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An Economic Approach to Crime: Prevention and Punishment

Buchanan, crime, crimeprevention, dilemma, externalities, marketfailure, microeconomics, prevention, punishment, Rawls, socialcontract, socialcontracttheory

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All Posts

Abstract

This paper explores different economic theories in order to develop an effective crime prevention scheme. First, a possible government intervention consisting of an increase in risk levels will be analyzed through the rational choice theory, where the paradox of crime prevention will be presented. Then, we will briefly examine the possibility to hold some specific firms accountable for the creation of more crime opportunities in the form of externalities, and in this section Pigou's and Coase's theories will be described. Finally, the last section will focus on what the author considers to be the most relevant part of crime prevention: an initial allocation that prioritizes fairness and equality over economic efficiency. This will be realized through the analysis of an approach based on a social contract in the view of Buchanan and Rawls, thus introducing, respectively, the punishment dilemma in a free-rider society and the selection of the best alternative within all the possible worst outcomes when standing behind a veil of ignorance.

Introduction

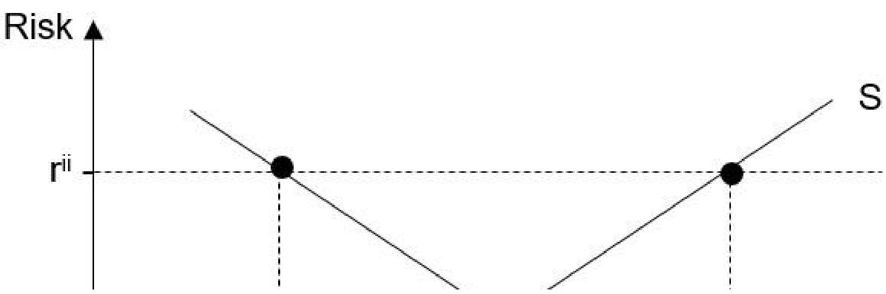
Throughout centuries and millennia, crime has been an integral part of life and a brain teaser for both citizens and State planners. Despite the improved methods used today to prevent crime, it is still practically impossible to completely eliminate it because, maybe, as Hobbes claimed, it is in the nature of human beings to be self-interested. Or, maybe, as Rousseau would argue, because the political and social institutions have been shaped in a way that make humans evil and selfish, when the root of evil is mostly economic inequality leading to social division. Or maybe, after all, Schopenhauer was right, and it is our strong desire to live that makes us struggle with other people's desire to live, leading to a world of constant conflict.

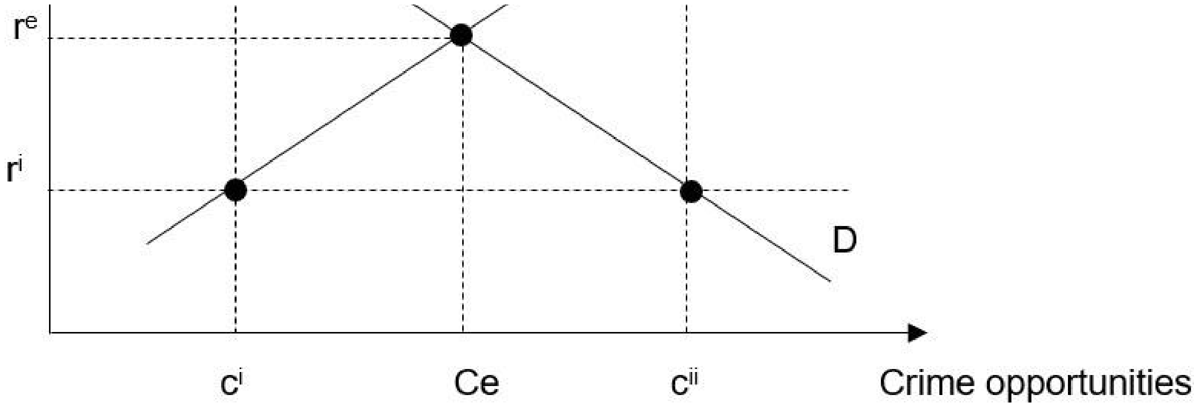
This paper will not focus on the philosophy of human nature because regardless of whether we are inherently good or evil, we keep committing crimes. This paper will however examine different economic theories that may or may not help to create an effective crime prevention scheme. At this point it is fundamental to highlight that the types of crimes referred to in this paper involve only minor offences such as theft, simple assault, and possession or distribution of drugs. This is because such offences are often related to low-income levels and thus could be deterred by changing some elements of the current system; serious felonies such as murder, rape or fraud cannot be included in this classification.

First, a possible Government intervention consisting of an increase in risk levels will be analyzed through the rational choice theory, where the paradox of crime prevention will be introduced. Then, we will briefly examine the possibility to hold some specific firms accountable for the creation of more crime opportunities, and in this section Pigou's and Coase's theories will be described. Finally, the last section will focus on what I consider to be the most relevant part of crime prevention: an initial allocation that prioritizes fairness and equality over economic efficiency. This will be realized through the analysis of an approach based on a social contract in the view of Buchanan and Rawls.

Rational Choice Theory and the Paradox of Crime Prevention

The neoclassical theory of supply and demand can be a perfectly valid approach to analyze the economics of crime and to design methods of crime prevention. In order to do so, crime can be treated as a market in which victims will be the producers who (unwillingly) generate a supply for crime opportunities, while offenders will be the consumers who create a demand for criminal activities (Roman & Farrell, 2002). Unlike the typical analysis of a market, the vertical axis representing price will now show the different levels of risk—i.e. time and effort required by an offender to commit a crime—, whereas the horizontal axis, instead of the different quantities of a good or service, will now show crime opportunities. This undesired transaction may be better explained with a simple example: a cellphone purchased by an agent cannot be physically protected despite the advanced security systems it may incorporate, and thus a thief may 'consume' this opportunity by appropriating the good.

