

WHERE HAVE ALL THE HOT GOODS GONE? THE ROLE OF PAWNSHOPS

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Recent research argues that because markets for stolen goods act as incentives to steal, police and criminologists should shift attention from thieves to methods of disrupting demand for the goods. The underlying research, however, is too thin to support this advice. Effective policy requires considerably more investigation. Analysis of pawn transaction data from Texas supports this assessment. It suggests that proposals to disrupt demand are unlikely to succeed, partly because similar actions already applied to pawnshops have shown limited effect, mainly because hot goods are invisible in the daily flow of secondhand merchandise through the general retail market. Police and criminologists should remain focused on thieves and their apprehension, and on pursuing ways to do this more efficiently, such as through improved tracking of pawn transactions. There may be other intervention possibilities as well, but much more empirical research is required to identify them.

Keyword: *property crime; receiving stolen goods; pawnbroking*

Recent improvements in public understanding of markets for stolen goods has led some researchers, Clarke (1999); Kock, Kemp, and Rix (1996); and Sutton (1995), for example, to conclude that these markets, because they facilitate disposal, act as incentives to steal. From this they argue that police and criminologists focus too much on thieves, not enough on reducing demand for hot goods. They then urge more research on the markets and on methods of disruption, such as encouraging stores that do not want illicit merchandise to install closed circuit televisions, photograph sellers and post signs announcing participation in crime prevention programs (Sutton 1998).

More research is certainly warranted. But a shift in focus from thieves to disrupting demand seems premature. As Freiberg (1997) highlights, all studies to date merely hint at the size and other features of the market. They offer no basis to justify diverting attention or for expecting that the markets can be upset in meaningful ways. Indeed, Freiberg stresses, "public knowledge of [the] market [for stolen goods] and its dynamics . . . is so impoverished as to

border on the scandalous. Good policy cannot be developed on the foundations of ignorance" (1997:25).

A glaring sign of this poverty is scarcity of research on pawnshops (i.e., pawnbrokers who make loans as main businesses or as sidelines to other enterprises). Rarely arrested, these brokers have long been suspected of illicit trade. Scholars recurrently point fingers at them. Interviews with burglars show their importance for quick disposal. And everywhere there are pawnshop laws that, among other objectives, aim to reduce traffic in stolen goods.

What makes the dearth of research especially dismaying is that although denunciation of pawnshops and efforts to halt illegal trade have recurred for a long time, the few empirical studies done on them, mainly by economists (e.g., Caskey 1994; Patterson 1899), legal analysts (e.g., Levine 1913; Nickles and Adams 1994; Oeltjen 1996), and others (e.g., Wheat 1998), ignore or downplay their involvement. Although these scholars act as deliberate or inadvertent pawnbroker defenders, adversaries, such as Glover and Larubbia (1996) and other investigative journalists, continue to underscore close connections between brokers and stolen merchandise.

Missing from this arena is dispassionate inquiry that might help estimate pawnbrokers' share of the market, and also answer the question of whether new attempts to reduce that share could prove more effective than past attempts. This question is important because if the answer to it is no, then prospects for disrupting other, less visible and less regulated markets for stolen merchandise are remote. There would then be little reason for attention to shift from thieves to markets.

Following a brief look at pawnbroking in the United States, we move toward answering the question with a review of what has been alleged about the link between brokers and stolen goods. With data for Dallas, Texas, we then show that the pawnshop customer base holds a small group of prolific pawners. Containing many people with arrests for thievery, this group is responsible for a disproportionate number of transactions that, we suspect, involve hot items. These data also show that even if the items are but a fraction of all things passing through shops, that fraction represents a significant portion of broker revenue and a nontrivial share of the estimated \$40 billion to \$45 billion of goods that we estimate are stolen every year (see appendix).

Out of this, our answer to the question is that efforts to disrupt markets for stolen goods are unlikely to succeed. One reason, for pawnshops, is that proposed disruption methods are similar to those that have been applied with little effect for a long time. Writ larger, another reason is that stolen items are invisible in the flow of used merchandise between sellers and buyers. Markets for hot goods are inseparable from the market for all secondhand wares. Reducing demand for stolen goods, therefore, implies disrupting the whole retail market for used merchandise. Even if one accepts the premise that this

bigger market acts as an incentive to steal, disturbing it serves no fruitful purpose. Police and criminologists are thus better advised to stick with identification and apprehension of thieves, and with improving methods to accomplish this, such as finding more efficient means to track pawn transactions. This does not exhaust the list of possible interventions, but much more empirical research is required in order to identify the productive possibilities.

PAWNBROKING IN THE UNITED STATES

Pawnbroking is the business of lending cash for a fixed term against the security of a deposit, or pledge, of personal property. The loan is typically 30 percent to 75 percent of the market value of the pledge. If borrowers repay the loan on time together with interest and other fees, the broker returns the goods. If obligations are not paid, then borrowers forfeit their property. The broker earns revenue from interest and fees or from sale of the forfeited items.

The business has almost always been associated with exorbitant interest rates and with facilitation of traffic in stolen goods. As a result, pawnshops are everywhere subject to specific state and local regulation. Some laws set maximum limits, or ceilings, on nominal (i.e., official) interest rates and on storage and other administrative fees that brokers use to push effective rates that customers pay to levels higher than nominal rates. In addition to licensing, bond, land use zoning and like requirements, other regulations focus mainly on identifying stolen goods and limiting their flow through shops. Among other things, these require that brokers submit records of all transactions to police in a timely manner, that the records describe every item pawned, and that borrowers supply personal identification, at times including fingerprints or photographs.

Laws were highly restrictive during the first half of the twentieth century, dampening growth of pawnbroking, or at least that of visible, licensed shops. Levine (1913) counted 1976 of them in 1911, after which the number dropped to 1509 in 1929 and 1374 in 1948 (U.S. Bureau of the Census 1953). As they still do, laws also varied greatly across states. With profitability harder in some places than in others, this variation contributed to big differences in spatial distribution, for example, from 2.6 shops per 100,000 urban population in Kentucky to 17.9 in Florida (Levine 1913).

