

Crime and Conspicuous Consumption

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Motivation: The criminals' problem.

Criminals choose their potential victims relying on visible (outward) signs.

"[whether or not I decide to rob a particular person] depends on what they got; like if they are wearing nice clothes, jewelry, and you know, that's basically it. You can look at a person and just tell if they've got money..." [Robber named Lisa Jones, quoted by Wright and Decker (1997)].

Motivation: Individuals' problem.

- By consuming more conspicuous goods individuals obtain higher status (Veblen (1899)).
- But... they also increase the likelihood of becoming targets of criminals (Wright and Decker (1996, 1997))
- This trade-off exists as long as individuals cannot perfectly discriminate between the receivers of their signals.

Contribution

- We build a signaling model incorporating this trade-off.
- We propose an **information channel** through which crime affects individual's consumption decisions: individuals do not only reduce their consumption of conspicuous goods because criminals may steal them, but because it reveals information about individuals' wealth to criminals that is used to select their victims.
- We use U.S. data at the household level in order to test the main prediction of the model. We find strong empirical support for the channel proposed in this paper.

Related Literature

- In general this paper is related to the literature on the economics of crime (Becker (1968), Ehrlich (1996), and many others).
- In particular, this paper is related to the literature about the effects of crime on individual behavior. (De Mello and Zilberman (2008), Pshiva and Suarez (2006), Camacho and Rodriguez (2009), Cullen and Levitt (1999), Di Tella et al. (2009)).
- Also, the paper is related to the literature on concerns for status and signaling (Glazer and Konrad (1996), Charles et al. (2009), Ireland (1994), Mailath (1987))

Basic setup and timing

The timing of the model is as follows:

- 1 Each **individual** receives a wealth level, $w \in [w_{min}, w_{max}]$, which is private information.
- 2 Individuals observe their type (w) and decide their consumption of visible goods, z (price p), and a non visible numeraire good y (price normalized to 1).
- 3 The criminal and status audience observe z and form expectations about individual's wealth. **The criminal audience** decides the amount of time allocated to steal goods from each individual, and **the status audience** grants status to each individual.

The model: The criminal audience

The criminal audience's strategy is summarized by a function $t(\hat{w})$, describing the time allocated to steal goods from individuals with expected wealth $E(w|z) = \hat{w}$.

- $0 < a(t) < 1$ is the fraction of **both** goods stolen by the criminals when they allocate t units of time to criminal activities.
- $t(\hat{w})$ solves: $\max_t E[(pz + y)a(t) - t|z] = \hat{w}a(t) - t$.
- By the implicit function theorem, $t(\hat{w})$ is increasing in \hat{w} . Thus, the fraction of goods not stolen from an individual, $\gamma(\hat{w}) = 1 - a(t(\hat{w}))$, is decreasing in \hat{w} .

The model: The status audience

The status audience simply forms beliefs about individual's wealth conditional on their conspicuous consumption:

$$\hat{w} = E(w|z)$$

- Status is given by $S = \hat{w}$. There is competition between individuals because expectations are formed taking into account other individual's actions.
- We assume that the status audience's beliefs are the same as the criminal audience's. Thus, signals are observed by everyone and reveal the same information (all we need is a positive correlation).

The model: Individuals' problem

Individuals maximize utility, which is given by:

$$V(w, \hat{w}, z) = U(z\gamma(\hat{w}), (w - pz)\gamma(\hat{w})) + \lambda\hat{w}. \quad (1)$$

- $U(z\gamma(\hat{w}), (w - pz)\gamma(\hat{w}))$ captures the private utility from consumption.
- $\lambda\hat{w}$ captures the utility from status.
- The term $\frac{\partial V}{\partial \hat{w}} = \lambda + \gamma'(\hat{w})(zU_z + yU_y)$ captures the trade-off between status and security.

Private information case

In this case $\hat{w} = w$ does not depend on z ; the status and the crime burden are given; and we have the standard optimality condition:

$$\frac{U_z}{U_y} = p. \quad (2)$$

- Implicitly defines $z(w)$, which is increasing in w .
- If preferences are homothetic then $z(w)$ does not depend on crime (γ). We assume that this is the case in order to isolate the information channel.

