

# HUMAN CAPITAL IN THE CONTEXT OF THE ECONOMIC DIMENSION OF CRIME IN THE TRANSFORMATION OF THE ECONOMY

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## Abstract

The paper focuses on current issues related to human capital and economic dimensions of crime during the economic transformation on the example of the Czech Republic. In this context, it refers to the use of asymmetric information components of organized crime. This creates a strong competitor opaque state power. Therefore, organized crime can be described as a phenomenon representing one of the current threats to a democratic society with a market economy functioning mechanism. Targets of organized crime always have priority economic motive. Its structure to achieve their objectives proper use of human capital potential in all spheres of legal and illegal economies. The main component of investment in human capital in the service of organized crime are already mentioned asymmetric information. Now their use in these criminal structures represents a potential security risk to the threat of major economic interests of a democratic political system. Human capital theory and the phenomenon of organized crime in today's society require a methodology for processing applications of social sciences interdisciplinary approach to economics, sociology, political science, criminology and law. Therefore, this article is also handled by that method with prevailing economic approach.

**Keywords:** human capital, crime in transforming the economy, organized crime

**JEL Code:** A13, J24, K14

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## Introduction

Crime History proves that its underlying causes are recurring factors, namely poverty, human desire for power and money, the lack of effective regulation, unenforceable laws and the climate in society that this state tolerates or even supports it. Contemporary organized criminal groups operating in the global underworld can achieve greater economic influence than some states. Therefore we organized crime rightly referred to as a phenomenon that represents one of today's global threats of this world. Rationality of individuals involved in

the structures of organized crime has always economic goal (*Džbáňková & Sirůček, 2013*). This relates to the "hidden" redistribution of resources, just as the appropriate means of power enforce certain "coalition", which exploits its dominant influence over the allocation of resources (*Wawrosz & Valenčík, 2014*). Manifestations of this redistribution of influence are in the microeconomic and macroeconomic environment (*Volek & Novotná, 2014*). Creating coalitions is always associated with the concept of human capital, which enters into criminal service. On the other hand, can not be overlooked speeches Impact crime through physical and moral amortization of the equity component of the economy.

## **1 Data and methodology**

The significance of phenomenon organized crime in the Czech Republic discusses some of the early 90s of the 20th century in parallel with the implementation of economic transformation. At the time, both professional and lay public began to realize the risks that come with this phenomenon brings. Organized crime affects in different ways and to varying degrees in many areas of social life. However, it is almost impossible to accurately determine the damage caused by their activities. It comes at the same time the reality that both the criminal law and criminology, differentiated by differences of economics called - illegal, shadow, gray, black, hidden, informal, and the like. For the Czech economy are estimates of the proportion of the economy with "various modifiers" about 15% of gross domestic product. It is also difficult to estimate how much is attributable to the accelerated form of organized crime. Its range is undoubtedly considerable, both in macroeconomic and microeconomic sphere. The dynamic development of criminal structures is largely determined by human capital, which enters into their services. On the other hand, are significant impacts on human capital economy. In this context, it is also difficult to quantify the physical and moral amortization of capital component economy. Therefore, consideration of basic performance indicators of criminal components and impacts on the economy are not the subject of this paper.

When processing predominates by analytical methods. It evaluates the parallelism between organized crime and economic transformation in the Czech Republic. In this context, also because important cases presented cases with which struggled Czech criminology. It also pointed to the transformation of criminal activities in the timeframe 2006 - 2009, which accelerated the process of "money laundering" and follow their transformation into modern forms of legal business.

## 2 Results

### 2.1 Crime in the subject of interest of economic disciplines

Dating the origins theories that focus on the economic aspects of crime, and particularly its organized forms is not easy. Perhaps as early sociological theory of anomie demonstrates the first mention. The term "anomie" enjoyed (or "borrowed" from the French philosopher Jean-Marie Guyau) French sociologist Emile Durkheim in his book *Suicide* in 1897. (Moore & Recker, 2016). In it he explained the cause of suicide as an individual state, which is characterized by absence or weakening standards and moral values which bind to feelings of alienation and futility. According to Durkheim's anomie occurs when an individual's neighborhood has undergone significant changes in the economic dimension (in particular property). More generally, it can be said that the impetus for anomie condition can be significant contradiction between the globally recognized value system and the reality of everyday life. This statement contradicted previous theories about suicide as a cause that negative events affecting the life of the individual, followed by depression. This leads to a substantial weakening of social control, disorganization of social institutions creates favorable conditions for the spread of various negative social phenomena and especially for the rise in crime.

E. Durkheim followed Robert King Merton. He built on the concept of anomie theory of "social tension" (Moore & Recker, 2016). Anomie defined as a significant mismatch between a generally accepted value system in the society and legitimate means for compliance. According to the theory, Merton individual suffering from anomie pursues a legitimate societal goals, but does not have the appropriate skills to achieve these objectives means that would not be contrary to generally accepted values due to structural constraints of society. This situation implies deviant behavior.