Numbers exploded during the second half of the century, due in part to regulatory reform, especially liberalization of interest ceilings (Johnson and Johnson 1998), and in part to rapid growth in demand for used merchandise.¹ Based on a count of telephone directory listings, Caskey (1994, 1995) estimates that the number of shops jumped from 4,850 in 1985 to near 10,000 in

1994. We count 12,300 unduplicated listings in 2002. With allowance for those that do not list themselves, this suggests the presence of perhaps 15,000 brokers.² As we show in Table 1, pawnshops have become as convenient to their customers, be they borrowers or criminals, as the 12,500 McDonald's fast food restaurants are to their hungry patrons.³

Another change, in recent years especially, is the structure of the industry. Independent outlets have been absorbed or displaced by regional and national firms, such as Cash America, which in 1987 became the first publicly traded pawnshop corporation in the country (Scott 1992), and EZCorp, Express Cash, and First Cash, which traded on Wall Street a few years later (Caskey 1995).

These corporate players have moved aggressively to acquire merchandising respect, to replace the pawnbroker's disreputable image with that of virtuous entrepreneurship (Drysdale and Keest 2000). Some efforts focus on transforming seedy shops into smart-looking retail stores (Berg 1991; Breyer 1995; Ruisseaux 1995). Others involve strategic use of advertising in local media, and encouraging these media to report positive trends in the industry, notably the move of brokers into suburbia and corresponding widening of the customer base to include more middle- and higher-income individuals (e.g., Auster 1997; Calkins 1987).

WHAT SCHOLARS AND JOURNALISTS SAY ABOUT PAWNSHOPS AND STOLEN GOODS

These exertions may have succeeded in removing some of the stigma attached to use of pawnbrokers, especially in higher-income strata. But they have yet to undermine the widely held conviction that shops serve what Glover and Larubbia (1996) call the modern thief's automatic cash machine. The perceived link between theft and pawnbroking, as mentioned earlier, is indirectly supported by some scholarly research. Cromwell's (1991) interviews of 30 apprehended burglars in Texas showed that 18 percent used pawnshops as a primary method of disposal whereas others used them irregularly. Our analysis of transcripts from interviews by Richard and Decker (1993) of one hundred burglars in Missouri suggests that even though required to have their picture taken, 42 percent used pawnshops for goods disposal, half of them regularly.

More commonly, the perception is sustained by recurrent newspaper articles concerning pawnshop crackdowns, arrest of operators, proposals to computerize pawn records, and the like (e.g., Gryta 1998; Krause 1998; McGeevy 1997). Grounded or not, belief that shops attract criminals contin-

TABLE 1: Pawnbrokers in the United States in 2002, by State^a

State	Effective Interest Rate ^b (%)	Pawnbrokers		McDonalds' Restaurants		Ratio of Pawnbrokers to Restaurants
		Number ^c	Per 100,000 Population ^d	Number ^c	Per 100,000 Population ^d	
Alabama	21	660	14.8	230	5.2	2.9
Alaska	25	55	8.8	30	4.8	1.8
Arizona	20	145	2.8	200	3.9	0.7
Arkansas	15	385	14.4	140	5.2	2.8
California	18	745	2.2	1,165	3.4	0.6
Colorado	10	235	5.5	195	4.5	1.2
Connecticut	3	80	2.3	150	4.4	0.5
Delaware	3	15	1.9	35	4.5	0.4
District of Columbia	2	15	2.6	40	7.0	0.4
Florida	25	1,120	7.0	725	4.5	1.5
Georgia	25	995	12.2	370	4.5	2.7
Hawaii	20	75	6.2	70	5.8	1.1
Idaho	20	150	11.6	50	3.9	3.0
Illinois	23	265	2.1	600	4.8	0.4
Indiana	23	155	2.5	335	5.5	0.5
Iowa	23	100	3.4	130	4.4	0.8
Kansas	10	140	5.2	175	6.5	0.8
Kentucky	22	325	8.0	220	5.4	1.5
Louisiana	20	230	5.1	265	5.9	0.9
Maine	25	40	3.1	60	4.7	0.7
Maryland	20	185	3.5	315	5.9	0.6
Massachusetts	5	65	1.0	240	3.8	0.3
Michigan	5	150	1.5	535	5.4	0.3
Minnesota	20	140	2.8	190	3.9	0.7
Mississippi	25	400	14.1	130	4.6	3.1
Missouri	4	355	6.3	325	5.8	1.1

Montana	25	140	15.5	45	5.0	3.1
Nebraska	12	55	3.2	75	4.4	0.7
Nevada	15	110	5.5	110	5.5	1.0
New Hampshire	20	35	2.8	60	4.9	0.6
New Jersey	3	45	0.5	220	2.6	0.2
New Mexico	10	145	8.0	75	4.1	1.9
New York	3	150	0.8	495	2.6	0.3
North Carolina	22	480	6.0	375	4.7	1.3
North Dakota	25	35	5.5	25	3.9	1.4
Ohio	9	210	1.8	600	5.3	0.4
Oklahoma	20	415	12.0	180	5.2	2.3
Oregon	10	50	1.5	170	5.0	0.3
Pennsylvania	2	90	0.7	545	4.4	0.2
Rhode Island	5	15	1.4	30	2.9	0.5
South Carolina	25	300	7.5	200	5.0	1.5
South Dakota	20	60	7.9	35	4.6	1.7
Tennessee	20	570	10.0	290	5.1	2.0
Texas	20	1,270	6.1	920	4.4	1.4
Utah	10	125	5.6	95	4.3	1.3
Vermont	3	2	0.3	25	4.1	0.1
Virginia	9	255	3.6	385	5.4	0.7
Washington	12	245	4.2	265	4.5	0.9
West Virginia	10	140	7.7	95	5.3	1.5
Wisconsin	3	55	1.0	265	4.9	0.2
Wyoming	20	70	14.2	30	6.1	2.3
Total (average)	(19)	12,295	(4.4)	12,530	(4.5)	(1.0)

- a. All numbers in table are rounded.
- b. Effective interest, including both nominal interest and other charges, is calculated for a hypothetical 60-day loan of \$50 secured with a 2.5 cubic foot microwave oven (i.e., to estimate storage fees based on volume).
- c. Numbers of brokers and restaurants are from state listings downloaded in mid-2002 from the Yellow Pages business directory (excluding duplicates), retrieved June 12, 2002, <http://www.superpages.com/>.
- d. Population estimated, April 1, 2000, <http://eire.census.gov/popest/data/states/populartables/table01.php>.

ues to fuel opposition to their presence in residential areas (e.g., Ingrassia 1995; Lundy 1994).

