe for the emergence of organized crime that had posed a challenge to both legal markets and formal authorities. The rise in criminality is largely due to the organization of markets of illegal goods.

Let me first define what I do refer as organized crime. Usually organized crime is associated with the mafia and/or drug cartels. These are of course well developed and established criminal organizations. However, the emergence of organized crime in Latin America is closely related to the development of markets of small and medium size organization that developed to supply illicit goods. I follow here a definition of organize crime as "… loosely affiliated networks of criminals who coalesce around certain criminal opportunities" (Finckenauer 2008 65-66) Mostly these organization pursue profits by exploiting illegal trades for economic gains. They are characterized by some structure and continuity (organized crime are rarely "one shot" businesses). They are willing to rely on or threatening to use violence. They rely on corruption to neutralize

government enforcement. Although they master illegal enterprises some also penetrate legitimate business.

But their main signature is the ability to organize resources on the margin or outside the law to reap economic profits…"The predominant forms of organized crimes exist to provide goods and services that are either illegal, regulated, or in short supply. It is the presence of one or more of these limiting conditions and a desire by a large enough segment of society for the particular goods and services that make their provision a profitable business" (p 67)

I argue that starting in the 1980s and particularly in the 1990s new economic conditions led entrepreneurs in the region to supply goods and services for a growing demand of new consumer groups. The impoverished but nonetheless voracious new consumers demanded products at very low price that only illegal activities could deliver. Of course, low costs were possible because the premium for engagement in illegal and criminal activity was very low (the probabilities of detection and punishment of delinquents under precarious law enforcement agencies reduces the premium-cost of engagement in illegal trades).

More importantly, technological change and the fall of trade barriers generated a sea of goods at lower cost. In addition the reduction of interest rates and the expansion of credit helped to generate new generations of consumers that had access to many items that prior generations were barred from. In short, technological change, international commerce and the expansion of credit created much higher demand for a new generation of consumers. Paradoxically, it is this economic change what created new markets that organized crime captured and was ready to deliver.

Of course, Latin America has not been the only region that has witnessed the combination of two distinct processes, some breakdown of legal authority and voracious appetite of individual consumption. The countries of Eastern Europe and many of the former Soviet Union have seen parallel process in the 1990s as well. Organized crime surged in this region as well to reap economic profits of illegal activities.

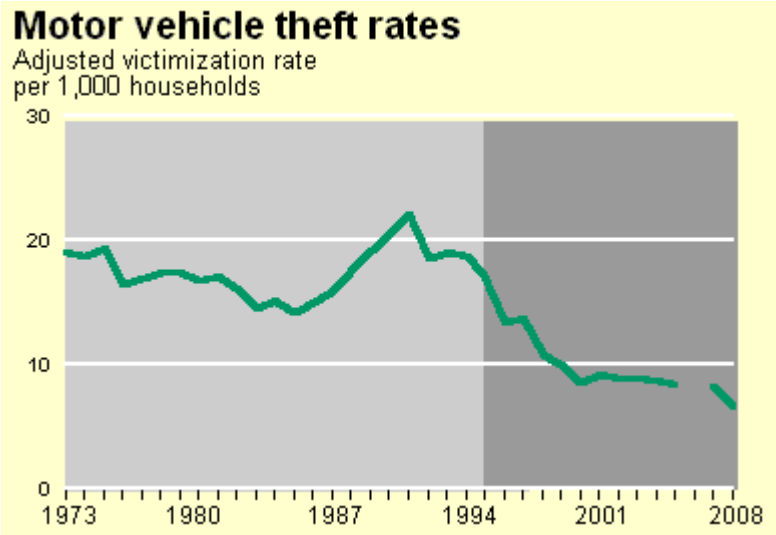
The case of car theft

Before I move into an integrated model of rise in criminality let us illustrate the above mentioned pattern with the case of car theft. Stealing cars is the consummate example of organized crime. Single people rarely steal a car for individual pleasure. Sometimes, an individual or a group do steal a car in order to commit other crimes (like kidnapping or bank robbery) in which such car theft is part of a larger organized crime scheme. Very seldom few delinquents rob a car to use it for a brief period of time. Most of the times, however, cars are being stolen for two purposes: to smuggle them overseas and sell them, or to disband them and sell the auto-parts in secondary markets.

