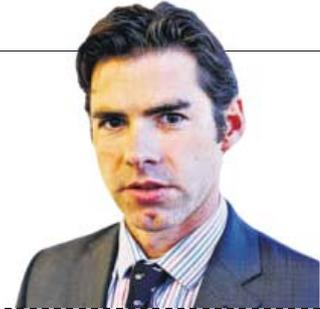


Philip Aldrick

Bigger rewards and less risk are making crime more attractive

Philip Aldrick is Economics Editor of The Times



When does crime pay? The simple answer might be when you can get away with it. For

Gary Becker, the nobel laureate economist, it was a little more complicated.

"I began to think about crime in the 1960s after driving to Columbia University for an oral examination of a student in economic theory," he said in his 1992 Nobel prize-winning lecture. "I was late and had to decide quickly whether to put the car in a parking lot or risk getting a ticket for parking illegally on the street.

"I calculated the likelihood of getting a ticket, the size of the penalty and the cost of putting the car in a lot. I decided it paid to take the risk and park on the street."

Mr Becker was behaving illegally, but, more than that, he was acting as an economic agent. He faced conflicting motivations that he had to balance to make a decision. Granted, few burglars are ultra-rational, prize-winning economists who process risks like a computer, but Mr Becker's insight was to identify that incentives exist as much for crime as for work.

Since Mr Becker broke new ground, colleagues have demonstrated provable links between crime on the one hand and education, low wages and bobbies on the beat on the other. With welfare, economists talk of a "reservation wage" below which people on benefits have no reason to work. There is a price at which crime pays, too, and it depends on the level of legal wages, the risk of getting caught and possible sanctions.

One of the leading authorities on the subject today is Stephen Machin, director of the Centre for Economic Performance at the [London School of](#)

[Economics](#). He has analysed London Metropolitan police data over the decade to 2012 and scraped drug marketplaces on the dark web to show that criminals not only act rationally but operate sophisticated economic models, too.

When China's construction boom sent commodity prices rocketing for copper, lead and aluminium, metal thefts took off. A bronze statue in Brighton of Steve Ovett, the middle-distance runner, was stolen in 2007, £10 million of lead was removed from church roofs in 2011 and a ten tonne bridge was dismantled in the Czech

Republic in 2008. Burglaries have also changed in nature. Mobile phones, bikes and jewellery are the main targets as robbers don't waste time on bulkier items, like flatscreen TVs. Crime figures show that thefts have fallen, but Mr Machin has calculated that the value of what is taken has barely changed because "people are stealing more expensive stuff". It may sound like common sense, but it all fits into a rational economic model. Criminals are following the money and reducing their risk by preferring a quick and rewarding smash-and-grab.

Mr Machin's work on online drug marketplaces is even more revealing. It turns out that British drug users are more sophisticated than most. A quarter of them buy on the dark web, twice the level of three years ago and twice that in the United States, according to the Global Drug Survey. It's not hard to see why. Online drug marketplaces sell safer products and, for a gang of crooks, are pretty trustworthy. "The quality of drugs supplied seems to be relatively high, so that online markets do not suffer from the problems of adulteration and low

quality that are known to commonly feature in street sales," Mr Machin and others wrote in a paper in August.

The key innovation has been Ebay-style reputation scoring, which has made dealers honest. Less trustworthy were the marketplaces themselves, which held Bitcoin payments in escrow accounts until the product arrived. Every now and then marketplaces shut down, or were shut down by the police, and took the money with them. Individual losses were small, though, as average deals were just £40, so users simply migrated to a surviving rival. In one display of "honour amongst thieves", a platform alerted users it was about to close to give them time to get their money out.

The anonymity provided by both the dark web and Bitcoin has allowed properly functioning illicit marketplaces to operate, which in future may provide valuable evidence for debates on drug legalisation. In the meantime, the dark web is cleaning up drug dealing by enforcing market principles and driving business off the streets.

When it comes to GDP, crime does

pay — in as much as it is economic activity. Yesterday's official data quantified a little of that. The Office for National Statistics has been estimating the contribution made by drugs and prostitution to GDP since 2014 (for comparability, because the activities are legal in some European Union states). Last year, households spent £4.7 billion on hookers and £3.9 billion on drugs and the two activities accounted for 0.3 per cent of national output.

The figures merely scratch the surface. The Organisation for Economic Co-operation and Development reckons that Britain's



shadow economy, which includes both criminal activities and tax avoidance on legal activities, was worth about 9.4 per cent of GDP in 2015, roughly £180 billion. At least we are not Italy. So much of the world's eighth largest economy is in the shadows that it would be one fifth larger if the activity was legitimate, the OECD believes.

The main economic cost of crime is in forgone tax. Of the £36 billion the government believes was not paid in 2015, £18 billion was down to crime and avoidance. All this ignores the social costs, of course.

The work by Mr Becker and Mr Machin offers some insight for policy. Their analyses prove that low unemployment, better pay, high threat of capture and lower rewards make crime less attractive. A more visible police presence reduces street crimes, Apple's "find my iphone" tool has been a powerful deterrent and good education work. "People with something to lose are less likely to view criminal participation as attractive, and crime reduction can therefore be achieved by influencing life opportunities," Olivier Marie, Mr Machin's colleague at the LSE, wrote recently.

The equation is changing. Cybercrime and online theft promise bigger rewards and less risk, increasing incentives. One measure of criminality is the amount of cash in circulation. It grew by 10 per cent last year, with a big spike in the £50 notes preferred by the underworld. Crime may be getting easier just as criminals are getting organised.

As for Gary Becker, he found that crime did pay. He didn't get a ticket.