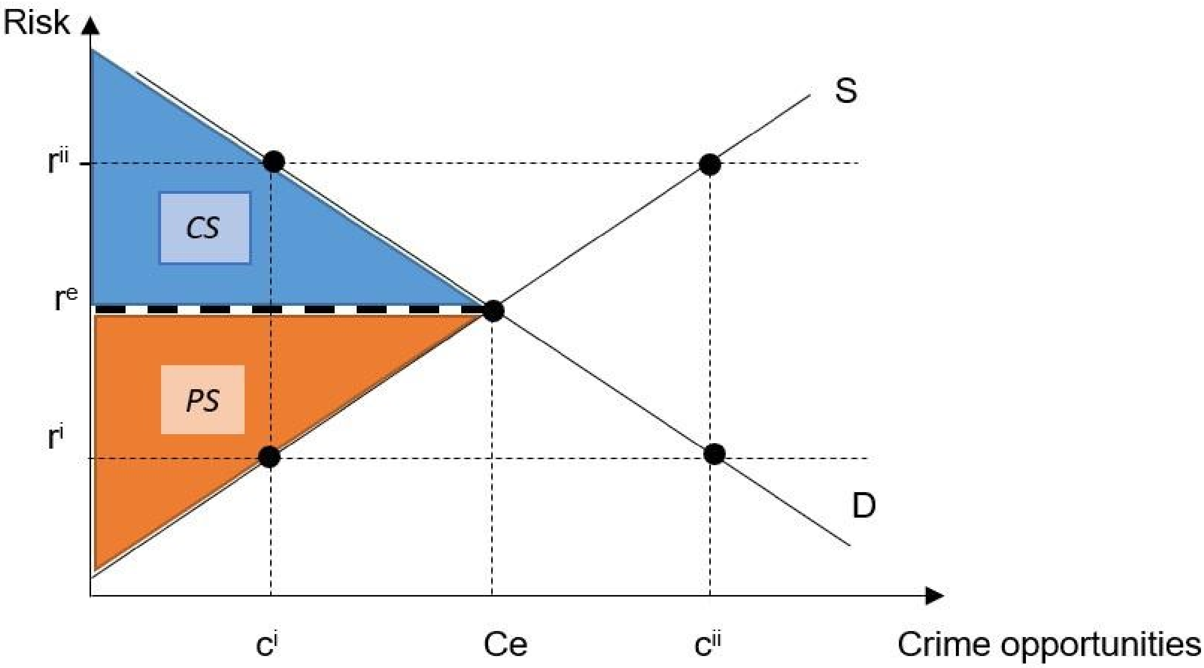




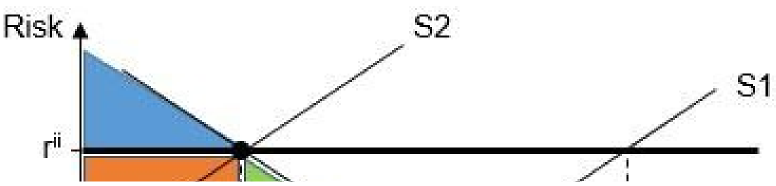
To obtain this graphical representation, it is necessary to assume that the market for crime is based on the same conditions as a perfectly competitive market, that is:

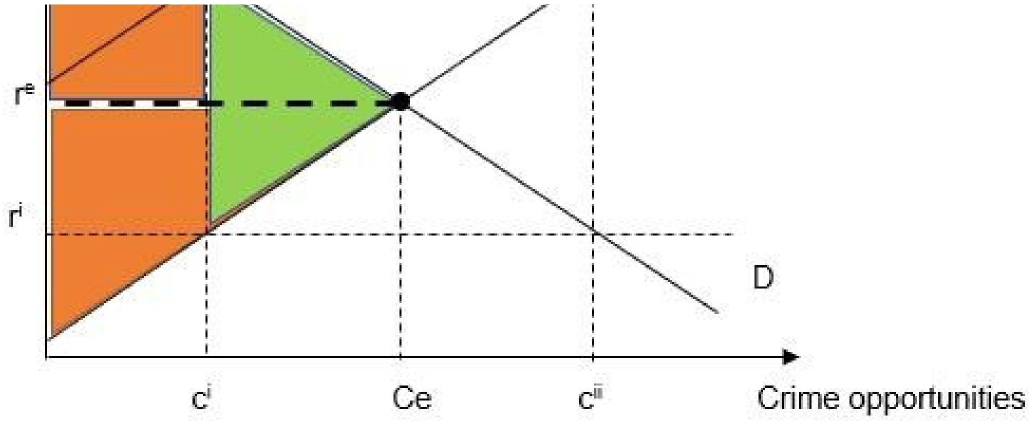
- There is an indefinite number of producers (victims) and consumers (offenders)
- There are no specific or idiosyncratic relationships, i.e. there is a large number of people doing the same in a homogeneous and equal manner
- Anyone can enter the market for crime: there is free entry, full factor mobility and no monopoly
- There are no information asymmetries
- No agents control a substantial part of the market; otherwise, these agents will have strategic power to affect the levels of risk and the quantities of crime opportunities (in the case of the market for crime, this monopoly could be linked for instance to the mafia)
- There are no public goods, that is, when one consumer (offender) consumes a unit of a good (commits a crime), it will prevent another consumer from consuming the same good
- All agents of the market satisfy rationality and psychological conditions

In a perfectly competitive market, the equilibrium point represents the price of a good or service at which no agent has any incentive to move. If the price increases, firms will be ready to produce more but there will not be enough demand, thus there would be a portion of the quantities produced that would remain unsold. If, on the contrary, prices decreased, consumers would be ready to pay more for a good or service because there would not be enough supply. Hence, this equilibrium would be a Pareto optimal allocation in which both consumers and producers are mutually and equally benefitted, which means that there is no alternative allocation that would increase the utility of all agents.