To meet a demand for stolen cars or auto-parts requires at least a modest organization. Some people steal the cars, others disband them, others market their parts to specialized stores of used auto-parts, and others manage the finances and the security of this operation. Those cars that are stolen for overseas sales (usually high ticket cars) hire drivers, people that bribe security and custom agents, those that fake paperwork, and so on. In short, car-thefts require at least two things: a market and an organization. To the extent that the cost of such organization is lower than price-tag of similar used legal goods there is a room profit and for potential illegal activity. However, if the cost or premium of apprehension and incarceration becomes very high, the marginal rents

decrease and so the ability to forge effective criminal organizations.[10] In short, and all things being equal, when countries have poor and lenient enforcement of their penal laws the cost of illegal trades diminishes and its market grows.

I present first data on the US on car theft to reject the hypothesis that car theft is epidemic. As shown, car thefts have been declining for the last 15 years in that country

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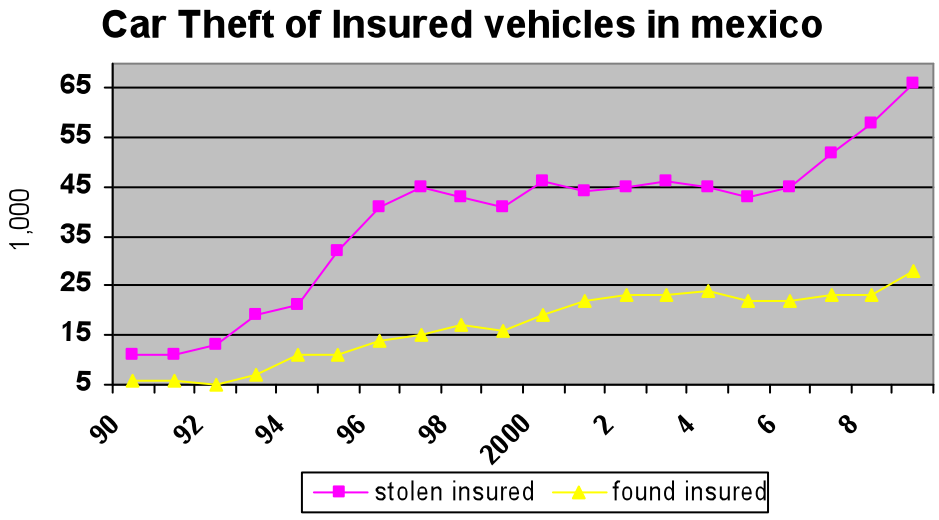
I estimate that every year approximately one million cars are stolen. Most of them are never recovered. This is at least 3-4 billion dollar a year industry. The data is scattered and difficult to assemble, but most countries had a large increase in car thefts through the 1990s and the XXI century[11]

Cross sectional data however, does not track trends, and does not allow to properly testing the hypothesis of rising organized crime. Unfortunately, the data for most

[10] On this point there is a large literature on the effect of trust and loyalty in mafia organizations (Gambetta .. Tilly 1974, Schelling 1976). By relying on keen and loyal membership into the organization the transaction costs diminish allowing the mafia to reap benefits from trades that might otherwise be too expensive to operate.

[11] Of course, car thefts are among the most reported crimes because insurance companies require police reports to reimburse car policy owners. However, many car owners do not carry insurance. For instance, from the victimization surveys in Mexico it is known that close to 40% on people that their cars were stolen never reported to the police

countries is unavailable, but some series of comparable information sheds light on the trend. The following charts describe the rate of stolen cars over several years. There are two sources for different countries and years. The first derives from the official record of reports to police or other official agency.[12] Other than homicide this is probably the best reported crime since car owner usually requires a police report for their insurance. But many car owners, particularly those who own old and small cars, do not carry insurance. Therefore a good measure is victimization surveys. The second measure is the report of car insurance umbrella organizations that track stats for insured vehicles. I present several charts to describe the absolute numbers of stolen cars for several countries over the years. For the case of Mexico it depicts both sources of data plus the stolen insured vehicles that were finally recovered