Pawnbrokers insist that this is misperception, countering that shops are in fact good neighbors serving the needs of cash-strapped populations. They illustrate this with genial stories in the media of the benefits obtained by individual borrowers in financial distress (e.g., Marino 1997). They claim, furthermore, that most if not all pawnbrokers are honest, hard-working individuals who try to reduce risk of receiving stolen property by working closely with police (Chuang 1998; Stroer 1997). As a result, they say, pawnshops accept few stolen items.

Some data seem to bolster this assertion. A review of 150,000 pawn transactions by Cash America found only 34 stolen items, or 0.02 percent of the total (Kleinfeld 1989). A 1991 check of 65,000 transactions in Dallas County, Texas, found 250 stolen items, or 0.4 percent (Scott 1992). In Oklahoma, 873 of more than 1.5 million items pawned in 1995, or less than 0.1 percent, were identified as stolen (Wheat 1998). Police in Los Angeles, California, recover about \$700,000 a year in stolen property, also a tiny share of all transactions (McGeevy 1997). Similar figures, respectively .01 and .07 percent, are reported in Florida for Collier and Palm Beach counties (Florida Committee on Criminal Justice 2000)

But these data are not convincing. They stem from efforts to match goods in pawn against lists of stolen items with serial numbers, engraved ownership markings, or other unique identifying features that victims report to police. Most stolen goods do not have such unique features. Most thefts, as we note in the appendix, are not reported.

Pawnbrokers also find support from scholars studying the business. Caskey (1994), after interviewing six brokers, argues that they do not traffic in stolen goods because, risking arrest or suspension of their licenses, it would be foolish for them to do so. Nickles and Adams (1994), to buttress their argument that possession of property by pawnbrokers should imply legal right to the property, claim that virtually all pawned goods involve true owners. Oeltjen (1996), reacting to a broker's claim in court that 5 percent of transactions involve stolen goods, tries to discredit the assertion in a footnote by saying, disingenuously, that it is not substantiated by fact.

Evidence to challenge the idea that hot goods are an insignificant share of all pawned items is often just as anecdotal as that which supports it. Much of this evidence flows from ad hoc law enforcement actions, such as a sting operation by police in Manatee County, Florida, that was filmed and then broadcast on national television during the NBC network's *Dateline* program on May 11, 1999 (Florida Committee on Criminal Justice 2000). Here, undercover officers created a pawnshop to investigate the extent to which

thieves would use this type of facility. Hidden cameras then recorded how several frequent pawners came in to fence wares that were obviously hot, a few even revealing how they burgled homes and businesses. The state requirement that pawners leave a thumb print at every transaction did not deter these individuals.

An earlier undercover operation in Fort Lauderdale, Florida, filmed and then aired on December 21, 1997, during the CBS network's *60 Minutes* program, involved detectives posing as homeless people trying to pawn computer equipment with stickers indicating that they belonged to a prominent local business ("Quick Cash" 1997). Notwithstanding overt signs that the goods might be hot, staff at three of five shops accepted them, one even asking for computer monitors the next time.

Luring CBS to Fort Lauderdale was a series of investigative reports by Glover and Larrubia (1996) in a local newspaper claiming that city pawnshops routinely accept suspect merchandise. After sorting through 70,000 pawn tickets to identify and examine backgrounds of the 50 most prolific pawners, the journalists found three common characteristics: Most were unemployed, 78 percent had arrest records (half of them for property crimes, most others for drug offenses), and all possessed a seemingly endless supply of things to pawn. A police survey of frequent pawners produced like findings in Portland, Oregon. It noted that 90 percent were chronic drug users with long criminal records, and that most were unemployed (Hammond 1997).

The combination of high arrest and unemployment rates among prolific pawners implies that pawnbrokers have a correspondingly high probability of receiving stolen goods from such people. However, without an indication of the proportion of prolific pawners in the whole population of customers, or of the share of their goods relative to all pawned items, it is hard to gauge the significance of Fort Lauderdale and Portland findings. Johnson and Johnson (1998), for example, make clear that frequent pawners are not representative of the general clientele. Their interviews with 1,100 randomly selected borrowers in 1997 show that most are employed males, usually high-school graduates, without bank accounts (Johnson and Johnson 1998).

In general, research by scholars and journalists suggests three things. First, pawnbrokers do have some role in recycling stolen goods. Second, frequent pawners present the highest likelihood of acting as main agents through which pawnshops acquire hot goods. Third, the volume and value of these goods may be substantially greater than the tiny fractions that have been proposed. Pawn data from Dallas, Texas, provide circumstantial evidence to support these suggestions.

