

## A MARKET SOLUTION TO FALSE ALARMS

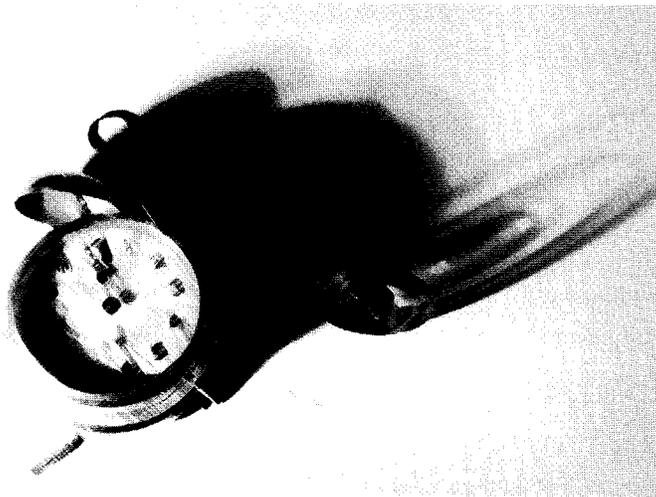
BY ERWIN A. BLACKSTONE AND SIMON HAKIM

Police and fire departments across the United States, Canada, Great Britain, and other nations are facing a significant problem of false calls for emergency services. Nationwide, burglar alarm calls comprise 10-20 percent of all 911 calls, and 94-99 percent of them are false activations. For example, in Baltimore 10 percent of all 911 calls are burglaries of which 98 percent are false activations. The direct cost of resources for response by various police departments ranges from \$30 to \$95 per call, while the annual nationwide cost was \$1.8 billion in 2000, and occupied the equivalent of 35,000 police officers.

Alarm dealers charge their customers monthly fees for monitoring their systems. Their main interest is to sell more systems and collect the monthly fees. Alarm associations and dealers are not penalized for false activations. Therefore, diversion of resources to investigate the false alarms and reduce their clients' false activations seems a waste of their resources. Dealers perceive false activation as a problem that exists between the activator and the police department. Indeed, in many suburban communities police assume the responsibility by assigning the crime prevention officer to educate repeat activators of false alarms. One may wonder why the private alarm industry fights to maintain police response. The answer is that adding additional cost for response will raise the cost for alarm ownership that will hinder the sale of new systems. Dealers like the fact that police respond without charge because it helps the sale of alarm systems. They have no incentive to intervene.

Yet the industry realizes that if police cease response, alarm systems will become ineffective, and sale of new systems may significantly diminish. The alarm associations encourage dealers to educate customers who falsely activate their systems and alarm company personnel are encouraged by their association to verify activations before requesting police response. Indeed, concentrated efforts by the associations in several cities produced positive temporary results. However, they run the risk of a liability suit in case they conclude an alarm is false and do not request police response when an actual burglary has occurred. The industry associations recognize the problem but individual dealers cannot translate it to immediate cost. The problem is, there is no "built in" incentive to any of the players to solve the problem.

The police incur the burden of the false alarms. Police



budgets increase on the average 3 percent a year while false activations rise by almost 10 percent. Therefore, the police attempt to change existing ordinances or practices to solve the problem. In particular, local ordinances often allow three or more false burglar alarm activations a year. Since the average number of false activations per system per year is 1.3, most alarm owners need not to worry about their false activations. Government and charitable establishments like schools and churches are frequent high volume activators and they are not charged. Results of most efforts appear to have been modest.

The police also may fine businesses or cease to respond after a certain number of false activations, but such practices require higher transactions costs for the police and the justice system. Income from the fines imposed on false activators flow to the municipality's general ledger while the police bear the costs and usually do not enjoy the revenues.

So, what does economic theory suggest for the solution of false alarms? First we need to examine the nature of the service. Response to false alarms should be perceived for what it is: a private service to the recipient. No one other than the activator enjoys any benefit from police response. It is exactly equivalent to a private good or service like a service call for an appliance. Since response to alarms is a service rendered by the police, businesses should be assessed a fee equitable to the service rendered, without escalating fees above cost intended to "punish" activators. If the fees cover the actual cost of response including normal profits there is no justification for either punitive fines or for ceasing response. Fees above costs cause both unjustified cross-subsidization from alarm activators to others in the jurisdiction and also under-utilization

See False on Page 9

Continued from Page 3

**FALSE ALARMS**

of alarms. Fees below cost invite people to be careless and force others in the jurisdiction who gain no benefit from the response service to subsidize alarm activators. An equitable fee for service would have no impact on the community.

If, however, a real burglary attempt occurs, police response is fully justified. Response to crime is a public good since it is in the public interest to reduce the pool of criminals and deter others from violating legitimate property rights. Hence, alarm response has both private and public attributes. It is unclear whether it is private or public good until after the police respond and verify whether a crime has occurred. Since it is merely a free service until that point, our objective is to determine the most efficient form of providing the service.

As in most markets, the answer is that more competition assures greater efficiency. The police monopoly attained through free responses to false activations or pricing below police cost prevents entry of private providers. Pricing at cost eliminates cross-subsidization in either direction and enables private competition for response to alarms. Police should also be allowed to withdraw from initial response and to respond only when a bona fide activation is verified.

This solution will enable private security companies to provide response to alarms. It will lower the price of response and allow police to conduct their core activities. The pressure on 911 emergency lines will be relieved by reducing non-emergency calls and the fees for response will reach competitive prices.

Currently, high police costs and police fees result from lack of competition and high wages of sworn officers. Also, it is highly doubtful whether a 94-99 percent false alarm rate justifies initial response by sworn officers, and has resulted in the current police practice in large cities of lengthy response time to alarms because of their low priority status

Evidence shows that police in large cities already do not respond or respond with some delay to alarm activations. Some cities like Las Vegas and Salt Lake City require on-site verification before police will respond. Verified response has reduced police costs and improved response times without increasing the number of burglaries. Los Angeles and other major cities are considering similar verified response. In reality such a change means that alarm associations will either contract with a private security company for the initial response or, more rarely, perform the initial response with their own personnel. Then, in case of a false alarm, no further action

is taken. In case of a bona fide activation, the private guards request police response and watch the entrances to the premises until the police arrive or conduct a citizen's arrest when necessary, much the way private security officers hold shoplifters until the police arrive. In case of a real event, police will arrive without delay and the private company may provide back up to police.

In large cities, police should also be allowed to choose whether to respond to all alarms. It is likely that most police departments will choose not to respond, opening the gates for private response. The greater the density of alarm systems and the higher the income level of the area, the larger the response market and the more response companies are likely operate. Instituting a verification process before calling the police (e.g. Las Vegas, Salt Lake City), or establishing cost-based prices for all police response (e.g. Toronto), will achieve the same result of phasing out police from response to false activations and will allow private response.

In small communities the market for private response may be limited and police may want to maintain response. Under the Managed Competition principle that was initiated by former Mayor Stephen Goldsmith of Indianapolis, such an option should be permitted. However, fees for response should reflect the true cost incurred. This becomes possible only if police maintain a separate dedicated account where income from fees only finance response-related costs. Also, competitive private response companies must be allowed to operate and set their own price scales. It is likely that a joint production of response with stationary guards, vacation services, and the like will produce a sufficient threshold of business for private response entry.

The role of government should be restricted to delivery of public goods. Since congestion already exists on the emergency lines, the answer is crystal clear—initial response to burglar alarms and other similar public emergency services should become competitive. ■

