

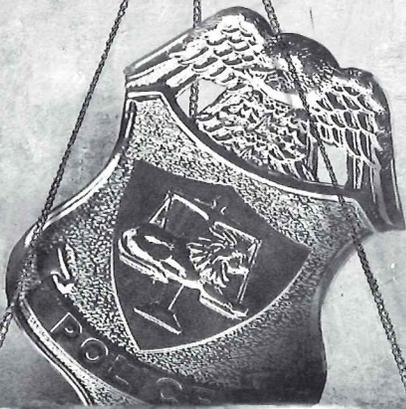
FEDERAL RESERVE BANK OF RICHMOND

Cross Sections

A Review of Business & Economic Developments

Risk

Reward



The Economics of Crime

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Reward



M. G. Jensen

The Economics of

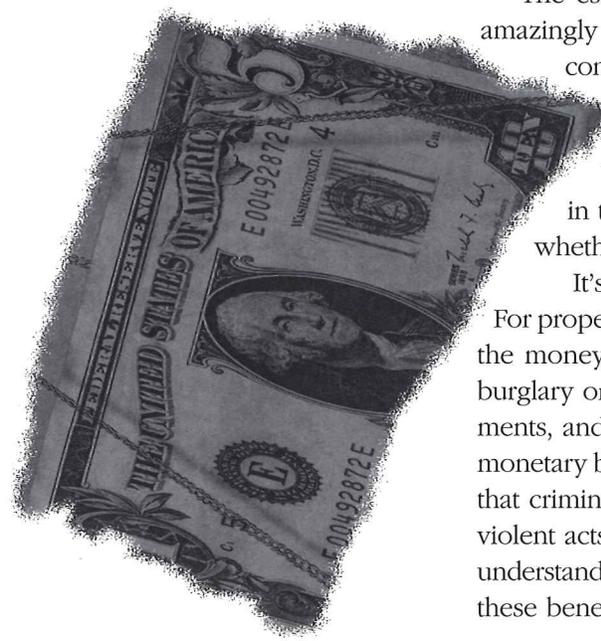
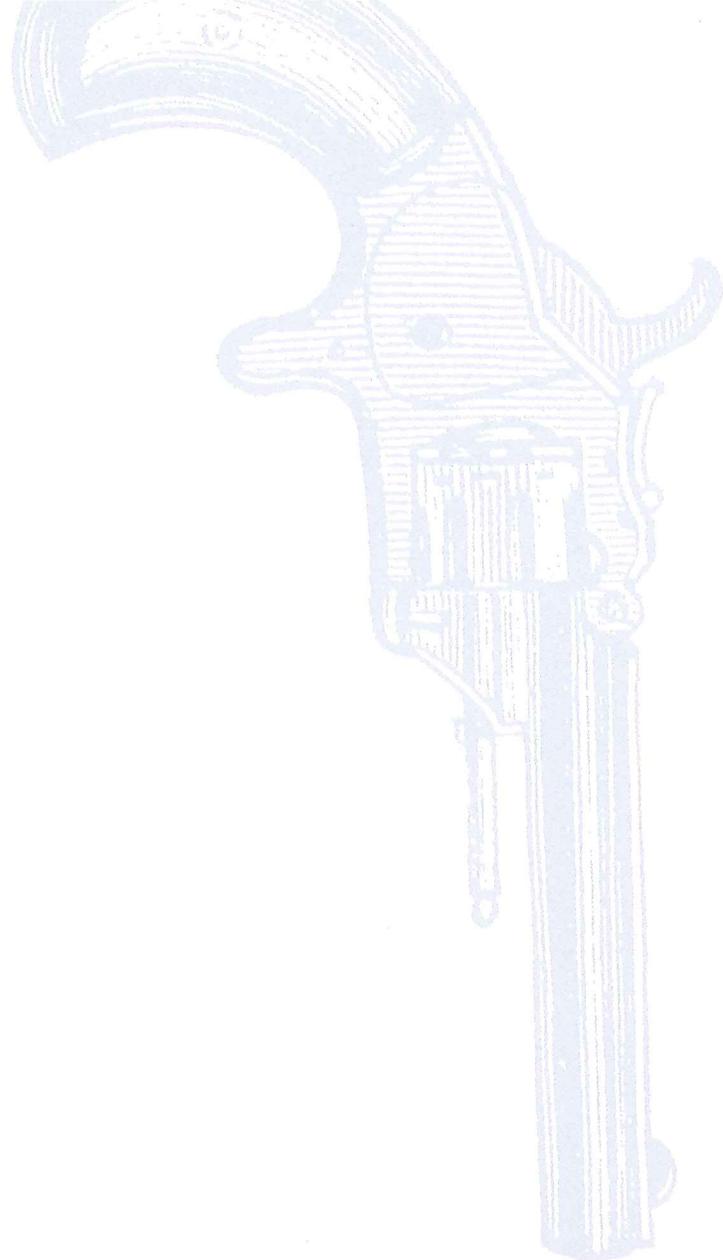
Crime

BY GARY S. BECKER

DURING THE PAST 35 YEARS CRIME HAS grown enormously, not only in the United States, in Richmond, Chicago, and elsewhere in this country, but also in most other countries. The problems that we think are unique to the United States are found in most parts of Latin America, for example. Rio De Janeiro is at least as high a crime area as is Mexico City or Bogota.