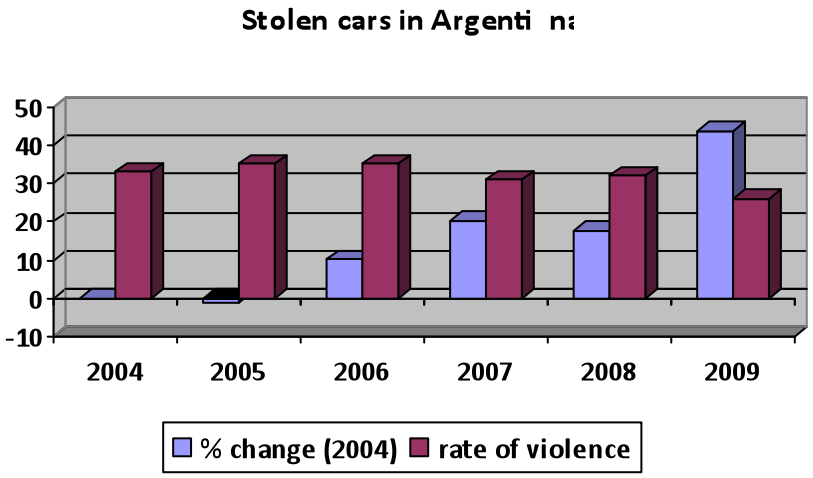

Source: Estadisticas historicas de Mexico. Cuadro 21.20. www.inegi.gob.mx

The data clearly points to a large number of stolen cars. First, stolen vehicle is a growing business. Over the ten years where data is available the number of stolen insured cars grew by 60%. Second, not many cars have been recovered. The data for Mexico

[12] In some countries crimes are not reported to police but to the prosecution office.

shows that approximately 40% of the insured vehicles were recovered. However, since at least 1/3 of total stolen cars were never reported to the police,[13] it is estimated that half of all stolen vehicles were never recuperated, creating a large illegal market. For Mexico alone, a conservative estimate yields a 300 million dollar black market.[14]

The data on car theft reported by insurance companies in Argentina show an interesting trend. The total reports of stolen vehicles had increased from 2004 to 2009 by 43.8% (2004 estimates are based 100). In addition, in 2004 two out of three vehicles were stolen by delinquents using firearms, while in 2009 that rate was one out of fourth of all the insured stolen vehicles.[15] This organization (CESVI) does not report absolute numbers, however, it is easy to derive that the total number of violent car-thefts in 2009 was greater than in 2004. [16]




[13] Victimization surveys provide that rate. For Mexico over the last five years the reported rate of stolen cars reported to the police was 56%.
[14] An average stolen car could be sold at U$5,000 (new luxury cars are high ticket items while auto parts are sold for less) At least 60,000 cars per year end-up in the illegal market.
[15] This information is not consistent with other official data. For example, for 2007, the federal government reported that out of 17641 cases registered as stolen vehicles 53% were conducted with firearms, 7% with other weapons, and 40% without weapons. See http://www2.jus.gov.ar/politicacriminal/TotalPais2007_prop.pdf page 9 (last reviewed 2.12.2010) In short, 6 out of 10 cases were committed with a weapon.
[16] I requested the data but the organization, for some unclear reason, refuses to report absolute numbers or provide it to researchers for analysis. Still it is easier to conclude that 26% of 143 is higher that 33% of 100.

Other countries show a similar trend. In Uruguay data for just three years (2007-2009) shows that car theft increase over this period 14.6%.[17]

Is this black market for stolen vehicle supply or demand driven? This is a difficult question to answer. The data points to a higher supply that apparently is being met by a higher demand. In other words, more cars are stolen and the industry is finding a market for them. I claim that this is a demand driven market since prices of used auto-parts have not came down. In short, some people are stealing because there are others eager to buy these goods. Particularly, for stolen auto-parts, this is a mature market that has reached equilibrium and trimmed transaction costs.

Two critical questions must be answered: First, why there is an increasing demand for stolen goods, and second, why suppliers can develop and organize these markets under the watching eyes of states.