DATA FROM DALLAS, TEXAS

In addition to data from interviews with nine imprisoned property offenders (confirming the findings of Cromwell [1991] and Richard and Decker [1993] on use of brokers), 11 pawnshop managers and a dozen police officers in pawn units in Dallas and surrounding municipalities, these data comprise three related components. First is a primary database of all pawn transactions recorded by the Dallas Police Department (DPD) during the six-year period from January 1, 1991, through December 31, 1996. Each transaction shows a pawn ticket number, a pawner identification number, shop identification number, transaction date, and classification code for items pawned.⁴

The second component, devised to help us calculate transaction values, comprises 1,000 randomly selected pawn tickets issued by 102 pawnbrokers during the first half of 1993. In addition to items in the primary database, each ticket shows the pawner's zip code address, age, sex, and race; the loan period, amount of loan, finance charge, description and quantity of items pawned, and whether the transaction involves a loan or sale. With these data we estimate mean dollar values for 21 items that together represent almost 70 percent of all pawned goods.

The third data component, designed to examine arrest histories, is sample data on 2,000 pawners. These show pawner identification number, street address, age, race, gender, and state arrest record, if any. To create the sample we stratified the primary database into 10 frequency-of-transaction classes (i.e., one pawn transaction during 1991-1996, two transactions, etc.), and then randomly selected 200 individuals from each category. The selection provided a list of identification numbers that we then used to search through state and county public records for individual arrest information. Glover and Larrubia (1996) used a similar method. The difference between the two approaches is that we cover all pawners for six years, not just the prolific ones for one year.

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These data show that Dallas pawnshops received more than 5.5 million items in pledge during the six-year period, or a daily average of 23 items per shop.⁵ Table 2 indicates that about two dozen items made up more than 70 percent of the total, most in the categories of jewelry, electronics, tools, office equipment, and firearms. This distribution pattern is roughly similar to that

TABLE 2: Items Pawned in Dallas, Texas, 1991-1996^a

<i>Item Class</i>	<i>Specific Good</i>	<i>Number^b</i>	<i>Percentage</i>
Jewelry	Ring	848,040	15.4
	Necklace	280,280	5.1
	Wristwatch	229,610	4.2
	Gold bracelet	139,070	2.5
	Subtotal	1,497,000	27.2
Electronics	Video recorder/player	399,230	7.2
	Television	371,560	6.7
	Television game	158,120	2.9
	Stereo receiver	135,550	2.5
	Radio/tape player	119,500	2.2
	Compact disk player	94,300	1.7
	Speakers	72,840	1.3
	Amplifier	69,110	1.3
	Compact audio disk	50,320	0.9
Subtotal	1,470,530	26.7	
Tools	Drill	121,290	2.2
	Saw	98,860	1.8
	Toolbox	62,210	1.1
	Subtotal	282,360	5.1
Communication	Telephone	67,980	1.2
	Pager/beeper	65,020	1.2
	Subtotal	133,000	2.4
Firearms		321,910	5.8
Other	Camera	81,550	1.5
	Microwave oven	68,020	1.2
	Guitar	64,310	1.2
	Vacuum cleaner	58,540	1.1
	Subtotal	272,420	4.9
Total, listed items		3,977,220	72.1
Total, all items		5,513,600	100.0

a. All numbers in table are rounded.

b. Figures calculated from data in primary database of all pawn transactions recorded by the City of Dallas Police Department, 1991-1996.

reported by Caskey and Zikmund (1990) and also, as noted in the appendix, to the composition of stolen goods. This similarity between types of items pawned and stolen is expected because the features that make some things better candidates for theft than others (i.e., easily concealed, removable, valuable, enjoyable and disposable [Clarke, 1999]) also make them good things to pawn.

The 5.5 million items were pledged by 523,000 different individuals during the course of nearly 2.9 million transactions (see Table 3).⁶ We estimate the total loan value of these transactions at about \$208 million in 1999 dollar terms, or an average of \$73 per transaction.⁷ This is near the \$70 that Johnson and Johnson (1998) report for 1.2 million pawn tickets reviewed by the National Association of Pawnbrokers in 1997, and the \$75 for 1.6 million tickets issued in Illinois in 1998 and 1999 (Illinois Office of Banks and Real Estate 2001).

Frequent pawners generated a disproportionate share of this activity. The 14,500 people pawning 30 times or more, though only 2.7 percent of the total, were responsible for 29 percent of all transactions and goods, and 24 percent of total loan value.⁸ This group, as in Ft. Lauderdale and Portland, also held a higher proportion of individuals with arrest records. Its members were two to three times more likely to have been convicted for theft, larceny, burglary, or robbery than those who pawned once or twice. Nearly two thirds of the 1,100 individuals within the group who pawned more than one hundred times had arrest records, more than half of them for some kind of stealing.

Looking at the most prolific pawners, the top 100 individuals who each pawned more than 250 times, Table 4 shows 83 with arrest records. Of these, 58 had accumulated 300 convictions for property as well as other offenses, or an average of 5.2 arrests per individual. Most property crime arrests, 74 percent, were for theft, 11 percent for burglary of vehicles, 7 percent for burglary of homes or businesses, 5 percent for robbery, and the rest for forgery and car theft. Other infractions mainly involved drug possession (23 percent) or driving without a license (23 percent).

Among the 42 persons not apprehended for property crimes, 17 had no records whereas 25 had 49 convictions for nontheft infractions, or an average of 2 arrests per person. Very similar to the previous group in age, sex, and race composition, arrests here were mainly for drug possession (40 percent) and driving without a license (14 percent). But it would be premature to assume that these people committed no property offenses. As we note in the appendix, nearly three fourths of thefts from households, half of burglaries, and a third of robberies were not reported in 1999. Employee theft, a prime source of stolen goods, usually goes unreported too. And for reported crimes, clearance rates are low in large cities: 15 percent for theft, 12 percent for burglary and 23 percent for robbery (U.S. Federal Bureau of Investigation 1995-2000). That is, 85 to 95 percent of property crimes are not solved. This suggests that many thieves are able to evade arrest, a fair share of them are likely to be in the group of frequent pawners that do not have property-related arrest records, and a goodly proportion of things pledged by members of this group are unlikely to be their own property.

