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The economic costs of crime

A discussion

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Introduction

- Crime imposes significant costs on societies around the world.
- To make an informed and evidence-based policy decisions, we should know the extent to which criminal activity results in social damages.
- Thus, it is sometimes useful to be ‘economic imperialists’ and calculate monetary costs from seemingly intangible phenomena.



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Why crime costs matter

- Crime is not a zero-sum game, although it might seem so in some cases.
- If a burglar takes 1000 EUR, this means that he is better off by 1000 EUR, while the victim is worse off by the same 1000 EUR.
- However, this isn't a simple redistribution, as there are other associated costs.
- The victim might also suffer mental trauma, which could influence his/her working ability and thus future labour market outcomes.
- There are also costs associated with reporting and prosecuting the perpetrator, if caught.



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Why crime costs matter (2)

- How can we know if a crime prevention system is effective if we do not take into account the cost of crime?
- Consider the extreme example when the monetary cost of crime is 0.
- In this case, both the crime prevention and judiciary systems are useless and result in net losses for society.
- From policy perspective the cost of crime is crucial to make informed decision about allocating resources to crime prevention.



Calculating the cost of crime

- Crime is a nonmarket good.
- The cost is impossible to *calculate* (Mises, 1990).
- However, we can *estimate* the cost based on various assumptions.
- These assumptions are inherently normative. E.g. What is the monetary value of human life?



Main challenges

- Chalfin (2015) notes that the main challenge arises from the distinction of *external* and *social* costs.
- External costs, or externalities are known in microeconomics as costs imposed on an individual (in this context, a crime victim).
- For example, the external costs of a robbery might include the value of the goods stolen, lost productivity, injuries, psychic harms sustained by the victim, and the value of time spent dealing with the aftermath of the robbery (canceling credit cards, obtaining a new driver's license, etc.).



Main challenges (2)

- Social costs consider the welfare of society as a whole.
- Only a smaller part of external costs could be considered social costs as well.
- But, there are others, implicit social costs.
- Higher crime rates discourage private investments in local businesses, and destroy the social fabric of communities (Chaflin, 2015).
- Some estimates are based on external costs, while others use the sum of external and social costs with deducting the value of stolen goods (as this value is not *lost*, but rather transferred).



Main challenges (3)

- Additional challenges arise when estimating the costs of violent crimes, especially homicides.
- The normative part (the assumptions made) here is even more crucial as we have even less information than with property crimes.



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Some estimates from the literature

Table 1 Summary of findings in the extant literature.

	"Bottom up" studies						Contingent valuation studies		
	Cohen (1988)	Cohen, Miller, & Roseman (1994)	Miller, Cohen, & Wiersema (1996)	Rajkumar & French (1997)	Cohen & Piquero (2009)	Roman (2009)	McCollister, French, & Fang (2010)	Cohen et al. (2004)	Cohen & Piquero (2009)
Property losses	×		×	×	×		×	-	-
Medical care	×	×	×	×	×			-	-
Mental health care	×	×	×	×	×			-	-
Productivity	×	×	×	×	×		×	-	-
Criminal justice cost		×	×	×	×		×	-	-
Intangible costs	jury awards	jury awards*	jury awards*	jury awards	jury awards	jury awards	jury awards*	-	-
Rape	\$98,942	\$83,466	\$125,663	\$75,014	\$157,500	\$157,858	\$243,184	\$267,147	\$304,500
Robbery	\$24,410	\$34,295	\$18,777	\$46,949	\$24,150	\$302,569	\$42,733	\$89,804	\$40,950
Assault	\$23,255	\$25,939	\$21,666	\$123,943	\$57,750	\$146,554	\$108,090	\$156,823	\$89,250
Burglary	\$2,601		\$2,166	\$4,406	\$5,250	\$5,612	\$6,527	\$28,180	\$36,750
Larceny	\$347		\$534	\$1,490	\$2,940	\$2,682	\$3,567	\$827	\$4,200
Motor vehicle theft	\$6,066		\$5,777	\$9,232	\$9,540	\$19,163	\$10,880	\$5,466	\$17,850

Note: Table reports nine estimates of the cost of non-murder index crimes from eight prior studies. All costs are reported using 2010 dollars.



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Back-of-the-envelope calculations (Croatia)

- Using the costs calculated by Czabański (2009) for Poland, the total direct and indirect costs of violent crimes in Croatia is close to 1 billion HRK.
- However, this estimate is far from precise.
- Lack of reliable data is a huge problem for estimating the crime costs everywhere, but in Croatia even more so.



Conclusion

- Calculating the monetary costs of crime is crucial from the policy perspective.
- To ensure necessary conditions for these calculations/estimations are met, it is of utmost importance that detailed micro-data is made available to the researchers.
- Registry of offenders?
- Registry of victims?



Literature

- Chalfin, Aaron. "Economic costs of crime." *The encyclopedia of crime and punishment* (2015): 1-12.
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- Mises, L. von. (1990). *Economic calculation in the socialist commonwealth*. Auburn, AL: Ludwig von Mises Institute