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Does poverty relief spending reduce crime? Evidence from Argentina

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ABSTRACT

A large body of theoretical empirical research suggests that welfare spending reduces crime. Contrary to this dominant finding, a few recent studies conclude that there is no relationship between several measures of welfare spending and crime. This paper contributes to the debate using data from the Unemployed Heads of Household Program (UHHP), the largest poverty alleviation program launched by the Argentinean government to cope with the deleterious effects of the 2002 crisis. Province-level dynamic panel data reveals that UHHP, featuring conditional cash transfers had a negative impact on crime, particularly on property crimes and its main categories, larceny and robbery. UHHP also diminished aggravated assault but had no influence on murder.

1. Introduction

The aim of this paper is to explore the impact of the poverty alleviation program launched by the Argentine government to cope with the deleterious effects of the 2002 crisis on various types of crime. Additionally, it embeds the findings for the Argentine case within the broader empirical debate regarding the effect of welfare programs on delinquency.

Few years ago the copious literature on crime seemed to have arrived at a consensus on the influence of relief spending programs on crime. The evidence from various US data sets fitted the theoretical argument, rooted in Becker (1968) seminal contribution that transfers to the needed individuals increase the opportunity cost of committing crime (DeFronzo, 1983,1996; Zhang, 1997; Chamlin et al., 2002).

Worrall (2005) challenged that view presenting empirical evidence and theoretical arguments for little or no connection between serious crime and poverty relief spending.[1] He argues that the resulting negative correlation between crime and economic assistance obtained in several empirical studies comes mainly from cross-sectional data, and therefore not controlling for fluctuations of the dependent variable over time. Further, he claims that a small amount of welfare transfer is unlikely to change individual attitudes toward crime.

New evidence from US by Fishback et al. (2010), from Brazil by Loureiro (2012) and Chioda et al. (2012) and from Colombia by Camacho and Mejía (2013) showing negative impact of welfare spending on property crime, refocused the discussion on the size of the effect and the types of crime influenced by welfare spending.

This paper contributes to this empirical debate by offering evidence from Argentina, an emerging economy that suffered a severe downturn in 2002, compelling the federal government to alleviate poverty by means of a massive cash transfer program that reached almost two million beneficiaries (20% of the labor force) in the first half of 2003. I estimate a dynamic panel data that spans 23 districts for the period 1st semester 2002 to 2nd semester 2005, when the program had a widespread coverage, before substitution by several specific poverty-alleviation programs.

The remainder of the article is organized as follows. Section 2 reviews the theoretical and empirical literature linking welfare spending and crime. Section 3 describes the Argentine socioeconomic context during the period 2002–2005 and the characteristics of the Unemployed Heads of Household Program (UHHP). Section

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[1] Homicide, robbery, aggravated assault, burglary and larceny are considered serious crimes for Worrall (2005).

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4 outlines the data and econometric specification, while Section 5 supplies the empirical results and explores the possible mechanisms behind those results. Section 6 concludes.

2. Economic conditions, criminal activity and welfare spending

For analytical purposes, the relationship between criminal activity and welfare spending can be split in two separate (but closely related) links. On one hand, there is a connection between economic conditions and crime that has been extensively studied, in particular the unemployment–crime link (Paternoster and Bushway, 2001; Kleck and Chiricos, 2002; Yearwood and Koinis, 2009; Arvanites and Defina, 2006) and the inequality and crime association (Kelly, 2000; Brush, 2007; Choe, 2008; Scorzafave and Soares, 2009). Following Becker (1968), an individual engages in an illicit activity only if the expected net value is higher than the expected gain from a legal activity. Hence, any deterioration in the labor market that changes the return of legal *vis a vis* illegal activities, like job loss, wage cuts or reduction in extra hours, is expected to augment the crime rate. Nonetheless, this effect may be offset by shrinking crime opportunities in a declining economy. As explained by Cantor and Land (1985), there are two opposite forces at work over the business cycle: motivation and opportunity. Recessions increase motivation to commit crime but may be counteracted by diminishing opportunities as the economy gets poorer.[2] The opposite occurs in recoveries. Opportunities increase *pari passu* with the widespread availability of goods and profitable illegal activities but can be counterbalanced by diminishing motivation.