TABLE 3: Pawn Transactions in Dallas, Texas, 1991-1996^a

Transaction Frequency	Persons ^b		Transactions ^b		Items ^b		Total		Transaction Value (\$1999) ^b			% Persons Arrested for: ^d	
	Number	%	Number	%	Number	%	Dollars (U.S.) 000's	%	Per Transaction	Per Person	Per Person	Any Offense	Stealing ^c
100+	1,100	0.2	168,500	5.9	341,300	6.2	9,440	4.5	56	8,402	63	53	
50-99	4,400	0.8	328,000	11.5	585,900	10.6	18,330	8.8	56	4,163	43	36	
40-49	3,100	0.6	138,600	4.8	276,800	5.0	9,110	4.4	66	2,926	49	33	
30-39	5,900	1.1	203,600	7.1	403,800	7.3	13,590	6.5	67	2,304	47	33	
20-29	13,100	2.5	320,300	11.2	629,200	11.4	22,110	10.6	69	1,691	33	31	
10-19	39,500	7.6	572,400	20.0	1,081,400	19.6	39,840	19.2	70	1,009	34	22	
5-9	66,400	12.7	497,700	17.4	895,400	16.2	35,520	17.1	71	535	22	18	
3-4	68,300	13.1	239,000	8.4	485,600	8.8	21,280	10.2	89	312	25	16	
2	72,400	13.8	144,800	5.1	302,800	5.5	14,780	7.1	102	204	21	13	
1	248,700	47.6	248,700	8.7	511,300	9.3	23,870	11.5	96	96	14	12	
Total (avg.)	522,800	100.0	2,861,500	100.0	5,513,600	100.0	207,870	100.0	(73)	(396)	(20)	(15)	

a. All numbers in table are rounded.

b. Includes theft, larceny, burglary, and robbery.

c. Extracted from primary database of all pawn transactions recorded by the City of Dallas Police Department, 1991-1996.

d. Estimated from arrest and court records (compiled by the Texas Department of Public Safety and county and municipal courts) of 200 randomly selected persons from each transaction frequency class.

TABLE 4: Profile of the Top 100 Pawners in Dallas, Texas, 1991-1996^a

	<i>Arrested for Theft in Texas^b</i>	<i>Not Arrested for Theft in Texas^b</i>
Total number of persons	58	42
– Ever arrested	58	25
Total number of pawn transactions	21,980	15,190
– Average per person	379	362
Total number of arrests	300	49
– Average per arrested person	5.2	2
Percentage of all arrests for		
– Theft, larceny, burglary or robbery	74	—
– Illegal possession of drugs	6	40
– Driving with license suspended	6	14
– Driving while intoxicated	1	10
– Weapons violation	3	12
– Other	10	24
Median age (in 1994) ^c	38	37
Percentage Male ^c	100	90
Percentage Female ^c	0	10
Percentage Black, non-Hispanic ^c	64	69
Percentage White, non-Hispanic ^c	27	29
Percentage White, Hispanic ^c	9	2

a. All numbers in table are rounded.

b. Extracted from arrest and court records compiled by the Texas Department of Public Safety and county and municipal courts.

c. Extracted from primary database of all pawn transactions recorded by the City of Dallas Police Department, 1991-1996.

By the same token, however, it is equally premature to presume that all frequent pawners, or even just those with property arrests, systematically dispose of stolen goods through pawnshops. Although reliance on pawnbroker loans is an expensive method of personal finance, individuals may confront situations where this is the best source available to them. What our observations suggest is that although research by those who look only at the most prolific pawners may inflate the role of pawnbrokers in disposal of hot goods, evidence still indicates that more of these goods flow through shops than scholarly research has acknowledged. The amount may not be as high as 25 percent of total value, but it is certainly greater than the fractions of 1 percent noted earlier.

The Dallas Police Department, for example, reports recovery of \$2.4 million in stolen property from pawnshops in 1997. This represents about 3.5 percent of the average annual value of transactions during 1991 to 1996.⁹ Given that police recover only goods with unambiguous markings that deter-

mine true ownership, it seems likely that the share of stolen goods is much greater, greater even than the 5 percent dismissed by Oeltjen (1996).

What that higher share might be is uncertain. Caskey and Zikmund (1990) report pledge forfeit rates in three states ranging from 14 percent to 22 percent of loans and from 10 percent to 20 percent of loan value. Our interviews with brokers suggest 20 to 25 percent of loans. Johnson and Johnson (1998) indicate that 29 percent of pawners forfeited at least once during the year. Of more interest, they also report that although 23 percent of individuals who pawned only once lost their pledges, 34 percent of those pawning four times or more forfeited at least once, 20 percent at least twice. In other words, as might be expected if one suspects that the frequent pawner population contains many thieves, prolific pawners are much more likely to walk away from their goods than infrequent pawners.

Given the many legitimate reasons that people might have to forfeit, it seems unlikely that hot goods constitute as much as 20 percent of all things pawned. By the same token, high reported rates of forfeiture make it equally unlikely that they represent less than 5 percent—especially when 15 percent to 20 percent of transactions are straightforward sales of goods, not loans.¹⁰ The actual proportion seems likely to lie somewhere in between. If it is in the vicinity of, say, 10 percent, then the annual value of stolen goods at second-hand market prices might average about \$64,000 per pawnshop. Extrapolated to the universe of 15,000 brokers, the total approaches \$1 billion.

This is substantial in relation to pawnshop turnover because brokers make nearly as much money selling forfeited goods as they do collecting interest.¹¹ Income from interest and fees averaged \$145,100 per pawnshop in 1997 or, extrapolating to 15,000 shops, a total of about \$2.2 billion (U.S. Census Bureau 2001b). Sale of forfeit property produced an average of \$253,400 per shop, suggesting a net revenue of around \$126,700 after deducting loss of capital.¹² For all shops, these figures imply a gross income of \$3.8 billion and a net of \$1.9 billion from sale of merchandise. That is, \$1 billion may represent more than a quarter of the pawnbroking industry's gross, and more than half of its net proceeds from sale of property.