Secondary auto-parts markets developed due to a large increase in the parque automotor. For countries such as Brazil, Mexico and Argentina, the yearly number of new vehicles sold increased by at least 50% through the 1990s. This growth has been explained by new technologies and investments that have lowered prices. As car became cheaper, and credit became available, new lower middle class and established working class had access to small vehicles. This created a large new market for used cars where new consumers (low income) purchased these used cars. This has also been a demand driven market since the price rate (the rate a used car model was sold compared to its new version) kept being the same. In other words, as prices of new cars came down so came down the used ones. But instead of losing more value they kept or even increased their value, hinting into a high demand.

[17] http://www.presidencia.gub.uy/_web/noticias/2009/06/observatorio.pdf page 7.

Secondary auto-parts are crucial for this segment of consumers. Low income car-owners cannot afford new auto-parts. As the parque automotor grows so does the market for stolen vehicles.[18] Higher demand for cheaper goods could only be met either by a drastic reduction of auto-parts prices by producers, and/or a reduction of taxes and transaction costs by legal suppliers. Neither of these processes occurred.

In sum, the stabilization of credit and new technologies lowered car prices that generated a larger market for new cars. As this market grew the used cars also grew rapidly as new consumers with limited resources purchased used cars. A larger and older parque automotor demanded cheaper parts that could only be obtained from stolen cars. Entrepreneurs seized the opportunity and were able to meet this rising demand. The next section analyzes how illicit activities have been so successful in the last decades.

Organized crime in Latin America

High demand for illicit products generates incentives for new risk-prone entrepreneurs to supply them. Prohibition of illegal goods and high taxes on certain commodities are the prototype of policies that elicit black markets. The ability to organize and meet the demand of such goods has been recognized as the classic pattern of criminal organization. Alcohol and drugs, human trafficking and high taxable goods such as weapons were supplied by mafias and other criminal groups commonly associated with organized crime.

Perfectly legal tradable goods, however, represent a different brand of organized crime not yet very well studied. The most common type of illicit trade of legal products is piracy. But a less common feature in the US and Western Europe is the vast industry of stolen but legal goods that reach the market at a much lower value. Why this is so

[18] For the countries we have at least 5 years of observations the correlation coefficient was …..

common in many parts of the world and less common (at least in the magnitude of the business) in most developed nations?

The obvious response is that the retail price differential between the same legal and stolen good favors the rise of a market for illegal trades. And a big part of the success of illegal but very efficient markets is the low cost of risk. In the following pages I will discuss this topic at length, but the main point is that the cost of conducting criminal activities has came down over the last years enhancing the capacity of these illegal organizations to succeed. In short, the risk-premium for undertaking criminal activities largely explains why black markets proliferates in the third world but remain modest in most developed countries.

One additional consideration must be stressed. Markets for stolen goods seem to be very efficient. This does not mean that, as opposed to mafia-type organizations, they are managed by a hierarchical and monopolistic market structure. On the contrary, black markets for massive consumption of stolen goods resemble what Peter Reuter (1985) has called disorganized markets where a large number of small and flexible organization compete to provide goods and service for price conscious consumers. This structure has also contributed to making stealing goods a very large (and competitive) industry.

Fragmentation of deterrence

Why engaging in criminality is becoming cheaper? There are several reasons. First, as the cost of labor came down and the number of underclass youth grew, it created a large supply of youngster easily and cheaply recruited by criminal organization.[19] Second, the entrenched and lubricated networks of corruption have allowed the

[19] This is an argument that deserves further examination. Several scholars have dealt with idleness, strain, and social disorganization explanations to account for the large growth of offenders in major Latin American cities. Here I integrate them into a theoretical context that underscores such effects.

proliferation of very efficient organizations. Third, as countries moved from authoritarian regimes or civil war regimes to democracies, the level of previous deterrence effects diminished somewhat lowering the risk and thus the cost of apprehension and incarceration. And fourth, the weakening of state enforcement capacities fragmented into multiple actors that rarely coordinated, allowing criminal organizations to lower the cost of bribing and capturing of police and courts.

