

THE ECONOMIC RAMIFICATIONS OF CRIME AND PUNISHMENT:
A PROBLEM OF UTILITY MAXIMIZATION

by

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INTRODUCTION

The fear of crime and what to do about crime has become a source of major concern among Americans. In assessing the amount and trends of crime The President's Commission on Law Enforcement and Administration of Justice¹ concluded that property and violent crime, in numbers of offenses, are increasing and that--especially for property crimes--the rate of increase is faster than the rate of increase in the population. Fear of victimization from violent crimes affects individual behavior. People avoid, for example, such places as public parks, dark streets, and some areas of commerce in the interest of safety. This reduces the social value of the public goods and also diverts private resources to other areas. And, consequently, there are numerous undesirable indirect effects that could be listed.

Previously the focus of the most attention by both the public and the law enforcement agencies has been on the seven FBI Index offenses--murder and non-negligent manslaughter, forcible rape, robbery, aggravated assault, burglary, felony larceny, and motor vehicle theft. The designation of this categorization is subject to debate.² However, if crimes were categorized on the basis of their overall economic impacts the picture changes. Again referring to the President's Commission report it is found that

Organized crime takes nearly twice as much income from gambling and other illegal goods and services as criminals derive from all other kinds of criminal activity combined.

Unreported commercial theft losses, including shoplifting and employee theft, are more than double

those of all reported private and commercial thefts.

Of the reported crimes, willful homicide, though comparatively low in volume, yields the most costly estimates among those listed on the UCR crime Index.

A list of the seven crimes with the greatest economic impact includes only two, willful homicide and larceny of \$50 and over (reported and unreported), of the offenses included in the crime Index.³

Given the increasing trend and significant economic impact of crime in this country it is appropriate that more social scientists consider the problem. Recently economists have begun to develop perspectives regarding criminal motivation that are in contrast to those made by criminologists. Criminologists have focused attention on the social environment which is said to cause individual deviance and consequently propose policies to "reform" both factors.⁴ They indicate that, since criminals are sick, they will not be deterred by punishment and, consequently, to affect crime we should reform these socially deformed, deviant, irrational people. On the other hand, economic analyses tend to view environmental effects and irrationality as only two factors of the problem--with the environmental factor by far the more predominant of the two. Furthermore, the social environmental effects in the economic perspective come from a different rationale.⁵

The purpose of this paper is to review those studies, both theoretical and empirical, that are concerned with the economic ramifications of crime and punishment. These studies either assume individual rationality among criminals (that they are individual undertaking illegitimate actions for profit) or, more simply, that criminals, like non-criminals, do respond to incentives (in other words, punishment will deter crime and increased levels of expected booty will increase crime).

In either case the individual calculates the benefits and costs associated with his or her criminal actions (just as in non-criminal actions) in an attempt to maximize utility. This perspective is in direct contrast to that of criminologists.

In the theoretical literature, which is presented first, rational benefit-cost calculation is assumed (on the part of the criminal and the policy makers). Based on this assumption, models are developed which suggest policies aimed at the minimization of social loss from criminal activity. In turn, the empirical literature demonstrates that criminals do respond to incentives as predicted by the original assumption. It must be pointed out that this does not prove that criminals are completely rational, only that they calculate the respective costs and benefits associated with their criminal actions in an attempt to maximize their utility. To say that criminals are completely rational or do not have personal characteristics that differ in some way from law-abiding citizens would be going too far.⁶ However, a rational response to these types of incentives does mean that, in developing policies aimed at reducing crime, we can dispense with theories regarding individual deviance and social deformity.

Also, the review of empirical literature suggests some problems with resource allocation in regard to police protection (which is partly a problem of the available data), and considers the returns associated with burglary--a crime similar to that used to develop the equilibrium analysis of criminal behavior in the theoretical section. Finally, the review of empirical literature includes the effect on crime rates of some socio-economic factors including the respective economic rationale. These