At the same time, if the total value of pilfered merchandise is close to our estimate of \$40 billion to \$45 billion per year, then this \$1 billion also represents 2.0 percent to 2.5 percent of all stolen goods. And if, say, half the items are retained by the people who steal them, it represents 4 percent to 5 percent of all goods disposed.¹³ This is a modest share of the whole market. But pawnshops are only one component of used merchandise trade. Excluding repair and other shops selling secondhand items as sidelines, the census counted an additional 105,000 used merchandise stores with gross sales of \$8.3 billion in 1997 (U.S. Census Bureau 2001e). If stolen goods comprised a quarter of these sales as well, then one could account for another \$2.1 billion

and thus another 8 percent to 10 percent of the market for stolen goods. The entire used merchandise sector, including pawnshops, might then be handling \$3.1 billion per year, or 12 percent to 16 percent of the market for hot goods.

CONCLUSIONS

Although our estimates may eventually prove inaccurate, there seems no way to circumvent a few essential facts. One is that pawnbrokers, as omnipresent today as McDonald's restaurants, offer thieves a potentially convenient method of disposing of merchandise, especially items with no obvious markings. Another fact, found in our data and by journalists in Fort Lauderdale and police in Portland, is that the population of prolific pawners contains a large segment of people with robust arrest records. Combined with findings from burglar interviews, this strongly intimates that the population contains a substantial corps of habitual thieves who actually do rely on pawnbrokers for their recurrent service needs. A third fact, as we have tried to show, is that a modest percentage of the total value of pawnbroker transactions is sufficient to constitute a noteworthy share of our estimated \$40 billion to \$45 billion per year in stolen property. Even if our numbers are very wrong, there is enough circumstantial evidence here to warrant much more scholarly research, the quantitative sort especially, on connections between pawnbroking (and other components of the used merchandise retail sector) and hot goods. This is our first conclusion.

Our second conclusion is that the idea of deliberately disrupting markets for stolen goods does not seem well founded. In the case of pawnshops, Sutton's (1998) notion that businesses can avoid buying such goods by use of closed-circuit televisions, photographs and/or signs is not convincing because these actions are the same or similar (e.g., fingerprints) to measures that most pawnbrokers undertake routinely. Such tactics and police oversight may have reduced the flow of stolen goods through pawnshops at different times, but there is no evidence to confirm this. More likely, given the criminal records of prolific pawners, is that they have not dissuaded thieves from availing themselves of pawnbrokers. One reason, proposed by Hall (1935), may be that enforcement of pawnshop regulations is too perfunctory to interfere with receipt and disposal of stolen goods. Another is that enforcement has been effective, but only to the extent of displacing part of the trade to other, less regulated enterprises, such as secondhand, precious metal and antique dealers or, where these are also under perpetual scrutiny (e.g., Illinois, Washington), flea markets and the like. A third possibility, the most plausible, is that most stolen goods are not identifiable as such.

There are several dimensions to this issue. As discussed by Clarke (1999) and Sutton (1998), one is technical. Most stolen items are not unique, do not have serial numbers, engraved codes or other property identifiers, or else have markings that are easy to remove. Another dimension is social. Most households neither record serial numbers of what they buy nor engrave them and, together with firms, do not report their loss to police.

The third aspect, the most important, is economic. Because the annual volume of hot goods is large, perhaps measuring in the hundreds of millions of items, the societal outlay required to create a record for each reported item and, at the same time, a reference base for the billions of things that businesses buy legitimately, is larger. It is for the moment prohibitive. In other words, stolen goods are not identifiable largely because it costs too much to identify them. They are, as a result, invisible in the daily exchange of millions of secondhand items between sellers and buyers.

Viewed in this context, the claim that markets for stolen goods act as underlying incentives to steal makes sense only if one subscribes to the notion that these markets are clearly separate or separable from retail trade in general and used merchandise trade in particular. Because they are neither clearly separate nor separable, because it is usually impossible to know what is or is not stolen, a recommendation to deliberately disrupt demand for hot goods is a recommendation to deliberately disrupt demand for secondhand goods in general. This is unwise counsel.

From this, our third and final conclusion is that wiser would be support of actions to render more efficient the monitoring of people and things circulating through pawnshops, secondhand stores and similar establishments. The premise here is that identification and apprehension of thieves need to remain the focus of police and criminologist attention. More efficient monitoring of suspicious pawners and goods, achieved through strengthened pawn details, speedier transfer of transaction records from pawnshops to police computers, accelerated analysis of the data, and similar means can help in this. To the extent that pawnbrokers cooperate with police in improvement of monitoring, these actions may also protect the interests of firms that prefer to shun hot goods.

The problem, now and in the past, is that pawn units (called details or squads sometimes) are relatively understaffed, partly because police departments are asked to concentrate on crimes against persons, partly because policy makers do not see gain from spending on data collection, and partly because most pawnbrokers object to the extra cost and intrusion into their affairs. The units, as consequence, are usually behind in data entry. Fort Lauderdale's pawn unit recorded fewer than 50 percent of the pawn information it received during 1995 (Larrubia and Glover 1996). Dallas police recorded 100 percent of all information for only one continuous 12-month

span during 1991 to 1996, managing an average completion rate of 70 percent to 80 percent through the period. Consequently, items were often identified as hot after pawnbrokers disposed of them, and transaction trails that could justify surveillance of suspicious pawners were often identified after they ran cold.

Benefits of improved monitoring have already shown themselves through increased recovery and apprehension. Murray (1996), for example, reports that police in Atlanta, Georgia, entered only 25 percent of transaction data in 1996. A year later, after installation of a computer system with electronic data transfer from brokers, police entered 100 percent of pawn information, reduced processing time from several weeks to 24 hours and increased recovery rates from 12 to 42 items per month (Murray 1997). In Florida, similarly, Perez (2000) reports a rise in recovery after the Broward County Sheriff established an automated pawn tracking database. The new system also helped catch 175 parole violators and 110 felons pawning firearms in 1998. By 2000, some 50 state and local agencies were using similar tracking systems, including the Florida Department of Law Enforcement (FDLE), which initiated a project to install a statewide database in that year.