At the beginning of the second half of the 20th century prevailed in intellectual debates opinions that criminal behavior is caused by mental illness and social oppression (Becker, 1997). These attitudes are strongly influenced by social policies and laws began to significantly expand the rights of criminals. In contrast, however, it is also necessary to examine the rationality of criminal behavior (Beccaria, 1986). Of rationality clear that from some individuals become criminals because of the economic profit of the offense. So the extent of crime is influenced not only rationality and preferences of potential criminals, but also an economic and social environment (Becker, 1971).

### 2.2 Asymmetric information as a component of human capital for the development of organized crime

Representative for a major sociological theories of crime Adrian Willem Bongera, who in 1916 in his book *criminality and Economic Conditions* sees crime in the former arrangement of capitalism - the economic aspects (*Sutherland, 1949*). In his opinion, leads the poorer sections of society to the decline of morals, it's the socio-pathological phenomena, which do not lead an orderly life leading to the degeneration of the population and ultimately to criminal behavior (*Bertozzi & Johnson, 2016*). The company divides into four classes - the bourgeoisie, the small bourgeoisie, the proletariat and "lumpenproletariat". Notes, however, typical of so-called crime. Bourgeoisie (bankruptcy, fraudulent machinations, violation of labor safety), as well as the fact that members of the upper strata are far less frowned upon than members of the proletariat (*Bentham, 1931*).

In 1949, American sociologist and criminologist Edwin Sutherland defined the term "white collar crimes". These are the crimes committed by the respected people using social status. Sutherland between these crimes include fraud, bribery, insider trading and embezzlement (*Sutherland, 1949*). It can be stated that according to the above two theoretical concepts (Bongera and Sutherland) is a person with appropriate human capital, which is a component of property asymmetric information.

### **2.3 Economic system organized crime**

In terms of the relationship of criminology and economics, the question arises, what economic system (the mechanism of functioning economies in the centrally directed or market) and political systems (democratic or totalitarian) are the conditions giving rise to organized crime. It is clear that organized crime has comprehensive conditions for the existence of market economies. Until 1989 there was no problem of organized crime in the Czech Republic perceived as too urgent, was perceived as a distant phenomenon (for example mafia methods in the west). In the spirit of the monopoly of party ideology in the social sciences has been presented as a manifestation of "general crisis of capitalism," it was meant blending economic, political and moral ties. It was also declared that this criminal form does not exist in the conditions of a socialist order of society. In the spirit of this ideology he was portrayed as a "mafia capitalism", the issue of the West.

With hindsight it can be in terms of criminology and economics to identify and during this period some forms of organized crime. A typical manifestation was illegal shift on the foreign exchange markets, smuggling luxury scarce commodities like. Also, there were various forms of corruption and cronyism, nepotism, sales positions and the result of contacts at that party power sector. These forms existed in relative isolation without an international

element, and then the result of the closed state and its economy. At that time there was no pressure from the objective needs and even less political will to shape any systematic policy aimed at combating certain forms of organized crime. After the events of 1989, the result of a major structural transformation of the political and economic system associated with the opening of borders and the economy and the profound transformation of property relations created conditions for the comprehensive development of various forms of organized crime in the Czech Republic. This has become an attractive area for the penetration of the international crime and organized groups from abroad. The transformation process also created favorable conditions for the potential development of domestic forms of organized crime on the background of the rise in recorded crime (*Flormann & Krevert, 2001*). Very often it is this reality called "tax for democracy." The organizational structure of almost all police forces and intelligence services in the region, the European Union is component focused on the issue of organized crime - the Anglo-Saxon term "organized crime". Its main feature is that illegal activities through a "division of labor" work together for a longer or indefinite period of more than two persons concerned by applying business transactions of similar structures or use of force or other means used to intimidate or exercise of influence on politics, media, public administration, justice or the economy" (*Tse & Ward, 2016*). One of the strategic methods of crime, violence and intimidation. It should be fundamentally different dates organized crime and terrorism, although combating these forms of group of evil is within the organizational structure of security forces under the folder "organized crime".

#### **2.4 Organized crime of illegal economy**

Organized crime keeps the structure of their "portfolio". Its revenues represent a free financial resources in the economy lacks formal structures and show negative macroeconomic impacts for the state. Therefore, from the point of view victimological not harmed by this individual crime (as in the case of violent crime, economic, financial, etc.), But the entire economic system - the state and taxpayers. What will they use those revenues in the illegal sector of the economy is mainly due to "sales opportunities". As every investor tries and organized crime cells assemble a "portfolio" that bring maximum profit (*Miller & Caplan, 2016*). The main factor is the sales competition, and its imperfect form by creating barriers to entry into the criminal sector. Competition criminal gangs initially in the form of "cold war" often grows into a war of "hot" (competitors murder, acts of violence and various other forms of delinquent behavior, for example. arson).