On the other hand, there is a connection between welfare spending and crime that has received much less attention in the literature. The main argument is that welfare payments to disadvantaged individuals change their time allocation between legal and illegal activities favoring the former in detriment of the latter. Zhang (1997) presents a model with risk averse individuals that respond to cash transfers by diminishing crime rate. The intuition is simple; an increase in welfare payments reduces the marginal utility of a marginal gain from illegal activities. Zhang's empirical evidence from US state-level data for the year 1987 shows that in-kind and cash transfers were negatively and significantly associated with property crime.[3] Similar conclusions were reached by DeFronzo in a couple of very well known cross sectional studies with unambiguous policy implications. In DeFronzo (1983) the level of public assistance to poor families in 39 US Standard Metropolitan Statistical Area (SMSA) in 1970 was found to have negative effect on the variation of several crime rates, including rates of homicide, rape, and burglary. The same sign for the welfare–crime correlation was obtained by DeFronzo (1996) that focused on the impact of Aid to Families with Dependent Children (AFDC) Program on burglary in 141 US cities.

At the turn of the century the sign of the welfare spending-crime connection seemed to admit no further discussion despite the scarce evidence from longitudinal or panel data studies.[4] Worrall (2005) confronted that view on theoretical as well as empirical grounds. He used panel data from California counties and concludes that there was little to no relationship between serious crime (homicide, robbery, assault, burglary or larceny) and social welfare spending during the period 1990–1998. Moreover, he claims that individual attitudes toward crime are unlikely to change due to small amount welfare transfers.

The debate was revived by Burek (2005) that obtained a positive association between the Aid to Families with Dependent Children (AFDC) program with property crimes, working with a panel data including 180 counties in Kentucky from 1980 to 1990. She relied on several hypotheses to explain such challenging result. Firstly, low levels of AFDC assistance may leave potential offenders with a large number of unmet needs for which larceny can effectively supplement. Secondly, welfare may weaken control that family and employment have over community behaviors. Moreover, welfare may influence the breakdown of family (fathers leave home because a mother traditionally could not be married to collect welfare) and may also discourage parents from seeking gainful employment in the job market because eligibility rules require that the parent be unemployed what leaves them with free time for illegal activities

In another provocative paper, Burek (2006) obtained no association between two categories of crime ("instrumental" and "expressive") and relief spending for 81 counties in Iowa's in 2000.[5] On the contrary, Fishback et al. (2010) find a negative impact of relief spending by all levels of government on crime rates for 81 large American cities for the years of the Great Depression, 1930 through 1940. Their estimations suggest that a ten percent increase in relief spending during the 1930s lowered property crime by roughly 1.5 percent.[6] Studies with recent US data also find a strong negative influence of transfers on crime. For example, Foley (2011) presents evidence that welfare in-cash payments not only reduce crime but also the timing of offenses during the month. His analysis of daily reported incidents of major crimes in twelve US cities reveals that welfare beneficiaries consume welfare-related income quickly and then attempt to supplement it with criminal income.

The majority of empirical studies deal with US data. Only recently Savage et al. (2008) analyzed various hypotheses regarding the connection between crime and welfare spending and its causality with a panel data of 52 countries and 13-year period from 1972 to 1984. Their estimations suggest that a 10 percent increase in social welfare spending generates, on average, 2.3 percent lower theft rates and 3.3 percent lower homicide rates. They conjecture that social welfare affects crime directly (in the sort-run), by mitigating the effects of inequality and indirectly (in the long-run), by decreasing absolute deprivation, improving early health care and increasing the chances of a better education.

Case studies of emergent economies also find a negative impact of relief spending and crime. Loureiro (2012) and Chioda et al. (2012) explore a conditional cash transfer in Brazil known as *Bolsa Familia*, the largest conditional cash transfer in the world, covering 11 million families. Their evidence suggests that the main effect of transfers on crime work through the increased household income rather than from incapacitation from time spent in school. Similar

[2] An economy undergoing a crisis usually shows high levels of strain, weak social control and high rates of unemployment and underemployment, which reduces the opportunity cost of offenses. Social control is described as the ability of society to regulate its members through formal and informal norms. See Arvanites and Defina (2006).

[3] Different from Zhang (1997), I am not addressing the question about the appropriate welfare spending but the impact of a particular relief program on crime.

[4] Chamlin et al. (2002) is an example of longitudinal analysis of the welfare spending–crime relationship. They found a negative association between the number of welfare recipients per month and the monthly level of family homicides.

[5] According to Burek (2006) "instrumental" crimes yield monetary or material gain rather than emotional satisfaction. Conversely, "expressive" crimes are committed to resolve issues of anger, the desire for control, frustration, and/or despair. Crimes such as homicide, aggravated assaults, and rapes are considered to be expressive in nature.

[6] Fishback et al. (2010) find that work relief was more effective than direct relief (cash transfers) in reducing crime because the former limited the amount of free time for relief recipients. Additionally, Corman et al. (2013) find that broad-based work incentives decreased female property crime arrests by 4–5%, but did not affect other types of crimes. The relatively impact on crime of cash transfers versus work incentives is a controversial point that is beyond the scope of this paper.