In sum, the expansion and diversification of stolen goods and other illegal markets resulted from the relatively operational low costs. Several processes helped to reduce costs for entrepreneurs to launch and develop illicit profitable enterprises. The technological changes and the expansion of credit that helped to increase demand, the low cost of labor due to high unemployment particularly among males and young cohorts, and the poor performance of law enforcement agencies. In the next section I analyze such inability of authorities to pose serious threats (and therefore costs) on offenders. The fragmentation of deterrence allowed organized crime to capture some legal agencies, has promoted corruption, and has strengthened leadership of criminal organizations.

Transitions and Enforcement

Most countries in Latin America had authoritarian regimes during the 1970s and into the 1980s. Others had civil wars. By the late 1980s and early 1990s most countries had moved into electoral democracies. Over the last decade, none of the countries in the region could be defined as authoritarian.

Some scholars have timidly hinted that there is an association between these two processes. Far from being "politically correct" they signal that transitions to democracy have brought relaxation of police controls, higher levels of judicial controls that were exploited by delinquents, and penal due process (garantismo penal) that diluted deterrence. Many groups that emerged from civil society, particularly from the middle class, were more vocal in response to the rapid increase of violence and kidnapping.[20] However, no comprehensive explanations, models, or any social mechanism were proposed to account for the inability of enforcement agencies to control crime.

Mexico is a particular case in point. The authoritarian PRI regime since the 1930s was able to control crime by the facto having a grip on criminal groups. Through a vertical and highly centralized structure, local enforcement agents were able to "administer" crime into moderate levels. No criminal organization posed a serious threat to governability. Once a group of delinquents was perceived to have passed a reasonable threshold of criminality, their leaders were apprehended and the group dismantled. Law enforcement agents shared the criminal proceeds in exchange for protection, but were not allowed by the political elite to surpass levels that will threat the political grip of the party´s government. A de jure federal structure was handled by a de facto centralized power that was able to control local law enforcement through a political reign.[21] This equilibrium began to exhaust in the 1980s. But it was not until the late 1990s that the real threat of criminal organization began to be out of control and crime rose sharply.

[20] There have been many organizations in Argentina, Brazil, Mexico and many other countries that have organized large congregations (in the hundreds of thousands) that claimed for toughening the laws and bring more security.
[21] For an in depth analysis see Alvarado (2005), Magaloni (…)

I argue that although there is some merit to the weakening of deterrence hypothesis, what has been somewhat overlooked is the effect of enforcement decentralization. The process that better account to the deterioration of public security is the devolution of power to state and municipal authorities that were ill-equipped, ill-prepared and mostly corrupted to pose a real threat on criminal organizations. The ability of central government to control local authorities had clearly diminished. Some local authorities found fertile ground for prospering. While traditionally police and prosecutors were allowed to extract rents from prostitution, gambling, counterfeiting, and other circumscribed business crimes, a dilution of enforcement followed the process of granting higher authority to local governments.

Under the previous equilibrium criminal bands did exist, but they were curtailed by a relatively effective political machine that had not tolerated a situation that undermined acceptable levels of public order. In addition, small criminal organizations paid dues to enforcement agencies. Once this equilibrium became unstable, old and new organizations expanded illegal activities that initially did not relied on violence. A new equilibrium emerged where new organizations with different specializations developed illegal activities relatively autonomous from enforcement agencies. During the 1990s local enforcement agencies weakened. They particularly tolerated petty crime and property crimes in exchange for rents and moderate “peace”. This tenuous balance did not hold for long. As criminal organizations expanded, and local enforcement agencies weakened, the centralized political system could not effectively counterbalance the level of criminality. Delinquency expanded, it became more aggressive and violent, and law enforcement agencies were overwhelmed by the challenge.

Given the structure of markets of illegal goods, for criminal organization it is sufficient to corrupt or undermine the law enforcement efforts of just a few states to run successful operations. Once crimes were committed in some federal entities (for instance the disband of stolen cars) then goods could be moved "legally" into other entities. In other words, for criminal organizations to succeed they only need to capture some police and courts. Given the low level of coordination and sovereign domain of state entities in law enforcement and criminal procedures, decentralization helped to rapidly subvert a previous equilibrium.