However, it is a well-known fact that perfectly competitive markets do not represent reality because they are not valid for all kinds of markets. For instance, in figures 2 and 3 below, at the given market level of risk re victims would be creating easier criminal opportunities that offenders would not be perpetrating if the level of risk increased. If risk increased—e.g. through Government intervention—the difference between ci and cii would not be committed, thus reducing the offender surplus. In other words, increasing the level of risk from re to rii would lead to a reduction of offender or consumer surplus, which would also mean less crime. By setting a higher level of risk, there would not be enough supply for criminal opportunities, hence there would also be a reduction of the victim or producer surplus (Roman & Farrell, 2002, p. 63).

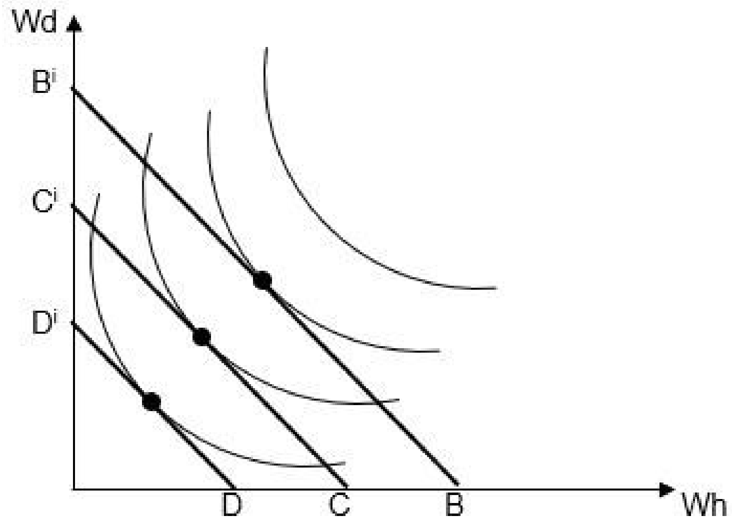




A net loss of surplus caused by external intervention would have negative effects in a perfectly competitive market. The deadweight loss occurred by the artificial change of price (either through a price floor or a price ceiling) would mean that many consumers would be out of the market due to high prices and many producers would also leave the market due to lack of demand. In the market for crime, however, the net reduction of the total surplus through the improvement of crime prevention would lead to an increase of social welfare because the supply curve would experience an inward shift representing the reduction of criminal opportunities. On the contrary, a lower risk level caused by the inefficiency of the system or the lack of crime prevention efforts would lead to an increase of opportunities for criminals.

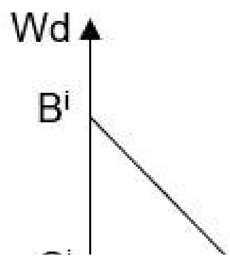
This does not necessarily entail that a hypothetical market for crime would fail. The decrease in criminal opportunities resulting from a net loss of surplus fundamentally means that what might be in the interest of an economist might not be the best option for society as a whole, and thus government intervention becomes necessary in order to increase the levels of risk that may hinder offenders' efforts to conduct criminal activities.

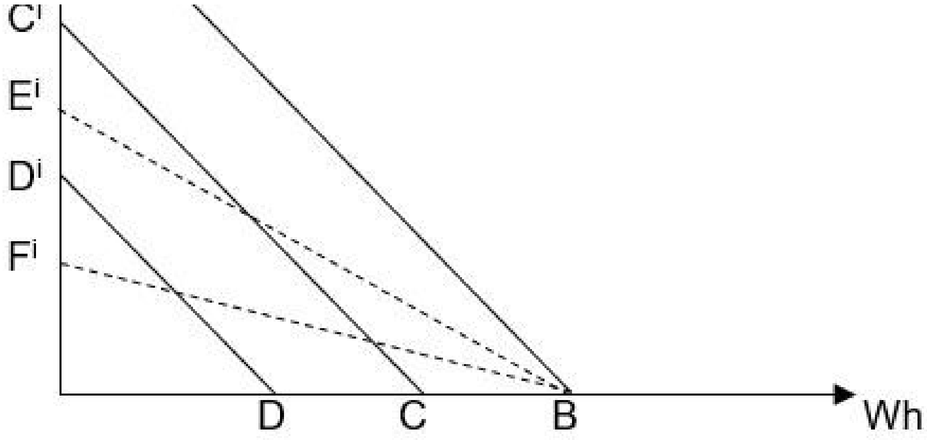
It is then adequate to consider in which direction crime prevention efforts should be oriented. It is clear that investments should be centered on the reduction of opportunities in the market and on the increase of risk, and in order to do this, the typical budget lines of the rational choice theory may be applied.



In figure 4, the budget lines represent the available time of a person that would divide his/her time between illegal and legal activities to make a living. This person will select the optimal bundle consisting of a combination of illicit and licit activities among all the feasible ones, that is, the optimal choice will lie at the point where the highest possible indifference curve becomes tangent with the budget constraint. All budget lines represent a time constraint of eight hours, which means that when there is a proportional increase of both the honest (Wh) and dishonest (Wd) wages while risk levels stay constant, the budget line will be higher (e.g. BBi). In other words, if the agent's wages were once very low, his/her optimal bundle would be c within the DDi line, but when these wages increase the agent will be able to select a new bundle that would not have been feasible before (e.g. bundle a). Once the budget constraint is set at BBi, all the possible bundles to the right side of the line will not be feasible for the agent, while the ones to the left, i.e. closer to the origin, will be inefficient because he/she could afford to allocate more time working.