And crime is found increasingly in Great Britain and Europe. In Warsaw, Poland, people are more afraid to park their cars on the street without arranging for somebody to watch them than we would be in almost any part of the United States. The same is true in Prague. And while we all think of Switzerland as the epitome of a safe country, crime

Gary S. Becker, the 1992 recipient of the Nobel Prize for Economic Science and Professor of Economics at the University of Chicago, spoke to business and community leaders as guest lecturer in the Federal Reserve Bank of Richmond's Economic Lecture Series. This article is excerpted from The Economics of Crime: Prevention, Enforcement, and Punishment, which outlined his premise that people decide whether to commit a crime by a comparison of the benefits and costs.



is growing. The crime rate there is perhaps modest compared to that in some parts of the United States, but it is not insignificant. In fact, property crimes are probably at about the same level in most parts of Europe as in the United States.

The question to ask then is whether a high crime rate is an inevitable part of life. Or can we do something about crime, and if so, what? Or, can we at least understand a little better the causes of the growth in crime? Knowing the causes will help us learn how to combat crime in the future.

I believe that crime is not inevitable. It's not like death and taxes, which always will be with us. High crime rates have not prevailed throughout this country's history. The 1940s and 1950s were a period of relatively low crime rates. We should see if we can devise ways to go back to the levels of those times.

What is the best way of analyzing the crime problem? There may be no single way available at present that can touch on all aspects of crime and handle all the issues that we face. But there is an approach to crime that helps us understand a surprisingly large fraction of the regularities that we observe in crime. I call it the economic approach, although it certainly far transcends emphasis on monetary gains and benefits. Let me outline briefly what this approach is, then use it to explain some observations we have regarding crime, and finally use those explanations to discuss a few public policy issues and make some recommendations.

The Economic Approach

The essence of the economic approach to crime is amazingly simple. It says that people decide whether to commit crime by comparing the benefits and costs of engaging in crime. True, the forces behind individuals' decisions to commit crimes differ.

But I submit that some general principles apply in trying to understand the factors that determine whether people engage in crime.

It's pretty simple to assess the benefits from crime.

For property crimes, the benefits are the car that is stolen, the money that is stolen, the goods that are taken in a burglary or a robbery, and the like. Forgeries, embezzlements, and many other white-collar violations also yield monetary benefits. And there are psychic, even sick, thrills that criminals might get from assault and rape and other violent acts for which there are no monetary benefits. In understanding criminal behavior, we have to recognize that these benefits exist and are, for some people, important.

Turning to the costs of crime, we first can look at the simple monetary costs. If people are engaging in crime, they are not engaging in legal work, so the value of the time that they are forgoing working is a cost. In addition, there is the likelihood that they will be caught. The punishment if caught could take a variety of forms, ranging from simple probation to fines to imprisonment, and the like. So punishments can be monetary, but they also can take other forms.

The likelihood that criminals will be punished also affects the costs of criminal activity. Criminal behavior is risky: the returns are uncertain, and there is a good chance that you will get caught. I believe that criminals actually like risk—they're risk takers, not risk avoiders. What supports this belief? The economic approach implies that, for a risk taker engaged in crime, the certainty of punishment is more important than the magnitude of the punishment when or if you are convicted. The punishment may still be important, but certainty of punishment for a risk taker would be more of a deterrent than the magnitude of the punishment if convicted. It may still be important to punish, and not negligibly, but the certainty of conviction is crucial.

Unfortunately, the likelihood of being caught and convicted is low. For Great Britain, the data indicates that the probability of being caught, convicted, and sent to prison for committing a crime is under two percent. I think it is higher in the United States for most crimes, but still a conviction is far from certain for most crimes.

Crime also has associated with it psychic costs. Many people do not commit crimes because they believe doing so is ethically wrong. And the feelings we have about what is right and what is wrong are important. The decline in the attitude that crime is wrong has been one factor leading to the growth of crime.

