

Underground Gun Markets

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Underground gun markets have developed in the United States in response to federal regulations that seek to prohibit ownership and possession by that sub-set of the population deemed to be at unacceptably high risk of misusing guns – primarily youth and adults with serious criminal records – while preserving easy access for everyone else.

Whether the gun market can be segmented in this way remains the topic of spirited debate in policy circles. Economists and other skeptics like to point out that government prohibitions on transactions are difficult to enforce; the ingenuity of the marketplace, motivated by profit, will overcome whatever legal obstacles are put in place. As New York University law professor James Jacobs observes in this regard, “Some criminals claim that it is as easy to buy a gun on the streets as it is to buy fast food. One Chicago gang member stated, ‘It’s like going through the drive-through window. Give me some fries, a Coke, and a 9-millimeter.’”

In what we believe to be the first systematic empirical study of the underground gun market (published in the *Economic Journal* in 2007), my colleagues Philip Cook, Sudhir Venkatesh, Anthony Braga and I showed that guns are much more difficult to obtain on the streets of Chicago and other American cities than conventional wisdom would suggest. Based on a series of in-depth interviews conducted in two high-crime neighborhoods on Chicago’s South Side, plus analysis of survey data collected from arrestees in multiple cities across the country, we document large mark-ups over legal prices, search costs, a high rate of uncompleted transactions, and substantial physical risk and uncertainty about gun quality. We argue that the most likely explanation for these “transaction costs” is the fact that the gun market is both illegal and “thin,” that is, has few buyers and sellers. The illegality of the gun market increases search costs for prospective trading partners, and as Diamond (1982) argues, in this type of trading environment there can be a market “thickness effect” on transaction costs. The underground gun market is less well-functioning than that for illegal drugs because guns are durable goods.

One policy implication of our findings is that law enforcement efforts targeted at reducing gun availability at the street level seem promising – despite the widely perceived failure of similar efforts to reduce street availability of illegal drugs. Promising law enforcement strategies against the underground gun market include buy-and-bust and sell-and-bust operations by undercover police officers, and offering rewards for information about gun sellers and possessors (either in the form of cash, or leniency for the informant’s own legal difficulties). If “thinness begets thinness” in markets with non-trivial search costs, then the impact of stepped-up enforcement activities may produce multiplier effects. Of course this virtuous cycle becomes vicious if reversed, which is of some concern given recent cuts in funding for law enforcement.

References

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