However, new budget lines will be drafted after there have been some changes in risk levels caused by an investment on crime prevention. In figure 5, BEi and BFi are the new budget constraints resulting from a higher level of risk that has caused a decrease in dishonest wage. As a result, the agent would make money if he/she chose to allocate most—if not all—of his/her time in legal activities, while the total income would see a significant decrease if a portion of time would still be allocated to illegal activities. Hence, the agent will choose a new optimal bundle (d) in accordance with the new budget lines after the crime prevention efforts.





It looks easy: increase the risk to reduce crime. Yet it is not that simple. As Schotter (2009) refers to it, policies aimed at reducing crime may lead to the so-called paradox of crime prevention, by which such investments may actually increase crime instead of reducing it if crime is an "inferior enough good and the income effect of (…) policies is big enough" (p. 96). In microeconomics, if preferences are homothetic, the quantities of both goods (in this case, both wages) would increase in a fixed ratio, but this is not always the case. Non-homothetic preferences may generate superior and inferior goods, by which the quantity of a good may increase or decrease, respectively, as income expands.

In this context, crime being an inferior good means that an agent would rely more on crime if his/her wage fell. In figure 5, a very large portion (bundle a) of the total income came from crime before the prevention policy was implemented. Once such policy came into force, risk levels were higher, and thus total income decreased, which created a new budget line with a new optimal bundle (d) in the tangency point between the constraint and an indifference curve below the original one. Due to the income effect created by the policy, higher risk levels leave the agent with less income to live and impoverish him/her, which may indeed force him/her to commit more crime because it is now less remunerative (Schotter, 2009, p. 97).

Externalities and Market Failure

At the end of the previous section we have seen that increasing risk e.g. through the introduction of a larger number of effective police officers and the threat of conviction would not be as effective as one would have expected due to the paradox of crime prevention. In light of this, we may shift the focus from an approach based on a supply of victims and a demand of offenders to one in which the supply consists of manufacturers that directly or indirectly satisfy the demand for crime opportunities. Some may argue that the market should be left alone and that the State should not intervene in this matter, but it shall not be forgotten that the market for crime, unlike any other market, is likely to cause serious social damage if left alone.

Considering that the crime referred to in this paper is only limited to minor offences, the market for crime analyzed in the previous section following the neo-classical theory cannot be perfect because of the arbitrariness of the initial allocation (which will be discussed in more detail in Section 3) and the transaction costs and externalities deriving from it, which ultimately account for information asymmetries.

When shifting the focus to somewhat negligent firms, the market for crime would fail because the structure of the risk levels would not consider all the benefits of committing a crime and the costs of compensation for damages. Such costs include externalities—positive and negative—and transaction costs that may derive from manufacturers' unwillingness to invest in crime prevention. For example, incorporating an effective alarm system to an automobile may be more expensive for the manufacturer, and thus the latter may decide that it is not necessary. This negligence will likely create higher crime opportunities that will affect a third party; in other words, if the car is stolen, the victim will be the owner of the car and not the manufacturer (Roman & Farrell, 2002, p. 65).

The demand curve, as we have seen above, is composed by agents who decide to commit offences. Thus, when a firm decides to not invest in safety or anti-theft systems, it is indirectly creating more crime opportunities that will satisfy that demand. This, of course, will affect several third parties that are external to that (indirect) transaction. An interventionist would advocate for Government action to internalize the costs of such negative externalities; otherwise, the market will fail. This could be done, for example, through Pigou's public economics, by which the Government would impose a tax on the party producing that externality.