If some events raise the benefits of crime—for example, the amount of money that can be stolen, the value of cars that can be stolen—then those events encourage crime. Similarly, if you lower the probability of being convicted, reduce the punishments if convicted, weaken the strength of the belief that it is wrong to commit crime, then you encourage crime. So changes in benefits and costs are the major tools for understanding why crime changes over time, and why certain individuals or groups are more likely to commit crimes than others. The eco-

omic approach means that people are acting rationally, driven in their behavior by the benefits and costs, taking account of all the ethical and psychic and other aspects that go into determining their behavior.

Understanding Crime

Let me consider, before getting into the public policy issues, a few observations about crime that are readily understandable with an economic approach to crime.

Let's start out with a simple observation. In pretty much every society that we know about, the poor and less-educated are more likely to commit more violent crimes. Contrariwise, the more-educated are more likely to commit embezzlements and various white-collar crimes. Why should that be so? I think a good part of the answer is that

the poor and less educated don't have as many opportunities to earn. So the gain to them from spending time stealing, rather than from working at some legal job, is greater than it is for the more-educated. This story does not require assuming that the poor have low I.Q.s, an idea that has received some attention. It also does not require assumptions about genetics. It is simply

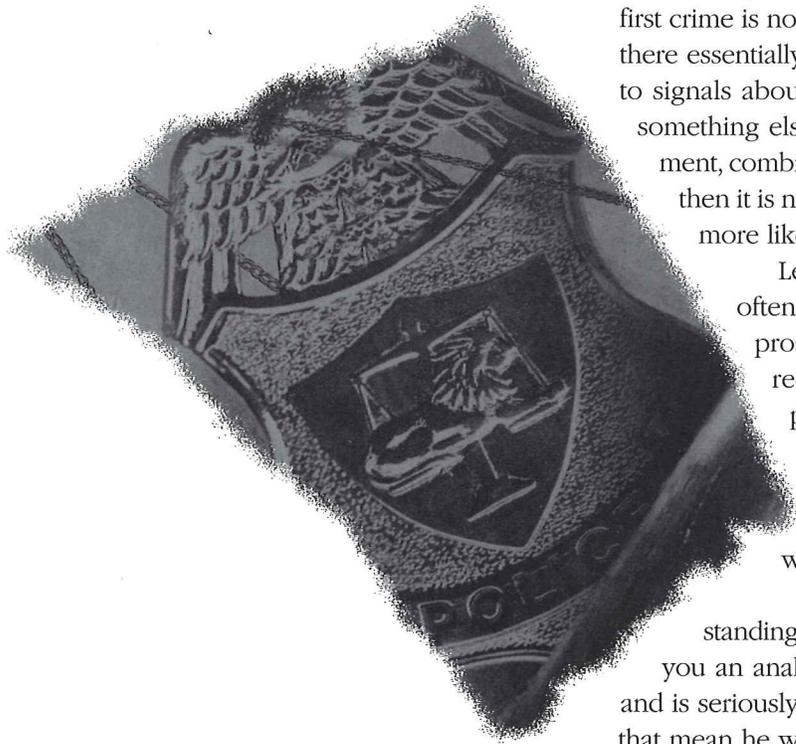
that, being low-educated and having fewer alternatives, you will be more likely to commit crime. That may be reinforced by the tendency of poor families to be less stable and thus less likely to instill the view that crime is bad.

We also observed that, among the poor, teenagers commit a disproportionate number of robberies, burglaries, thefts, and violent crimes. So in trying to understand crime, information about the age distribution of the population is important. There is some evidence that the young are committing an increasing share of these crimes and that the age at which the young are beginning to commit crimes is going down.

There are a few simple forces that explain the increase in crimes committed by teenagers. As I have already mentioned, low earnings are a factor behind crime, and teenagers have lower earnings and fewer opportunities. Some teenagers also may discount the future more heavily in assessing the costs and potential punishment. Punishment is something that will come in the future, so groups that more heavily discount the future will be more likely to engage in crime. Peer pressure and gangs may play a role, too.

Still another factor in teenage crime is the way most countries in the West, including the United States have

In understanding criminal behavior, we have to recognize that some people perceive benefits from committing crime.



