

Example 20.4

The Costs of Crime*

A U.K. government report recently estimated the total cost of crime in England and Wales at around £30 billion (see Brand and Price, 2000). This looks like a big number; it is certainly likely to grab the headlines and it suggests that crime is a fairly serious problem. But what does such a number actually mean? How did the government arrive at a single figure for the cost of all crimes – covering everything from murder to car theft to sexual offences? And are such numbers any more than just headline-grabbing statistics; can they usefully inform policy?

The estimated costs are intended to reflect all the negative economic and social effects of crime. The costs therefore include the financial costs of damage directly caused by crime and spending on crime prevention, as well as estimates of the intangible effects of crime, such as the emotional and physical harm to the victims. The advantage of attaching a monetary estimate to the costs of crime is that it allows meaningful comparisons to be made between different types of crime, and between crime and other policy areas.

In cost–benefit analysis, a key distinction is drawn between genuine resource costs and transfers between individuals. Consider, for example, the London Congestion Charge. The amount of the charge paid is not a cost of the scheme; it is a transfer between one group of individuals (drivers) and another (taxpayers). Applying this strict definition in calculating the costs of crime leads to some possibly surprising conclusions. Consider the theft of a mobile phone. The financial value of this loss to society is not the replacement cost or purchase price of the phone. While there is a cost to the victim of losing the phone since he or she has to buy another phone, there is a direct gain to the thief (since he or she does not!). Since both victim and thief are members of society, the effects of the theft on both need to be taken into account. Seen in these terms theft is

* Example prepared by Sarah Smith, University of Bristol.

simply a transfer. In practice, however, the government has included the value of the property in assessing losses resulting from theft on the basis that the transfer is illegal.

In addition, a theft is likely to have wider consequences beyond the simple transfer of property from one person to another that are likely to give rise to genuine costs. Examples include the hassle of buying a replacement, the cost of any insurance that the person had to cover the possibility of theft, the psychological costs to the victim, any wider effect on the fear of crime in the area, and so on. In thinking about the economic and social costs of crime, it is helpful to distinguish three types of costs:

- **Anticipation costs** that are incurred in anticipation of crimes occurring and fall mostly on potential victims
- **Consequential costs** that are incurred as a direct consequence of criminal events and fall mainly on the victims, but also on public services that are brought in to cope with the immediate consequences, such as the health service
- **Response costs** that are incurred in response to the crime and fall mainly on the criminal justice system.

Anticipation costs include defensive expenditures on security measures such as burglar alarms, fencing, lighting, security guards, and so forth. They also include the direct expenditure cost of engaging in precautionary behavior designed to minimize the probability of becoming the victim of a crime (such as taking a taxi when it would be cheaper to walk). These clearly involve genuine resources that would not be spent in the absence of crime. Spending on insurance is another anticipation cost. Insurance is largely a transfer of resources from potential-victim policyholders to actual-victim policyholders. However, there is a genuine resource cost involved in the administration of insurance policies. Finally, fear of crime involves potentially large but more intangible costs, such as reducing people's quality of life. An attempt could be made to estimate the size of this effect by, for example, comparing the prices of otherwise identical houses in high high-crime and low low-crime areas. In principle, the price differential would directly measure individuals' willingness to pay for avoiding crime, although low-crime areas may have other benefits such as good schools. Fear of crime may also have an important indirect effect on people's behavior by preventing them from doing what they otherwise would do – for example, not going out at night for fear of being mugged and therefore missing out on a good time. The estimated costs reported above did not take into account the fear of crime and its quality quality-of-of-life impacts, partly because these are so much harder to quantify and monetize.

The individual victims of crime bear many of the consequential costs. If the stolen items are not insured, the incidence of the cost falls directly on the victim; if they are insured, there is a further transfer of resources from other people within the insurance pool. Of course, if the property is damaged or destroyed (a case of joy-riding rather than auto theft), then it does count as a genuine social cost. And, as already mentioned, the victim may incur costs of time associated with the consequences of a crime, for example reporting it to the police, making an insurance claim, or buying a replacement item. Some

crimes may have very substantial emotional and physical effects and result in a reduced quality of life for the victims. These effects may include physical injuries, but and also feelings of vulnerability, loss of sleep, and so on. These Such effects generally far outweigh the financial costs, but are harder to place a monetary value on. The amounts given to victims of violent crime in compensation are not a wholly reliable guide to the consequential costs since they are determined by administrative criteria that may not fully take into account the individual's loss. Estimates of benefits from health improvements are frequently used in health expenditure analysis, and these can be used as a guide, although the loss of health sustained as a result of crime may be qualitatively different. As well as the costs to the victims, there may be additional costs imposed on the health service and on victim support services. These are far easier to quantify in terms of the resources used to staff and run these bodies.

The response costs represent the resource costs in catching criminals and bringing them to justice. These include the costs to the police, the costs of running a court system and the costs of staging a trial (including legal costs and the costs of jurors' time). They also include the costs of the prison and probation services, and the costs of incarceration to the offender – and to his or her family.

So, behind the headline figure lies a serious attempt to think through the ways in which crime imposes genuine costs on individuals and to quantify and monetize its various effects. In some cases, it was felt too hard to reach a meaningful value and in many other cases, the costs are likely to have been estimated with a fair degree of imprecision. It is therefore important not to attach too much weight to the exact figure. But that does not mean that the estimated cost is of no use to policy- makers. The estimate of the total cost of crime should increase the awareness of both policy makers and the public in general of the full impact of crime on society and the potential gains that could result from reductions in crime. Perhaps of even greater use are the estimates of the *relative* costs of different crimes. The government report estimated the average cost of crimes involving violence against the person and sexual offences at more than £18,000; by contrast, attempted vehicle theft and other types of theft were estimated to cost less than £1,000 on average. These comparisons highlight the very different costs associated with different crimes and can help policy- makers set priorities within the overall crime budget – targeting resources where they are likely to have the greatest impact on reducing the harm from crime, and not just on the number of crimes committed.

Sources

Brand, S. and Price, R. (2000) *The Economic and Social Costs of Crime*, Home Office Research Study 217.

Available at www.homeoffice.gov.uk/rds/pdfs/hors217.pdf