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Crime and ethics

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Abstract

We consider a simple model in which agents are endowed with heterogeneous abilities and differing degrees of honesty. Agents choose either to commit (property) crimes or invest in education and become workers instead. The model is closed in that all criminal proceeds are stolen from agents working in the formal sector and that expenditures on both deterrence and punishment of criminals are paid for through taxes levied on workers. Thus, although we assume that there are no direct interactive effects among criminals, criminals crowd each other in two ways: positively in that enforcement and punishment resources become more widely diffused as more agents commit crimes, and negatively in that the presence of more criminals implies that there is less loot to be divided over a larger number of thieves. We establish the possibility of multiple equilibria and characterize the equilibrium properties. We then evaluate the effectiveness of deterrence policies under a balanced government budget.

JEL classification: I2; J2; J62; K42

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1. Introduction

In the United States, criminal activity has been geographically concentrated, associated with low education, high unemployment and poverty.[1] Crime rates rose in the US during the 1980s but

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[1] For empirical evidence relating education, unemployment and income to criminal activity, see Grogger [9], Gould et al. [8] and Witte and Tauchen [17], respectively.

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then fell during the 1990s.[2] In 1990, about 2% of the US workforce was incarcerated and about 7% of the workforce was incarcerated, paroled or on probation. The median number of reported street robberies in Los Angeles equaled 4 per 1000 residents, but 10% of neighborhoods had crime rates four times greater than the median.[3] While many studies have investigated the factors that might influence an individual to choose crime as an occupation, we are only beginning to consider the forces that might produce such differing equilibrium crime rates across time and place. The main purpose of this paper is to contribute to our understanding of this issue, focusing particularly on property crimes.

The earliest literature on the economics of crime considers what might be termed the "external incentives" for agents to choose illegal activity over work in the legitimate sector (cf. Becker [1], Davis [4], and Ehrlich [5]). The effects of pecuniary and nonpecuniary punishments imposed on criminals on their decision making and the effectiveness of these public policies are the central concerns.

More recently, economists have begun to shift their attention to "internal motivations" for criminal behavior.[4] For example, Sah [15] points out that the more criminals there are, the more wide-spread must be enforcement resources. He formalizes this positive (to criminals) spillover and terms it the "interdiction effect." Freeman et al. [6] consider the "crowding-out" effect that the more criminals there are, the less loot for each criminal there is. Glaeser, Sacerdote and Scheinkman [7] model peer spillovers of criminal behavior, exploring how the presence of criminals can influence others to choose a life of a crime as well. İmhoroğlu, Merlo, and Rupert [11] develop a competitive equilibrium model of crime with elastic labor supply, and latter, İmhoroğlu, Merlo and Rupert [12] construct a political-economy model to study the effects of redistribution and policing on crime activity, both assuming exogenously given worker skills. Burdett, Lagos, and Wright [3] and Huang, Laing, and Wang [10] use a search-theoretic framework to model criminal decisions for one-dimensional heterogeneous agents and homogeneous agents, respectively. Lochner [13] constructs a simple two-period life-cycle model to examine how the labor-market conditions affect crime and educational choices but without allowing the feedback effect that criminal activity can influence the net value of formal employment or criminal proceeds. In an independent work, Verdier and Zenou [16] consider agents distinguished by their "color" (black or white) as well as by their personal aversion to crime. When peoples' perception is that blacks have lower aversion to crimes, they are offered with lower wages and reside more distantly from jobs, thus creating an equilibrium in which poor blacks commit crimes. A very common finding in this literature is the presence of multiple equilibria with the coexistence of a high-crime equilibrium and a crime-free equilibrium.

One important factor that this literature seems to neglect is that agents may innately have different fundamental levels of honesty. Agents with weak ethics are naturally more likely to commit crime in all circumstances, although this will also interact with the abilities and other opportunities facing the agents. One could interpret the peer effects discussed in Glaeser et al. [7] as being related to this. Specifically, one might think of bad peers as weakening the ethics of the

[2] Grogger [9] attributes the rise in the crime rate in the 1980s to the drop in the real wage rate for the youth, whereas İmhoroğlu et al. [12] regard the subsequent decline as a consequence of higher police enforcement.

[3] The geographical concentration of criminal activity has been documented by Freeman et al. [6] and Glaeser et al. [7], among many others.

[4] The terminology of external incentives and internal motivations are taken from Rasmussen [14]. Internal motivations arise either from things that are internal to the agent (preferences or propensities, for example) or from interactions between agents. This is distinguished from external actions of governments that affect criminal behavior.