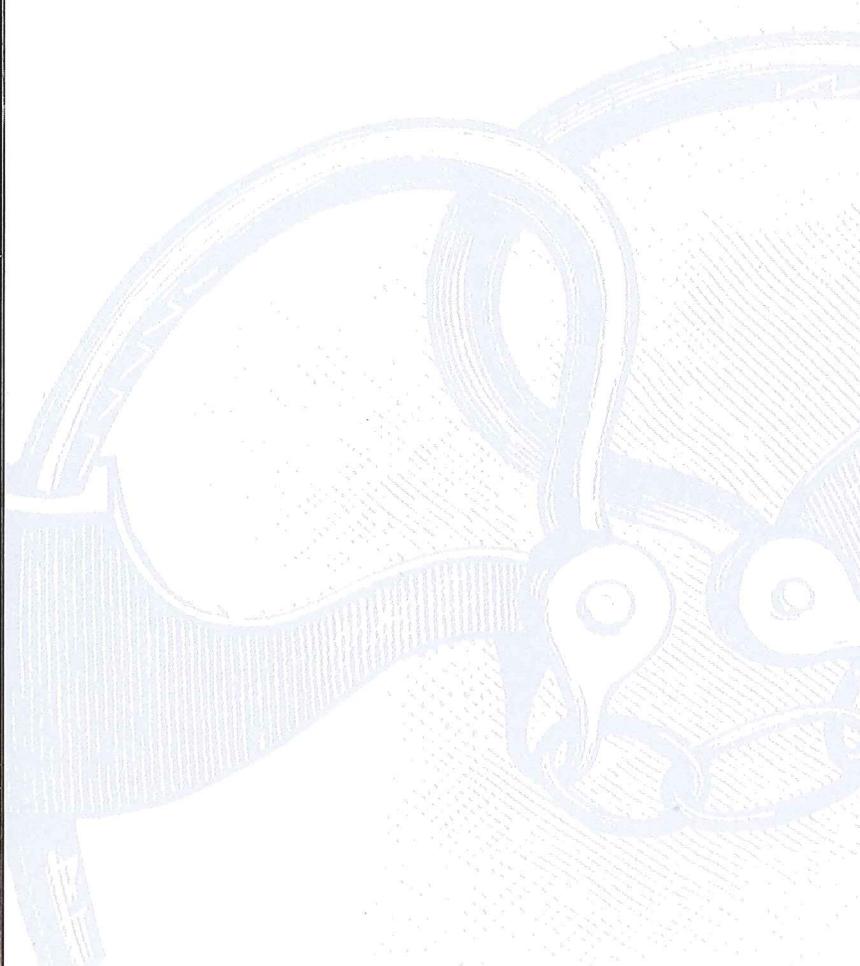
structured punishments. For teenagers especially, if their first crime is not too serious, it is free. By free I mean that there essentially is no punishment. Well, people respond to signals about punishment. If one can steal a bike or something else without expecting any serious punishment, combined with the other forces that I mentioned, then it is not at all surprising that teenagers are much more likely to engage in crime.

Let me now address an observation that often is cited as challenging the economic approach to crime: that recidivism is high. By recidivism I mean that people who are in prison and then released are likely to engage in further crime. This is said to be a puzzle because if they were caught, and if they are rational, it is claimed they would not want to engage in crime again.

But that reasoning shows a misunderstanding of the way rationality operates. Let me give you an analogy. Suppose a construction worker falls and is seriously injured and out of work for a year. Does that mean he won't go back into construction work after recovering? Well, if the person knew the risks associated with construction work before the accident, and if the decision initially to go into construction work took into consideration these risks, then the decision to go into construction work before the accident was rational. And if the risks remain about the same after the accident, and if the person recovers fairly fully then we should expect the same decision to be rational after the accident. So the fact that people go back to crime, or construction, or whatever, is a sign of rationality. If they did not go back, it would mean that they were not rationally weighing costs and benefits, which is inconsistent with the economic approach to decision making.

To understand why recidivism is high, you also have to consider that, when people go to prison, they may learn how to be better criminals. They also may have more difficulty getting good jobs when they come out because they have criminal records or their skills have rusted. Add in those factors, and you would surely expect high rates of recidivism. But that is true even if convicted criminals learn nothing in prison and even if the likelihood of their getting legal jobs when they come out is unaffected by their prison stays. So for me, the high rates of repeat crime, even for those who go to prison, support the economic approach to crime.

Another observation is that drug users commit crimes at high rates. The question is whether that observation re-



flects causation (whether drug use causes criminal behavior) or correlation (whether drug users tend also to be criminals). I do not think we know fully, but as I mentioned already, people are more likely to commit crimes if they discount the future heavily. That suggests that drug users would commit crimes more heavily or that people who commit crimes would more heavily use drugs because the cost of drug use comes later. But it also suggests—and this turns out to be true—that people who commit crimes are more likely to drink more heavily than others, to smoke more heavily than others, and to engage in other forms of addictive behavior for which the costs of the behavior are postponed until the future and the benefits come in the present. So a good part of the association between crime and drugs may be simply a common response to the role of discounting the future.

Policy Issues

Now let me apply this analysis of crime to address several quite controversial policy issues. First let me discuss gun control, a divisive issue. I agree that guns add to the likelihood of more serious crimes, as the evidence we have indicates. Nevertheless, the issue remains of what type of gun control policy we should have. On the one hand, there is considerable support for outlawing ownership of guns, not only assault weapons but also the weapons more typically used in the commission of crime. I don't support that policy. The question that I have asked is, "How effective will it be?" We have something like 70 million handguns in the United States, so about one out of every four have guns. With about three people per family, there is on average about one gun per family. Guns are not equally distributed among all families. I estimate that in the inner city of Chicago, for example, about 60 percent to 70 percent of families own guns.