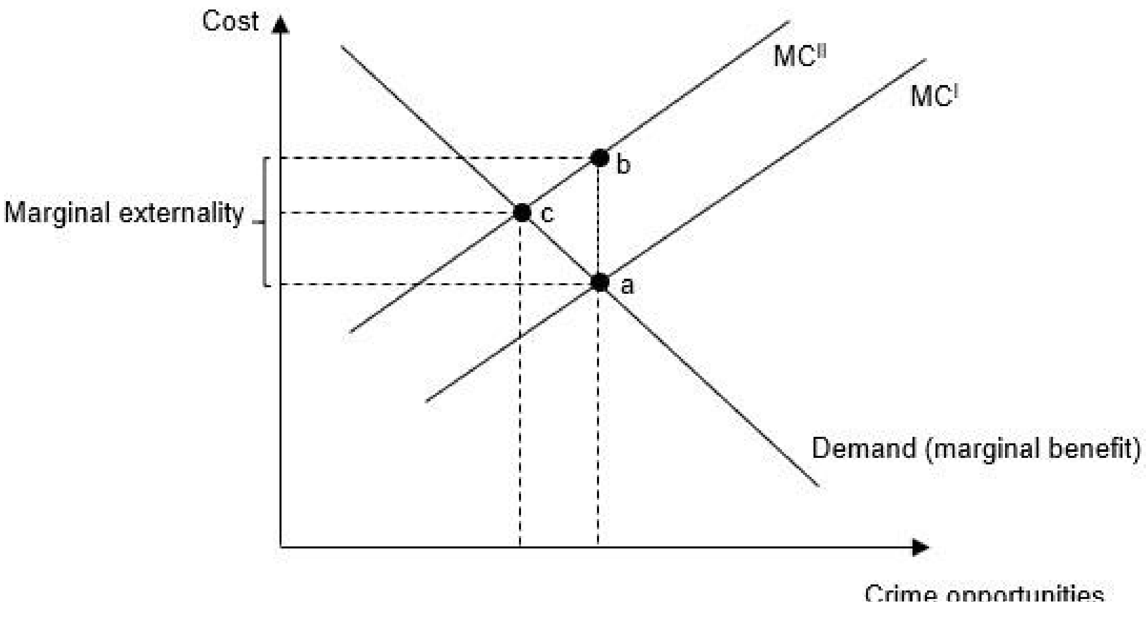
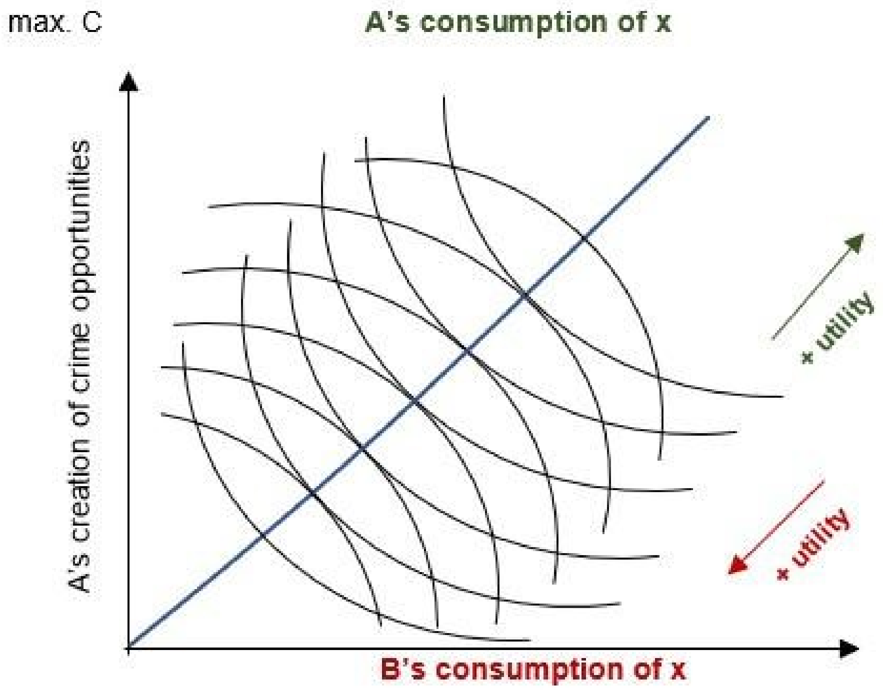


Figure 6 shows a graphical representation of a Government tax based on Pigou's model, by which the party committing an externality would need to pay an amount equivalent to the externality. In a competitive market, the equilibrium point will be found at a exactly where the demand curve and the private marginal cost curve (MCI) intersect. At this point, the firm will satisfy a larger demand for crime opportunities at a relatively low cost. However, the firm will not consider the external cost from a to b, where the MCII curve represents the social marginal cost which includes both the private marginal cost and the external cost. The Pigouvian tax will therefore induce the firm to internalize the costs from a to b, which would eventually encourage it to produce the socially optimal level c.

The internalization of externalities, however, might not be the best solution because it may not allow for the generation of surplus for the firm because total costs would exceed the returns. Thus, in a typical market structure, a non-interventionist would argue that the involved parties might reach a Pareto optimal allocation for society without the need for Government action. This would require, for example, the Coase theorem, by which in the presence of externalities the parties may reach such allocation by negotiating and if property rights are assigned unambiguously at the initial allocation (Schotter, 2009, p. 626). In order to be able to trade with property rights, however, it is fundamental that transaction costs of all institutions (i.e. costs of enforcement, adjudication, information, contracting, etc.) are equal to zero.



As may be observed in figure 7, the Edgeworth box can be used to represent the Coase theorem, in that when transaction costs are non-existent both parties will negotiate and eventually find different Pareto optimal allocations across the contract curve. In other words, Coase's approach suggests that Government action would not be necessary—and it would in fact be harmful and inefficient—because all the actors involved would restore the efficiency of the economy by finding trade-offs. This means that whatever the final allocation of property rights might be, it will be positive for the overall economy because Coase's goal is to find the most cost-efficient way to avoid externalities. Whatever the result, it will be for the 'greater good'. In relation to the anti-theft system mentioned above, economically it would be irrelevant whether the firm invested more resources in installing it or whether the buyers would install it themselves after purchasing the car because what matters is the total gain—or loss—for society as a whole (North, 2002, p. 88).