In addition to property recovery and apprehension of criminals, there is also the prospect of using transaction data to map suspicious behavior in "real" time. People pawning 20 diamond rings or watches or electric tools or city street directories or anything else of value within a relatively short period, especially if encumbered with interesting criminal histories, earn immediate suspicion of stealing or of receiving hot goods. If the items are not reported stolen or if they lack markings, then arrest is not possible. But it is possible to conduct surveillance to determine whether initial suspicions are justified, whether there are networks of accomplices warranting police attention, or whether there are other ways to identify and maybe apprehend these or other thieves.

The prime obstacle to improved tracking is pawnbroker resistance. Rarely conceding the utility of anything but "article only" tracking to help identify stolen goods, brokers habitually oppose collection of personal information that might reduce the flow of patrons. In 2001, for instance, the Florida Pawnbrokers Association responded to the introduction of automated tracking by threatening to initiate legislation that would delete all customer data from pawn unit computer systems.¹⁴ The association did not achieve this goal, but it convinced the legislature to reduce funding for FDLE's statewide database project from \$1 million in 2000 to \$275,000 in 2001, and then to zero in 2002.¹⁵

Pawnbrokers are nowhere strong enough to eliminate police scrutiny. But as the industry organizes for common cause, strength such as that shown in Florida may spread. Helping in this is the ability of brokers to propagate

image-enhancing media stories containing references to academic studies that point to minuscule quantities of stolen goods in their merchandise. Scarcity of proper research on the role of pawnshops and other secondhand stores in hot goods trade thus makes it easier for brokers to thwart efforts at improved tracking. Accordingly, the first conclusion put forward above, about the need for more scholarly research, is in our opinion the most important.

APPENDIX The Value of Stolen Goods

We estimate the net market value of stolen merchandise at \$40 billion to \$45 billion annually in recent years, based on three sets of data and, for better or worse, several assumptions. The data sets are as follows: reported offenses in the Uniform Crime Reporting System (UCRS), reported and unreported offenses experienced by households in the National Crime and Victimization Survey (NCVS), and reported and unreported losses sustained by firms in the National Retail Security Survey (NRSS).

UCRS data indicate that reported offenses involving loss of property declined during the 1990s: theft-larcenies (excluding motor vehicles) by 12 percent, burglaries by 32 percent, and robberies by 36 percent (Pastore and Maguire 2000). The net value of these losses, however, stayed constant at about \$6.6 billion in current dollar terms. Households reported \$3.7 billion of this sum and businesses and others \$2.9 billion.¹⁶ Jewelry and precious metals comprised the largest class of merchandise, 16 percent of value, followed by electronics (14 percent), office equipment and supplies (8 percent), clothing (4 percent), household goods (3 percent), and firearms (1.5 percent).

But property crimes are usually not reported. For households, NCVS data show that 73 percent of thefts, 48 percent of burglaries and 34 percent of robberies went unreported in 1999 (U.S. Bureau of Justice Statistics 2001). Our NCVS-based estimate of the net value of property taken from households, accordingly, is much greater than that based on the UCRS, \$7.3 billion versus \$3.7 billion.¹⁷ The composition of goods taken is nonetheless similar. Jewelry and clothing were stolen most frequently (19 percent of all cases), followed by electronics and photographic gear (9 percent), vehicle parts (7 percent), tools and machinery (5 percent), household furnishings (4 percent) and firearms (1 percent).

Turning to business, NRSS data intimate that gross losses from theft and fraud in the retail sectors it sampled, valued at prices sellers paid for them, came to \$18.3 billion in 1999, or about 1.1 percent of the \$1.74 trillion in total sales of these sectors (University of Florida 2001).¹⁸ Employee theft was responsible for \$9.2 billion, shoplifters \$6.8 billion, vendor theft \$1.2 billion, and check and credit card fraud \$1.1 billion.¹⁹ Main items taken were clothing and shoes, compact disks, cassette tapes, video games, movies, over-the-counter remedies, health and beauty aids, automobile accessories, jewelry, hand tools, cigarettes, and batteries. Although the loss rate of 1.1 percent of sales held steady, the total value of goods stolen increased substantially in step with a 6.3 percent average annual increase in retail sales through the decade (U.S. Census Bureau 2001a).

There are no reliable data on loss recovery to help estimate net losses in the retail sector, and no reliable figures on the proportion of incidents reported that could help determine the share of losses already included in the UCRS. We therefore make assumptions. First we assume that the recovery rate for retail stores is 7 percent, the same as for theft in the UCRS and NCVS. This lowers merchandise loss from a gross of \$18.3 billion to a net of \$17 billion. Second, we assume that the \$2.9 billion in losses reported by businesses and others in the UCRS are mainly reports by retail firms, and that they are already included in the \$17 billion. Our estimate of the net value of goods stolen from households and from firms of kinds covered by the NRSS is then \$24.3 billion, with \$7.3 billion of it in household losses and \$17 billion in retail business losses.²⁰

To this we must add losses in retail sectors not covered by the NRSS with sales of \$1.1 trillion in 1999, losses in manufacturing and wholesale trade with combined sales of \$6.5 trillion, and losses in other sectors, especially from employee pilfering, in services and government.²¹ With no better basis to guess, we assume that theft of goods is (relatively) negligible in government, services and other sectors that are merchandise poor and thus less exposed to removal of objects than retail firms. We assume also that net losses in manufacturing, wholesale trade and the balance of retail amount to 0.25 percent of their total sales of \$7.6 trillion in 1999, or \$19 billion. Adding this to the \$24.3 billion lost by households and retail firms in the NRSS yields \$43.3 billion, and the estimate range of \$40 billion to \$45 billion.