In Mexico there are more than 1600 police departments. There are 32 state jurisdictions with criminal courts and public prosecutors. Federal crimes such firearms trading and possession or drug related crimes represent less than 10% of offenses. The overwhelming number of crimes is handled by local authorities with different levels of professional and efficiency standards. But for the most part, this is a very ineffective system, particularly to operate under standards of due process of law.

As mentioned, this system operated moderately effectively (through coercion, human right abuses, repression etc) under authoritarian rule, but collapsed over the last decade. Why? Some argue that precisely the inability to reform a profound authoritarian system explains its collapse (….). Others contend that the diffusion and proliferation of political actors (governors and federal government from different parties, electoral rulers that are constitutionally barred from reelection etc) diluted accountability allowing law enforcement agencies to be penetrated by delinquents. I agree to some extent with these claims but I challenge them from a methodological perspective. These are counterfactual

interpretations. They are difficult to test and therefore are interpretative and speculative in nature.

I propose a different approach. I contend that the dilution of deterrence is associated to the level of threat posed by organized crime. Where criminality is high, unreformed police and courts have failed to respond to the challenges. This allowed the spiral of criminality to grow. Where the magnitude of criminality has been moderate or low states' law enforcement agencies have been capable to adjust and keep crime relatively low. In short, criminality and law enforcement operate in equilibrium. Once it reaches high levels they are difficult to reverse.

There is some circularity or endogenous problems in this argument. Crimes are high because police are ineffectual what causes higher crimes and poorer polices…. This approach however, allows for the inclusion for the demand side of crime. In other words, when crime is moderate, poor police and courts might contain it. When crime is high, the same institutional make up collapses.

To test this claim I compare crime levels in several states in Mexico at three different years (2000, 2005 and 2008). I compare results for 27 states where data seems at least to be coherent. Some had no police and court reforms, other had moderate reforms and a third group had significant reforms. The percentage of change of crime increase in all this states was high. The following is the rate of change for theft (including the use of violence)

Table: Property crime rate change in Mexico 2000-2008

## Results for different Hypothesis

**Variación de Tasa de Robos por Cien Mil habitantes del 2000 al 2008**

| Entidad Federativa | ROBOS | Entidad Federativa | ROBOS | Entidad Federativa | ROBOS |
|---|---|---|---|---|---|
| Aguascalientes | 70.36 | Hidalgo | 87.45 | Quintana Roo | -2.67 |
| Baja California | 32.82 | Jalisco | 84.14 | San Luis Potosi | 24.22 |
| Baja Cal.Sur | 35.71 | Estado de Mexico | 27.19 | Sinaloa | 6.42 |
| Coahuila de Zaragoza | 25.12 | Michoacan de Ocampo | 109.21 | Tabasco | 42.61 |
| Colima | 147.03 | Morelos | 52.07 | Tamaulipas | 42.32 |
| Chiapas | 26.78 | Nuevo Leon | 37.14 | Tlaxcala | 11.53 |
| Chihuahua | 5.19 | Oaxaca | 14.11 | Veracruz | 30.8 |
| Durango | 67.02 | Puebla | 14.63 | Yucatan | 4.52 |
| Guanajuato | 86.46 | Queretaro de Arteaga | 4.76 | Zacatecas | 52.7 |

As shown, crime rates have increased dramatically. The only state that does not show such an increase is the Federal District. I believe that for several reasons that far exceed this paper crimes are seriously underreported in Mexico City.[22] But consistent with many sources, property crime has rose significantly in the entire country.

To explain such an increase I evaluate the effects of other variables such as the number of police officers, whether that state or important counties within the states had police reforms, the unemployment rate of each state, and the actual crime rate at the onset of the crime wave. Using multiple regression analysis, I estimate the effect of these and other variables on levels of criminality.[23]

[22] For instance while according to the officials records for Mexico city property crimes have dropped from 2005 to 2008 by 24% (!!!) the CIDE victimization survey (a more accurate measure of actual crime) indicate that property crime have least doubled during those years.

[23] I do not include in this version the model and coefficient. They are available upon request.