Most of the guns in the hands of the public are obtained illegally, not by going to a registered gun dealer and through the waiting period. They are obtained in the significant underground that we have now in weapons. This I believe makes it difficult if not impossible to enforce effectively a law that prohibits people from having guns. Such a law would prevent the people you want to have guns from having guns, namely, shopkeepers, homeowners, and so on, who use guns in self-defense. There

have been some studies by criminologists and economists showing that in many cases guns are used in self-defense and to protect people against the commission of crime. There are far more of these cases than cases when guns accidentally go off and harm the owner of the gun.

So what should we do? I think what we're concerned about mainly is the use of guns to commit crime. The use of guns in criminal activity is worrisome because there is some chance that crime will be escalated. And gun use induces enormous fear in the minds of victims. For these reasons, the use of guns in crimes is something we want to discourage.

It seems to me that there are two ways to reduce gun use in crimes without attacking the ownership of guns. One way is to increase the sentence significantly for people who use guns to commit crimes. For example, if the normal punishment for a robbery or burglary is a year in jail in a particular jurisdiction, then the sentence might be doubled to two years if a gun was involved in the commission of a crime. The punishment for using guns could depend on

the severity of the crime, whether the gun was fired, or whether the circumstances made it more likely that the gun would be fired. This would raise the costs—the magnitude of the punishment—so it would reduce the desire to use guns in committing crimes.

A second alternative is to give a little more freedom to police to frisk people whom they have a reasonable suspicion might be carrying weapons. Such searches once were

common in the United States, but their use has declined in the last couple of decades. I think it would be wise to make them more commonplace so that, on the one hand, we make an effort to locate illegal guns directly, and on the other hand, we punish the use of guns in the commission of crimes.

Now let me turn to policies concerning conviction and imprisonment. There was a large increase in crime in the 1960s and 1970s. The explanation for it is not fully known; however, two important factors are known. One, and this has been documented, the likelihood of convicting somebody of a violent crime went down sharply in the 1960s and 1970s. This came about for a combination of reasons: more attention perhaps to criminals' rights and less to victims' rights; a general belief among many intellectuals, which spread to others, that deterrents were ineffective; the view that criminals are sick (the title of a book by a

The economic approach to crime implies that, for a risk taker engaged in crime, the certainty of punishment is more important than the magnitude of the punishment if a conviction is obtained.

famous psychiatrist), and other views of that type. Whatever the reason, people have shown that the decline in the likelihood of apprehending and convicting criminals caused a significant part of the growth in crime over these two decades.

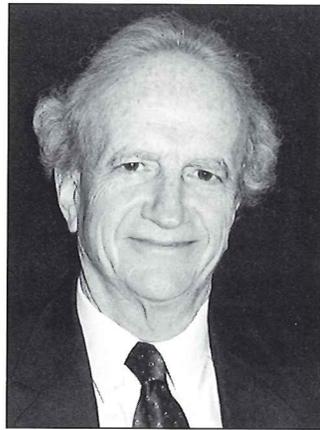
Families also began to deteriorate in the 1960s and 1970s, and we know that children of broken families, disruptive families, or parents on drugs, etc., are more likely to commit crime. So that was becoming more common at that time and clearly was also a factor.

On this basis you might have expected crime would have continued to grow in the 1980s and 1990s. And in other nations, in many respects comparable to the United States, like Great Britain, that's precisely what happened. Property crime went up by more than 50 percent in Great Britain from 1980 to the early 1990s. Yet property crimes fell by more than 25 percent after 1979 in the United States, and violent crimes also fell by much less, maybe 10 percent. These statistics are based on household studies that ask people if they were victims of crimes.

The usual statistics you see quoted in the newspapers are not these but are based on FBI calculations of crimes reported to police departments. The trouble with the latter statistics is that many people don't report crimes. If you have a bicycle stolen, why report it? You know you'll never see your bike again.

When you compare the households survey data with the FBI data, the households survey shows a lot more crime than the FBI data, especially for the crimes that are less likely to be reported—the less serious crimes, or crimes like rape that people have been embarrassed to report. It's also true that the trends in these two sets of data are different, and the household data on victimization, which are the more reliable, actually show a rather significant decrease in crime since 1980, particularly in property crimes. And still families were dissolving and the rate of dissolution was growing in the 1980s. So why did crime decrease?