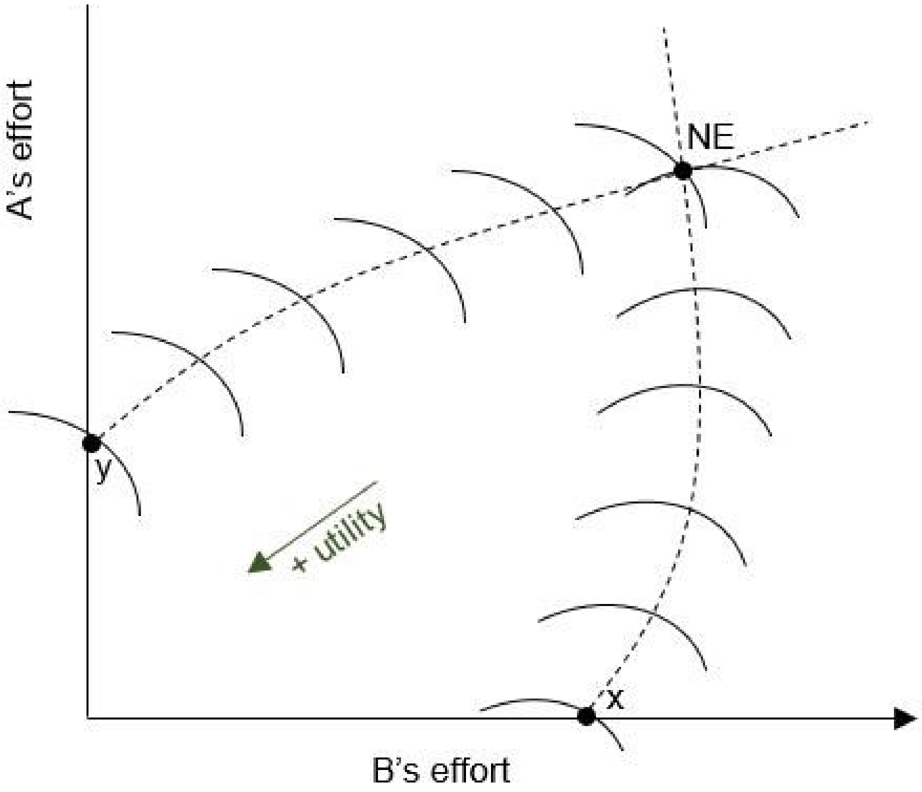
This, however, cannot work in the market for crime, because it is impossible to imagine a world in which crime would have no transaction costs—in order to enforce and promote the rule of law, as well as to prevent from or find solutions to criminal activities, it is necessary to possess an effective law enforcement as well as several conflict-settlement and judiciary bodies. In the typical economist's eyes, efficiency is all that matters, and while it may be true that Coase's theorem would be more effective in this sense than interventionist approaches such as that of Pigou, crime cannot just be seen as another market. It can be simplified and paralleled with the idea of a perfectly competitive market, but here efficiency is not all that matters: fairness and justice need to be considered as the main factors for the welfare and well-being of the society.

The Social Contract

Treating crime as a purely economic issue that needs to be resolved ex post through State action or the invisible hand of the market thus seems to not be the solution for its deterrence. The Government action proposed so far would not be effective because 1) increasing the risk may actually increase the prevalence of crime due to the income effect and because 2) internalizing externalities through a Pigouvian tax will destabilize the economy while following Coase's theorem and leaving agents to trade by themselves seems highly unrealistic and unachievable in this specific case. Thus, we might need to shift the focus to the very beginning of every transaction: the initial allocation. This means that the commitment to prevent crime must happen ex ante, and not ex post, in order for it to be effective and complied with.

Coase already mentions the need to assign property rights unambiguously at the initial allocation, and so does Buchanan, who specifies that these rights must be well-defined and non-arbitrary and recognized and accepted by all participants (Buchanan, 1975, para. 7.2.4). Any attempt to violate such rights will be subject to a penalty that however must be just and agreed upon by all the members of the society. In order to define and determine property rights as well as a penalty for their violation, Buchanan advocates for the creation of a social contract consisting of two stages that will allow participants to abandon an anarchistic order.

The first step towards a social contract starts at a state of nature in which everyone has a right to everything; a war of "every man against every man" (Hobbes, 1651, p. 77). Initially, the quantities of a good will be assigned arbitrarily, and thus agents will be forced to invest on efforts of defense and attack to secure their shares of such good. Considering that good x is scarce, the consumption of every unit of x by either one of the participants will cause a diseconomy or an externality on his/her counterparty.



When the natural equilibrium has been found, each agent "secures shares of x to the limit where marginal benefits from further effort are equal to the marginal costs that such effort requires" (Buchanan, 1975, para. 7.2.20), and through trade participants will internalize every externality caused by their investments on defense and attack. Nonetheless, the natural equilibrium still does not establish a set structure of rights because it is not a formal agreement, yet it does create a basis for the creation of more specific contractual agreements. Thus, a constitutional contract will emerge unanimously as a result of negotiations between the parties which will allow them to save on defense and attack costs while simultaneously defining property rights that all participants ought to respect. This initial contract will be followed by post-constitutional bargaining that will eventually lead to a new social contract through the emergence of further Pareto improvements.

Complying with the contract, however, may not always be the result. It cannot be forgotten that natural differences and endowments may also be present at the pre-contractual state of nature: some may be stronger than others, some may be smarter than others. These differences will of course be still present once an agreement has been reached, which will likely lead to violations of the contract. In a two-agent model like the one shown in figure 8, the classical prisoner's dilemma of game theory may arise: the action of each participant is directly dependent on the actions of his/her counterparty, and while both agents will be better off if they decide to cooperate and comply with the contractual obligations, they both will have a strong incentive to default unilaterally because this will maximize the wrongdoer's utility. Thus, the dominant strategy will be to defect, leading to a problem of compliance with the constitutional contract.

		Agent B	
		Cooperate	Default
Agent A	Cooperate	5, 5	2, 8
	Default	8, 2	3, 2

Figure 1. Prisoner's dilemma in a two-agent model.

According to Buchanan, in the case of a small society like the one shown in figure 9, both parties may eventually comply with the contract without external intervention. Since they are both equally rational, both A and B will be aware that if they defect, their counterparty may choose to defect too, which would lead to a disastrous situation. On the contrary, if each agent decides that it is also rational to cooperate, he/she will realize that cooperating will be rational also for the other agent. Thus, the result should be (C,C). However, a possible criticism to Buchanan's equal rationality condition is that even when an agent realizes that it is rational for the other party to choose to cooperate, he/she will still have a strong incentive to defect. Thus, it is not guaranteed that the result would in fact be (C, C).