The evidence could not support the claim that more police in the streets or state reforms reduces crime. Crime rose irrespective of the number of officers and the level of reform. The correlation coefficients are surprising. The level of reform (coded 1 to 3 where three means states that had more reforms and 1 those that did not have significant reforms) was .15 (no stat. sig) and positive, meaning that the deeper the reform the higher the rate of crime increase. The correlation between number of police and crime rate evolution was -.38 (.05) signaling an association in the expected direction meaning that states with more officers have witnessed lower increase in crime. However, this result was driven mainly by the case of the DF. If that case is excluded, for the rest of the country the correlation coefficient is -06 losing entirely the statistical power. In short, there is no evidence that number of officers helps to contain or diminish the rise in crime. The variable that has the highest explanatory power is the overall crime rate. States that had high crime rates have also the higher rate of crime increase. It appears that there is a path dependence explanation.

However, in states where no police reform was attempted the increase from 2005 to 2008 was higher. This means that once the previous equilibria were undermined, the deterrence effect of law enforcement dramatically diminished.

A single case might illustrate this point. The northern state of Chihuahua was perhaps the federal entity that had the most sweeping and comprehensive reforms. There was a significant investment in training, equipment, procedures, and professionalization of police. But at the same time Chihuahua has seen one of the most dramatic rises in criminality. Bodies of women in Ciudad Juarez were found by the hundreds, and

homicides are the highest in the nation. Ciudad Juarez has one of the highest homicide rates in the world. Clearly, the drug trafficking menace has overwhelmed the authorities. In sum, the data appears to support my claim that the authoritarian law enforcement was moderately effective to control moderate or low levels of criminality. Once crime reaches higher levels, deterrence deteriorates rapidly. What explains the breakdown of law enforcement is the inability of agencies to adjust to a new equilibrium.

Similar process happened elsewhere in the region. Argentina that emerged from a strong authoritarian regime in 1983 witnessed a rapid rise in criminality in the 1990s. This has been particularly felt in the largest and very important Buenos Aires province, where police has been allegedly blamed for cooperating and even partnering with criminal organizations. "la policía maldita" ("the damn police") has been blamed for collaborating or not doing enough to control criminality. But testimonies and reports have clearly shown their deep involvement in car theft and auto-parts resale and even cooperation with foreign Islamic terrorist that blew out the Jewish Organization headquarters in 1994. Long after democratic transition occurred and in the midst of rising crime, the Buenos Aires police got deeply involved in criminality.

The Rio de Janeiro and Sao Paulo police departments were also mentioned as department that due to the rapid rise of the drug trade got involved with criminal rings.

In sum, I claim that organized crime did not pose a serious threat to authoritarian rulers. But what explains the deterioration of deterrence and the dramatic rise of illegal markets of stolen goods is the uncoordinated and unplanned decentralization process that followed democratization. The well-intentioned devolution of authority to the states and

municipalities that were ill prepared for the tasks has allowed the penetration of delinquents to some of these organizations.

Concluding Remarks

In this paper I stressed that crime has been rising steadily throughout Latin America. Far from being a local or a problem for few countries the high level of criminality are a genuine regional phenomenon. I pointed that from the homicide data it is unclear weather the violence grew sharply, however, the data shows clearly that there is a long process of property crime surge.

I argued that the large increase in criminality is associated to the development of secondary markets supplied by criminal rings, associations, and organizations with different levels of stratification and specialization. In short, the rise in crime is explained greatly by the growth of organized crime. The two main variables that contributed to the explosive growth of organized crime are the rapid increase in demand for cheap goods and services that elicit the development of illicit markets, and the fragmentation of deterrence that yielded poor law enforcement agencies performance.

I have proposed in this paper a framework or a road map to grasp and explain the growing nature of crime. Many questions however remain unanswered. Is the data fully consistent with this approach in every country? What is the role or peculiarities of each nation and geography?

The initial findings appear to suggest that prior settings have significant explanatory power. Thus, the trajectories or path dependency of crime and law enforcement equilibrium appears to be in place. I could not adequately test this proposition.

Lastly, but definitely not finally, more evidence is needed to prove the strong connection between the emergence of higher demand for cheap and illicit goods and the organization of illegal markets to supply them. This remains a challenge until adequate data could be assemble to fully test such hypothesis.