In case of failure, some cells of organized crime to succeed in "competition" it is obvious that no longer able to continue the expansive buffet. This stems from the limited circle of potential customers consequence of the delimitation of spheres of influence competitive struggle in the illegal sector of the economy (*Miller & Caplan, 2016*). These cells will have to completely change your "investment plans". So invest in the legal sector, they will have to implement the process of legalization of proceeds from crime - "money laundering". This process is the result of monitoring security forces substantial risk. For this reason, it is possible that money flows to terrorist organizations. You must be a certain economic aspects - financial and logistic support also involved in the so-called "laundering" (legalization of profits from criminal activity), because otherwise these gains were not usable. Terrorists to use as working with already established local criminal syndicates, as well as internal structures, including covering companies.

### **2.5 Application of asymmetric information in the development of organized crime in the process of economic transformation in the Czech Republic**

The process of economic transformation from a totally nationalized economy to a market economy was somewhat unique (excluding the former Soviet Union had from the former socialist bloc, Czechoslovakia highest proportion of nationalization). The problem was that the transformation of the economy was presented as a process of transformation of society, which is quite different category. Only in recent years based (documented) clear who carried out the transformation of that part in the privatization. For domestic players, it was mainly the environment of the pre-November "gray" economic zone. From abroad, partly entities that wanted to use the unique chance to enrich themselves (*Vad'ura, 2007*).

For the above reasons, it is an inevitable logical that such a transformation of the economy had to transform society and bring very strong negatives. Could not (and could not possibly succeed) to implement the business in the Czech Republic, the moral dimension, which applies to the economies of Western countries (although there are of course exceptions and failures). It can be stated that one of the main problems lay in terms of economic theory also in information asymmetry. That for the above situation emphasized the fact that information about the current state of the economy and justice are imperfect and, in particular, the various players in the market, the quality of their information differs significantly, which has to conduct these markets grave consequences. In such circumstances, the asymmetry of information pointing to an economic system degeneration associated with adverse selection and moral hazard.

The consequence of negative selection from the market pushed higher quality entities, which was, among other things. Due to the fact that the professional staff and quality management positions in state and local governments left consequence of clientelistic relations and lobbying activities. Their position assumed determining individuals for corrupt actions. Moral hazard caused at that time markets with significant asymmetry of information misuse better informed actors in the structures of organized crime.

## **2.6 Examples of cases of organized crime in the economic transformation in the use of asymmetric information**

Ways of doing so. Gray zones are not functioning economic system, of course acceptable; so it was accessed (belatedly) to repression by amending the criminal law. This was a quite murky legal system, which further complicated by state businesses, and thereby economic base. From a purely economic crime (crime, "white collar") in that it is entrenched in the economy aforementioned persons from the criminal underworld became a mixture that former president Vaclav Havel in the famous Rudolfine speech to the members of parliament 9 December 1997 called "mafia capitalism". Some cases that time period corresponding to that identification. A typical example is a textbook case of light heating oil from 1990 - 1996. Its essence was purely an economic matter, rested on different rates of value added tax. Illegal trade in light fuel oil is due to the gap in fiscal laws other formally changed heating oil and diesel fuel. State lost tax revenues amounting to approx CZK 60 billion. Due to the huge profits accruing to the Underworld in this criminal case totally failed state, and then of the Ministry of Finance and criminal justice. The result was settling style organized crime - killings, where under the crime from the standpoint of economic theory to talk about the appreciation of the value of human life.

Another moment that contributed to the development of organized crime, ironically was itself legislative activity, which is in transition period created a space anomie, as it lacked clear standards governing the behavior in a certain area of social life controlled. Under such circumstances the authorities and law enforcement showed the state of disorientation and uncertainty. It was logical that the perpetrators of organized crime groups were in crime are better equipped than criminal justice; they had no practical or theoretical experience with this type of crime, and in addition, they themselves nor the legislature did not facilitate the situation too (*Vad'ura, 2007*).

Accepted laws lacked regulatory brakes were determined sanctions like. It was a case of an otherwise well-intentioned efforts after the restoration of savings and credit cooperatives. In addition, it was also a fact that in this case the parliamentary proposal went

against the opinion of the ministries and political parties, for which he was elected submitter. Although the law was adopted, but with such legislative deficiencies that soon after introduction into the life of many of these teams was siphoned off. Only ex post were attached to the act regulating mechanisms. The third area is bankruptcy and settlement (or liquidation). Bankruptcies in market economies themselves are a necessary part of and contribute to a certain self-regulation economic environment. The law itself, the bankruptcy has been so bad that it had to be for the duration of its validity amended many times. One can assume that the cases that will be discussed below, are just the proverbial tip of the iceberg and that this area is a latent risk - so serious that it is being undermined by the third pillar of a democratic society, the judicial power.