In a larger society like the one we live in today, however, the prisoner's dilemma is replaced by the free rider problem. As more agents are added to the initial agreement, their actions will become less and less independent from those of others, meaning that every participant will have an incentive to defect (Schotter, 2009, p. 635). In order to deter violations of the law, all participants must therefore design an enforcement mechanism or institution that is usually attributed to the State: still, the State needs to be neutral and needs to have the only responsibility of enforcing the rights agreed upon by the participants of the contract (Buchanan, 1975, para. 7.4.39). The solution to the free rider problem may lie in the fact that if the State sanctions the defecting agent while also imposing him/her a compensation of damages for the agents who on the contrary decided to comply with the contract, the dominant strategy will become cooperation by all participants.

Because it is participants that have to determine the rules and forms of punishment, as part of the society, they may also violate the law at a certain point of their lives and fall 'victims' to the standards they themselves have set down. The answer to law violations by any of the parties will however not be an easy task because they will fall into the so-called punishment dilemma.

If punishment is ex post and is only determined after the violation has been committed, it will be costly for the State and thus there will be no incentive to sanction breaches of the law. Punishing ex post would however not only increase the costs for the whole society, but it would also induce more crime, since participants would benefit more from the avoidance of the set rules (Tabbach & Nussim, 2008, p. 50).

Therefore, sanctioning must be ex ante: if all participants are treated as potential law violators, their constitutional choice will depend on the relationship between the benefits of complying with the law and the utility losses in case of punishment (Buchanan, 1975, para. 7.8.23). In this case, the external agency will be obliged to enforce the constitution regardless of the costs of the forms of punishment set out in the contract for any violation of the law. This way, all agents will rationally choose not to defect because there will be few incentives to not comply with the rules.

Agreeing on criminal law ex ante will likely dissuade crime, but only to a certain extent: according to Buchanan, it is fundamental that the social contract is unanimous; however, not all will agree on the severity of punishment, which might eventually lead to dissatisfaction with the democratic regime and to the temptation to break the rules.

Buchanan's idea of an ex ante punishment scheme is closely related to John Rawls's theory of social justice. In Rawls's eyes, the State will have a monopoly of power and will likely become a coercive institution if free and equal rational citizens are not given the opportunity to consent to an institutional arrangement (Honig, 1993, p. 102). At the 'original position' (Rawls, 1971, p. 60), two main principles of justice will be chosen collectively: basic liberties—including freedom of speech, right to private property, political liberties, and procedural rights—and the fair distribution of social benefits and burdens, by which inequalities may only be accepted as far as they contribute to the general welfare and which requires that positions of authority or command be accessible to all (p. 61). Agreeing on these two principles at the initial setting will be favorable for all the parties involved, as no other possible alternative will provide the same level of utility (p. 118).

In order to achieve this social agreement, all parties will stand behind a veil of ignorance, that is, no one will know their "place in society, [their] class position or social status; nor [will they] know [their] fortune in the distribution of natural assets and abilities, [their] intelligence and strength" (p. 137). Knowing nothing about themselves nor about the political, cultural and economic situation of the society they will live in, they will choose the principles that they will be subject to. If they chose to distribute wealth in an explicitly unfair manner, they themselves could fall victims to this injustice. Thus, they are likely to choose the principles that will ensure the maximization of utility levels even for the least well-off person.

Under the veil of ignorance, every agent will be interchangeable in society because each person's idiosyncrasy will be unknown. Thus, this veil will ensure that the agreement reached in the original position will be unanimous; the choice of the principles will in turn shape the society and institutions that will determine each agent's life expectations, whatever those may be. These fundamental institutions will produce and distribute primary social goods for each agent to pursue whatever goal they wish to pursue: institutions will therefore provide the means, but never the ends.

Both Buchanan and Rawls thus view economics and justice from a social contract approach, and although they diverge in that Buchanan's theory stems from Hobbes's idea that humans need to maximize their utility as they are self-interested while Rawls's viewpoint is based on Kant's concept of moral principles (Rodilla, 1985, p. 234), their theories do share a series of phases that are relevant to point out here:

1. They depart from an initial point with no set institutions (anarchistic order for Buchanan and original position for Rawls)
2. They go through a transition phase in which all the players decide unanimously about the institutions to be set in society
3. A social contract is established in which institutions and rules are clearly set

Rawls's maximin will choose the best alternative within all the worst possible outcomes in order to ensure fairness and avoid risks. Being so, the maximin will guarantee the highest possible amount of goods for the worst-off individual even if this is economically—and theoretically—less efficient. Although it contradicts the idea of utilitarian efficiency by which the total sum determines welfare, Rawls's maximin is a specific Pareto optimal allocation because it is an egalitarian solution in which the worst-off player's payoffs are maximized while also benefitting other agents. This outcome will be intuitively selected from behind the veil of ignorance and with no Deus ex machina. On the contrary, Buchanan's constitutional contract is a Pareto improvement that emerges from the natural equilibrium, which is not per se an equilibrium point because it is sub-optimal.

In any of the theories in which agents would agree on a social contract determining principles, rules and property rights, each person would try to find a balance between the utility gains and losses he/she would experience in the worst-case scenario. This would be realized through the Rawlsian veil of ignorance in order to ensure equality and justice within the system and through Buchanan's constitutional and post-constitutional contract in which agents would likely choose 'fair' forms of punishment for fear of the worst-case scenario in which they would be the victims of their own rules.