Nobody fully knows the answer yet, but an important part of the answer, although it has not been demonstrated,



Gary Becker, the 1992 recipient of the Nobel Prize for Economic Science, says we should devise ways to return to the low crime levels of the 1940s and 1950s.

GUILTY NASHAT

is that the probability of conviction and imprisonment rose substantially during this period. For a number of reasons, partly due to the Supreme Court's movement toward victims' rights and away from criminals' rights, partly because law and order became a major political issue, the states began to put more money into fighting crime. And there are other reasons. But we know that the number of persons in prisons grew significantly during the 1980s. And while the growth in federal prisoners was in good part due to growth in drug use, that was not true for the equally large growth in state prisoners, only a rather small fraction of whom were drug users. Meanwhile, in Great Britain the trend was toward less rather than more punishment so it may not be surprising that crime in Britain went up

while it went down in the United States.

This suggests in my view that imprisonment works and, barring any more effective methods, is useful. We should distinguish, however, between people committed for serious crimes and those committed for minor drug charges. I am not an enthusiast about giving people long prison sentences for drug activity.

And for those who say we cannot afford to build more prisons, let me point out that about 6 percent of state and local budgets goes for incarceration and police.

It's a rather small part of total state and local spending. It's even a small part of federal spending. Governments at all levels are taking over 40 percent of the U.S. gross national product (GNP), and of that, let's say 4 percent of their budgets is going into these activities. That means that about 1.5 percent of GNP is financing incarceration and police forces. We can well afford to put more money into police and punish-

ment if we feel they are effective deterrents. The overwhelming fraction of our budgets goes for other activities that can be cut more easily, or we can increase total taxes in a minor way to have the significant impact on spending here.

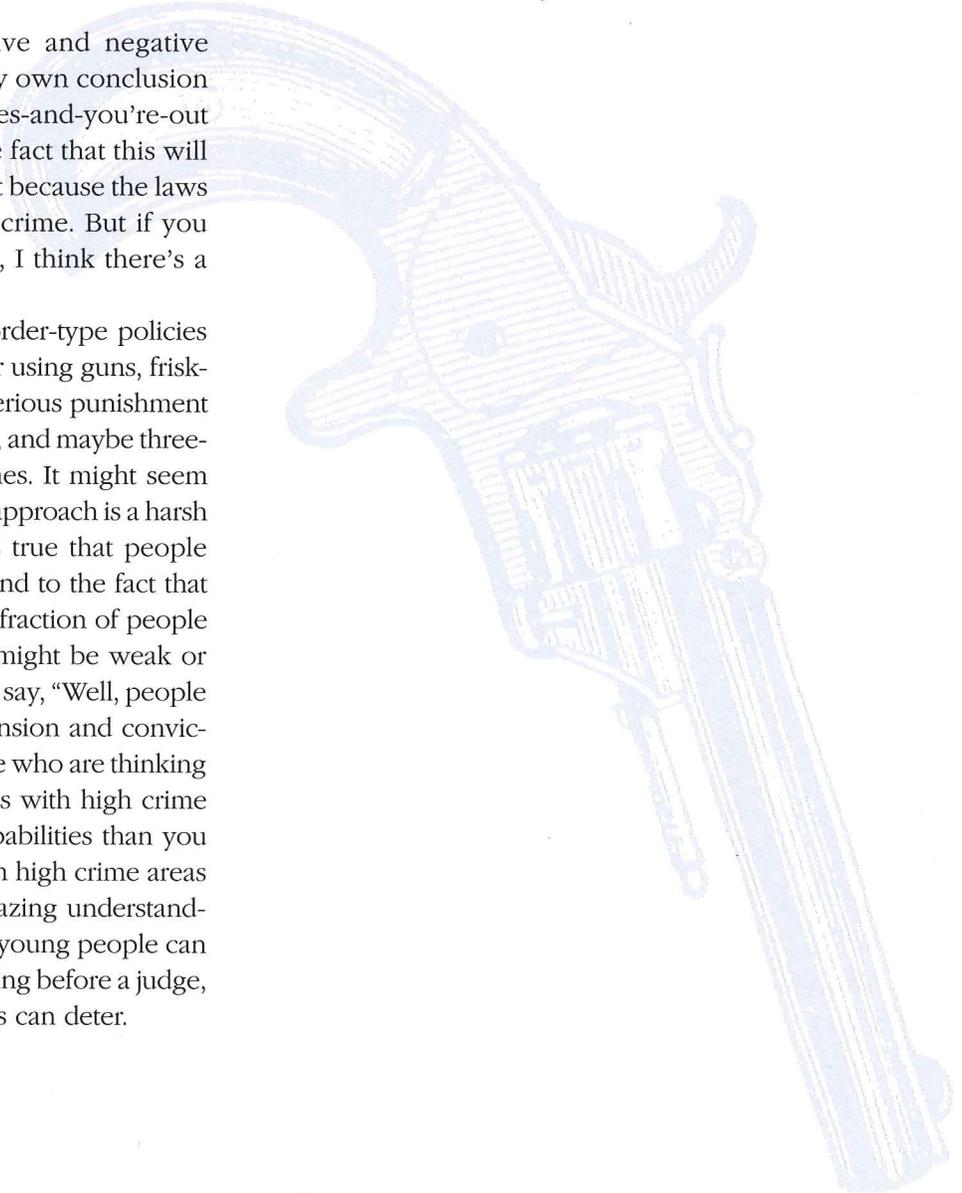
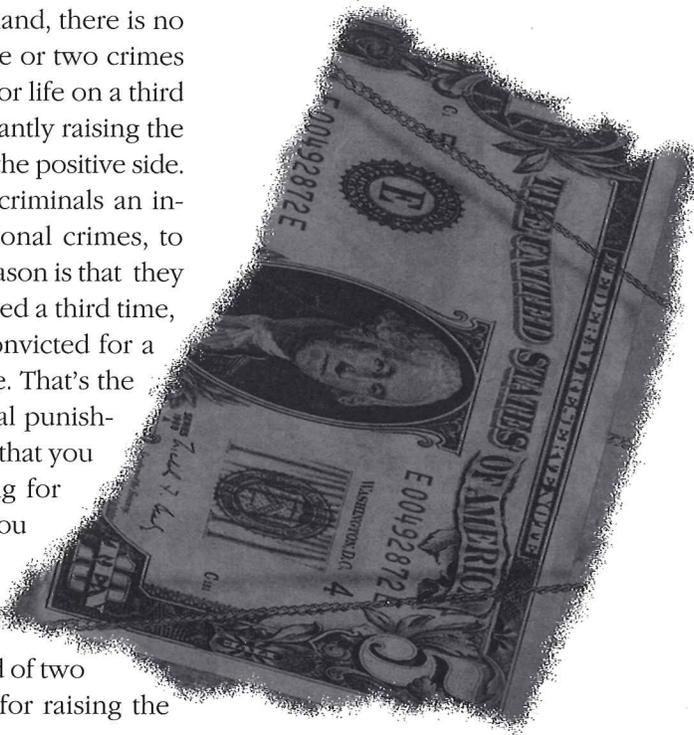
Now let me discuss a third policy: the three-strikes-and-you're-out laws. A number of states have passed them, and some others are considering them. My own