### **2.7 Changing the "investment portfolio" of organized crime - growth in demand for asymmetric information**

Long-term monitoring developments in the security area that illegal activities of organized crime groups with an ideology of power of money, characterized by "brute force" (blackmail, extortion, kidnapping, human trafficking, illegal migration, property and violent crime) recede into the background. It given the orientation of their "investment portfolio", which represent the funds raised in the form of "dirty money". they invest on modern forms of legal businesses. This trend accelerated particularly from between the years 2006 - 2008. The essence is the reality that the leaders of these illegal groups based companies. They are often used to legitimize capital from abroad, which is often after the "washing" (conversion of illegally obtained money into legal financial and property funds) returned to the country of origin.

At the same time top management - the representatives of these companies are leaders lobbies regional and national format. These groups intensify pressures through various instruments (hence asymmetric information) to the state authorities and local government focused on gaining a competitive advantage and tendering for contracts, property, subsidies and the like. In order to gain certain advantages branched clientelistic structures with strong financial background trying to influence some decisions of state and local governments, legislative bodies, and even of the bodies involved in criminal proceedings. Their activities are therefore directed against the principles of a democratic political system, which implements the legislative, executive and judicial power.

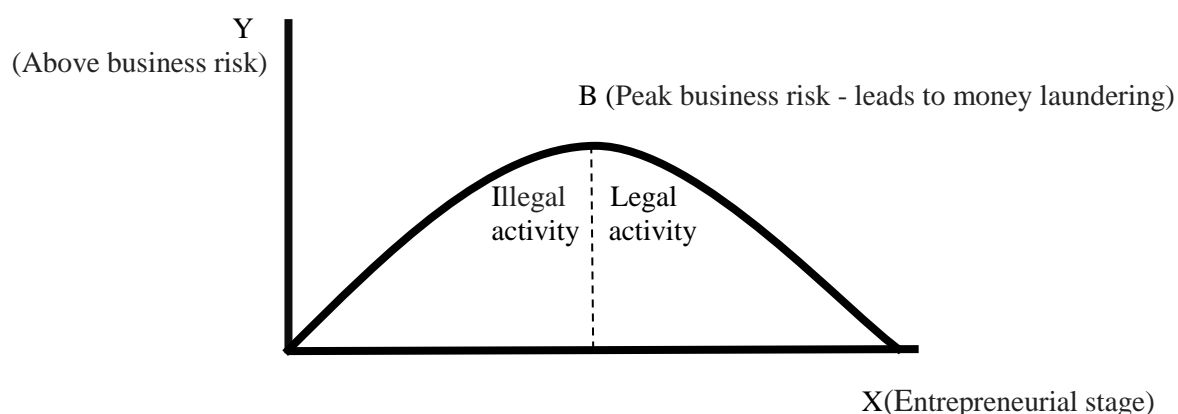
### **2.8 The ability to launder money - a strategic component of human capital in the structures of organized crime**



Beginning combat it came at a time when the enemy is often already well fortified in expanding tax havens, thanks to its rich experience, very well versed in the global financial system and has a wide range of methods through which escapes punishment. For this reason, the main priority is the safety and financial components of the state focus on money laundering. For this reason, this phase of the business for organized crime groups most risky. That is why money laundering "Achilles heel" of organized crime.

For the foregoing reasons, we can say that in addition to asymmetric information can be considered as another important component of human capital in the structures of organized crime also compete in that currently most risky phase of the illegal business, which is just money laundering. At the same time top management effort criminal structures is due to the risk of shortening the time covered in the illegal economy. This situation is documented in the graph below - transforming the business of organized crime from illegal to legal sphere of the economy through money laundering.

**Fig. 1: Transforming the business of organized crime from illegal to legal sphere**



## Conclusion

Organized crime is a competitor of the state. Along with the development of these illegal activities to accelerate the use of asymmetric information in the position of components of human capital. Their carriers are especially persons with knowledge of sensitive data areas important economic interests of the state. Besides asymmetric information becomes present another component of strategic importance ability to compete in the stage business, which is money laundering. As well as other illegal activities shall ensure bosses of criminal structures on hidden course of collecting such information and implement money laundering without any publicity. For this reason, components of human capital in the structures of organized crime potential risk of asymmetric threats democratic society with a functioning market economy mechanism.

It is not always is the human capital in the service of good, but also a servant of evil criminal with global dimensions. An important component of human capital in the service of organized crime during the economic transformation is owned by asymmetric information.

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