The main goal of a social contract on punishment is to deter crime, when crime is understood as a violation of the agreement. In such a contract, each individual would have agreed to the conditions of punishment before committing a crime, that is, he/she would have given his/her consent to abide by the law and to comply with the rules set down unanimously with all the members of the society while being aware of the fact that non-compliance will have negative consequences. The agent would therefore accept some limitations of his/her liberties in exchange for the protection of his/her property rights.

An approach based on a social contract can thus replace the two main classical streams of punishment theories, namely retributivism and deterrence theory. Retributivists believe that punishment depends on each case: a law violator will be punished only "when and to the extent that he deserves to suffer for the pain he has inflicted" (Finkelstein, 2011, p. 322). Retributivism does not deter crime, as its objective is to reduce the criminal's utility in proportion to the utility loss of the victim of that particular crime. Punishment is not used as a negative incentive for other potential future criminals, and thus it is per se incapable of preventing criminal activities. It brings no social gain, no possible reform on criminal justice: it is just a re-conceptualization of the centuries-old "an eye for an eye".

On the contrary, deterrence theory does have utilitarian purposes in that it seeks to minimize social loss by punishing single individuals not for the harm they have inflicted, but in order to discourage other potential criminals (Finkelstein, 2011, p. 327). Although deterrence theory is closer to an approach based on a social contract, it does entail a fundamental mistake: offenders are used to justify social welfare, that is, they are punished only to affect the behavior of a completely different and unrelated person at some point in the future (p. 328). This theory dehumanizes criminals because it is not acceptable to punish someone only with the hopes that this treatment will positively influence the behavior of other agents' and ultimately lead to an increase in social welfare.

Thus, it could be argued that the only effective way to deter crime is to use a contractarian or contractual approach because retaliation for a crime would have been accepted initially by offenders themselves; if the rules and the allocation of resources are fair and equal from the beginning, agents will have few incentives to break the law. However, this does not mean that establishing a unanimous contract will lead to a direct compliance with the rules; as a matter of fact, the theories of both Buchanan and Rawls face the problem of non-compliance.

As we have already discussed, Buchanan's theory faces the punishment dilemma, while Rawls' social justice theory is sensitive to the stability of the social contract in the case that such agreement is not a Nash equilibrium, i.e. an optimal outcome in which no player has any incentive to change his/her strategy after having considered his/her counterparty's choice. In other words, for Rawls's distributive justice to work, it is necessary to find the appropriate equilibrium within a payoff space of relative needs which determines the utility levels for each player for each utility level given to another player: this point is exactly where the Nash bargaining product is maximized. Thus, compliance with the norms set out in the social contract should be successful if a Nash equilibrium is selected within a repeated game with multiple equilibria.

Conclusions

As it has been continuously demonstrated throughout this paper, crime cannot be treated as a market because social welfare partly depends on its deterrence. It is generally believed that increasing risk through stricter penalties and convictions and through a more effective police department that would increase the probability of identifying and arresting criminals will automatically lead to a reduction of crime. However, these efforts usually lead to a reduction of offenders' incomes, who will then need to rely more on illicit activities to make a living.

Shifting the focus to firms that indirectly increase crime opportunities—as we have seen, for example, by not installing anti-theft devices—is not the solution either. A Pigouvian tax similar to that imposed on companies that harm the environment is not realistic, first, because of the lack of evidence that crime is actually increased due to these firms' negligence, and second, because even if there was evidence against them, such a tax would likely destabilize the general economy. On the contrary, leaving such firms to freely negotiate with the victims of their negligence, like Coase would have suggested, is not realistic either because this would only be possible if transaction costs were equal to zero. Yet crime prevention will always entail transaction costs related to investigation, identification, and sentencing.

In the author's view, the only way to effectively deter crime, although quite utopian and idealistic, is through a radical change in the initial allocation. If society were founded on the basis of a manna from heaven in which everybody would be given the same goods and services according to their relative needs, the creation of a social contract like the ones Rawls and Buchanan suggest would be possible. But such a contract cannot emerge if humans are born unequal.

We cannot forget that the type of criminal activity I have chosen to refer to in this paper involves only crimes that are typically perpetrated by low-income people—both in developing and in developed countries. These kinds of crime cannot be deterred if the foundations of the system do not change. Levitt and Dubner (2009, p. 119) show that when crime dramatically dropped in the U.S. in the early 1990s it was neither due to the improvement of the economy, nor due to harsher prison terms, nor due to innovative policing strategies and increased number of police. In their view, it was only because the low-income offenders that would have committed most of such crimes did not exist: most potential criminals would have been born had Roe v. Wade not legalized abortion across the U.S. in the early 1970s. These children would have been raised in a low-income, often mono-parental family with a history of drug or alcohol consumption. These children would not have been distributed the same goods and services than others, and they would have probably turned to criminal activities during the late 80s and early 90s. But, since they were never born, these crimes were never perpetrated.

The Government could provide merit goods such as subsidized food, free housing and public education for all in order to create positive externalities and reduce crime. These may possibly help, but the problem goes much deeper into the foundations of the system. If the solution lies in an ex ante establishment of rules chosen unanimously by all participants of the society, ex post sanctioning and law enforcement will likely be more effective as well, since all agents have initially committed to the norms set down in the social contract, thus reshaping their future preferences. But how can we be sure that what was selected behind the veil of ignorance will prevail beyond it too?

If the right equilibrium is found within a particular game resulting from an original position in which everyone is treated equally, the level of compliance with the rules will probably be much higher. This would of course reduce petty criminality like the one we have been referring to in this paper, but not only that: it would also deter other kinds of criminal activities that develop within high-income circles like the mafia or corrupt politicians and entrepreneurs. Yet, unfortunately, crime will persist in all forms as long as wealth distribution remains as unequal as it is today.

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