NOTES

1. The number of secondhand stores rose from 33,360 to 124,000 from 1972 to 1992, and their sales from \$1.5 billion to \$8.2 billion in current dollar terms (U.S. Bureau of the Census 1978, 1996).

2. We use an allowance of 20 percent based on the difference between the number of licensed pawnbrokers in Dallas and the number listed in the telephone directory in 2002 (108 vs. 90), and on the difference between licensed and listed pawnbrokers in Texas (1,500 vs. 1,270).

3. Level of convenience, as measured by the ratio of shops to restaurants (i.e., the higher the ratio, the more plentiful the pawnshops), still varies. Shop densities and ratios of shops to restaurants are generally lower where effective interest is low and higher where interest is high.

4. These data are incomplete because the Dallas Police Department (DPD) gave data entry priority to weapons and items with unique identifiers, registering the remainder as time allowed, and because it recorded only the first item on each ticket before 1996. DPD guesses that it captured 70 percent to 80 percent of all transactions for the whole period. To adjust for this, we applied the mean number of items per transaction for 1996 to prior years. We make no adjustments for the DPD's failure to record all transactions. The data may thus understate the volume and value of pawnshop traffic by 20 percent to 30 percent.

5. Transaction data show wide month-to-month variation in pawnbroker numbers, ranging from a low of 73 to a high of 123. Low figures reflect months when the DPD fell behind in recording data. High figures reflect months when it recorded almost everything, when licensed pawnbrokers that operate infrequently (e.g., jewelry and department stores) were unusually active, and when shops moving from one location to another kept both outlets open for a time. Adjusting for these factors, we use 108 as the average number of pawnshops in operation during the reference period.

6. For present purposes, we treat each pawn ticket, which can record several different items, as one transaction. Although some individuals pawned enough different items to require issuance of more than one ticket for one transaction, these instances are rare in our data.

7. We added 1 percent to actual figures for 1993 to estimate transaction values in 1999 dollar terms. The adjustment was derived from a weighted average of 1993 to 1999 changes in the urban consumer price index, as given in U.S. Bureau of Labor Statistics (1999), for jewelry and watches (-3.3 percent), video and audio equipment (5.2 percent), and photographic equipment (-3 percent). These three classes comprise half the goods pawned in Dallas.

8. The proportion of total loan value is less than that of all transactions because average transaction value drops from about \$100 for those pawning once to \$56 for those who pawned at least 50 times. This drop stems from differences in item composition, especially jewelry, the most valuable class of goods. This class contains 32 percent of all items for those who pawned once or twice, 16 percent for those pawning 50 and more times.

9. We estimate total loan value at \$208 million, or \$34.7 million per year. Loan value, in general, is between 30 percent and 75 percent of secondhand market value. Using 50 percent, the annual market value of pledged items is then \$69.4 million. The \$2.4 million in property recovered from pawnshops, which police assess at market prices, is 3.5 percent of this sum.

10. Because our DPD data do not distinguish between loan and sale, we base our estimate of 15 percent to 20 percent on the 1,000 randomly selected pawn tickets of 1993.

11. Pawnshops have potential to make as much money from selling goods as from collecting interest. For instance, if 80 of 100 loans of \$75 each are repaid after 30 days at 20 percent interest, broker income is \$1,200 (i.e., 20 percent of \$6,000). Sale of property forfeited by the other 20 borrowers at market prices double the value of their loans yields \$3,000 in sales revenue and a net income of \$1,500 after deducting \$1,500 for the capital loss from defaults.

12. The balance between interest and sales income is consistent with other data sources. For example, Cash America Inc., a large firm with almost 420 pawnshops in the United States, reports that interest and fees produced about \$222,000 per shop in 2001, and net revenue from sale of merchandise about \$194,000 (Cash America 2002).

13. Sheley and Bailey (1985) estimate that 50 percent to 78 percent of all goods are retained by those who steal them. The proportion is closer to 95 percent according to a report in Blakey and Goldsmith (1976). In such a wide range, our assumption of 50 percent is arbitrary.

14. This intent is mentioned in a letter dated June 1, 2001, from the President of the Florida Law Enforcement Property Recovery Unit to the Florida Police Chiefs Association (Retrieved December 2, 2002) (from <http://www.flepru.org/fpca.htm>).

15. This information is contained in a letter dated January 15, 2002, from the President of the Florida Law Enforcement Property Recovery Unit to the state governor. Retrieved December 2, 2002, from <http://www.flepru.org/gov1.htm>.

16. From data in U.S. Census Bureau (2001c, 2001d, 2001f) and Pastore and Maguire (2000), we estimate net losses at \$6.56 billion in 1992, \$6.64 billion in 1997, \$6.72 billion in 1998, and \$6.56 billion in 1999. These are net dollar amounts that make allowance for recovered goods, averaging 7 percent of gross loss value, and that exclude the value of lost currency and notes (13 percent).

17. National Crime and Victimization Survey (NCVS) data suggest a gross loss value of \$9.1 billion, or a net of \$7.3 billion after allowance for property recovery (averaging 7 percent of value in theft, 6 percent in burglary, and 18 percent in robbery cases) and exclusion of cash and credit card losses (14 percent).

18. The National Retail Security Survey (NRSS) did not cover motor vehicle and parts dealers, gasoline stations, and nonstore retailers (e.g., catalog and Internet sellers) that had total sales of \$1.13 trillion in 1999 (U.S. Census Bureau 2002a).

19. NRSS data show merchandise values at retail prices. These values are not directly comparable to Uniform Crime Reporting System (UCRS) and NCVS figures because they include expected gross margin as well as cost of goods. That is, the NRSS overstates loss value. For sectors covered by the NRSS, the margin averages 30 percent of sales (U.S. Census Bureau 2001g). The figures we report are therefore 70 percent of those reported by the NRSS.

20. Here we assume that the \$3.7 billion net loss reported by households that we estimate from UCRS data is included in the \$7.3 billion loss that we estimate from NCVS data.

21. Sales figures come from U.S. Census Bureau (2002b, 2002c).

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