The punishment for using guns could depend on the severity of the crime, whether the gun was fired, or whether the circumstances made it more likely that the gun would be fired.

view on the laws is mixed. On the one hand, there is no question that, if you have committed one or two crimes and you face the risk of going to prison for life on a third crime, the laws will deter you by significantly raising the cost of committing another crime. This is the positive side. The negative side is that you also give criminals an incentive, if they do commit these additional crimes, to escalate the severity of the crimes. The reason is that they will go to prison for life if they're convicted a third time, so it won't matter to them if they get convicted for a more severe crime or a less severe crime. That's the risk of what's called "technically marginal punishment." The economic approach teaches that you always want to have punishments rising for more severe crimes, because otherwise you don't discourage people from committing the more severe crimes. But the three-strikes-and-you're-out laws for people who already have been convicted of two crimes make the marginal punishment for raising the severity of crimes zero.

How do you balance the positive and negative aspects of these laws? It's not easy. My own conclusion is that you want to limit the three-strikes-and-you're-out laws only to quite serious crimes. The fact that this will escalate these crimes isn't so important because the laws are already limited to highly serious crime. But if you do restrict the laws to serious crimes, I think there's a lot to be said for them.

I have mentioned a few law-and-order-type policies that one can use—extra punishment for using guns, frisking people, convicting at a high rate, serious punishment for major crimes, building more prisons, and maybe three-strikes-and-you're-out for serious crimes. It might seem that all that comes out of this economic approach is a harsh law-and-order approach to crime. It's true that people respond to incentives; teenagers respond to the fact that they can get a free crime. A significant fraction of people respond to the fact that punishments might be weak or nonexistent, etc. And for those who will say, "Well, people don't have information about apprehension and conviction," let me point out to you that people who are thinking of engaging in crime, who live in areas with high crime rates, know far more about these probabilities than you and I do. Interviews of young people in high crime areas who do engage in crime show an amazing understanding of what punishments are, what the young people can get away with, how to behave when going before a judge, etc. So they do know, and punishments can deter.



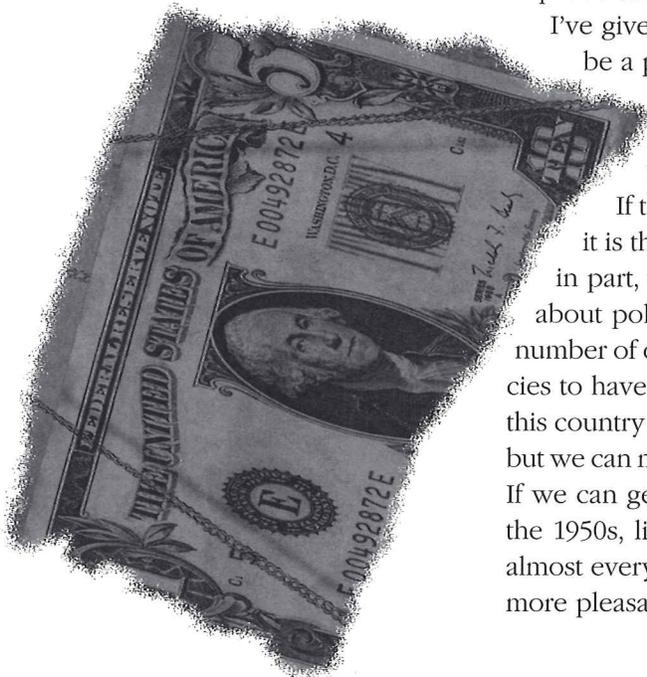
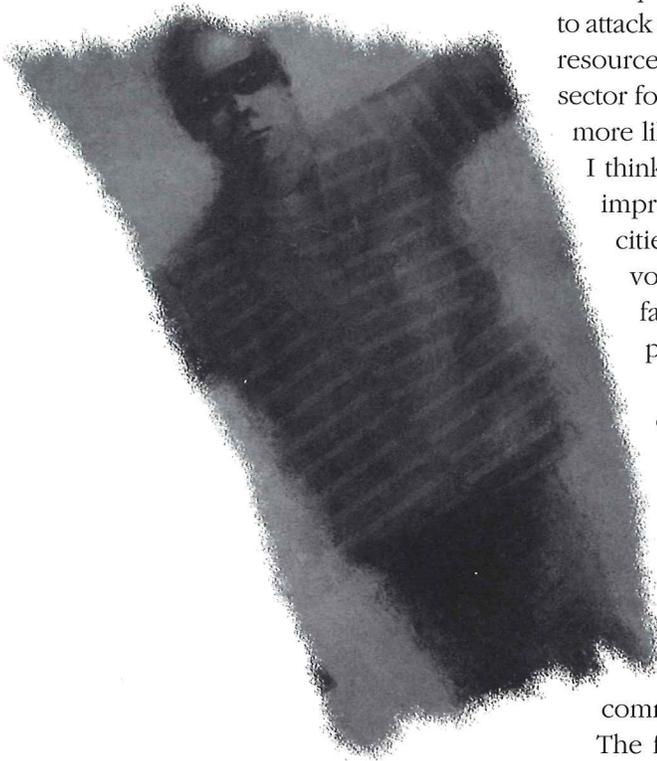
But the economic approach to crime does not only suggest a focus on law and order to reduce crime. It also encompasses other more fundamental, or indirect, ways to attack crime. There's no question that we should devote resources to improving the opportunities in the legal sector for teenagers, the poor, and other groups who are more likely otherwise to turn to crime. One action that I think is important for improving opportunities is to improve the quality of schools, especially in inner cities. I've been a strong advocate of a school voucher system, tailored especially to inner-city families, that can be used for tuition to private and public schools.

Another action is to keep unemployment down overall and job opportunities up with sensible monetary fiscal policies. Further, reducing the unemployment of groups that are more likely to turn to crime can help, too. One policy that will help in this regard is to not increase the minimum wage. A minimum wage simply puts people out of work, which alone is bad for them, and, as a result, leads them to commit more crime.

The final and toughest issue is how to strengthen families. Many things have been suggested like welfare reform, changing divorce laws, taking children away more readily from parents who abuse them than we do currently, and still others. I think that if we can keep unemployment down and raise the quality of schooling and do some of these other things, then we will improve the quality of family life.

I've given a very brief glimpse of what I consider to be a powerful way of trying to understand crime, and a way that leads to suggestions for policies on how to reduce significantly the unacceptably high crime rate in this country. If there is a single message that I've been giving it is that crime is not inevitable. Rather, it's a result in part, at least, of public policies; policies not only about police and prisons, but about education and a number of other things. And we can improve those policies to have a significant effect on crime. Will we return this country to the way it was in the 1950s? Probably not, but we can make it a lot closer to the 1950s than it is today. If we can get crime to be at least half the way it was in the 1950s, living in major and medium-sized cities and almost everywhere else in the United States will be a lot more pleasant than it is now.

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