A separating equilibrium

We focus on a separating equilibrium:

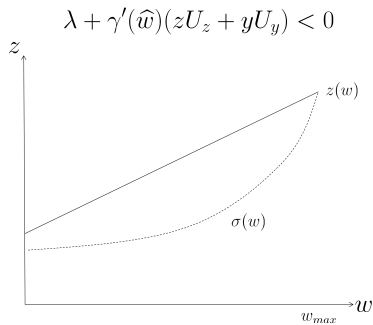
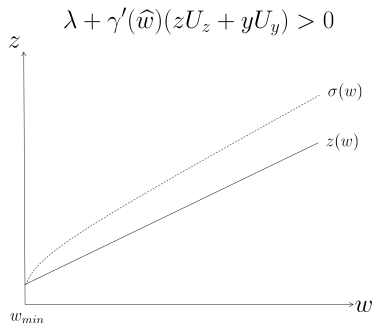
- Given by a 1-1 function $\sigma : [w_{min}, w_{max}]$ describing the conspicuous consumption $z = \sigma(w)$ of an individual with wealth w .
- Since beliefs must be consistent with equilibrium behavior, both audiences expectations are given by $\hat{w} = E(w|z) = \sigma^{-1}(z)$.
- $z = \sigma(w)$ maximizes individuals utility given the audiences' beliefs (incentive compatibility).

A separating equilibrium (cont)

- Equilibrium strategies are characterized by the following differential equation (local incentive compatibility):

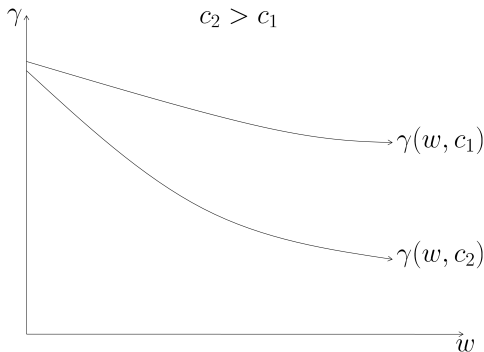
$$\sigma'(w) = \frac{\lambda + \gamma'(w)(zU_z + (w - p\sigma(w))U_y)}{\gamma(pU_y - U_z)}, \quad (3)$$

- A boundary condition implies that this equilibrium is unique.
- Also requires SCC (in the paper).



The private information case (cont)

In order to understand the effects of crime on conspicuous consumption, we model the level of criminal activities, c , as a parameter that increases the term γ' (in absolute value) and γ .



Main proposition:

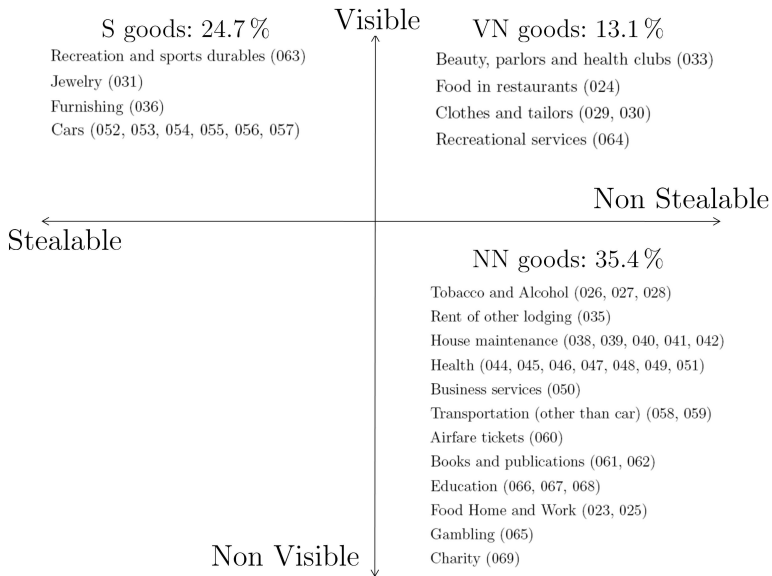
Proposition 2: Let $\sigma(w, c)$ be the unique separating equilibrium when the crime level is c . Then, for any $w \in (w_{min}, w_{max})$, conspicuous consumption for an individual with wealth w is strictly decreasing in c .

- Intuition: Crime increases the expected cost of signaling wealth $\gamma'(\hat{w})(zU_z + yU_y)$.

Empirical evidence

Data:

- 1986-1999 CEX family level extracts. Includes consumption expenditures in several categories and household characteristics.
- We merge state-level controls and crime variables (from the FBI UCR) corresponding to the state and the year in which each household was surveyed.
- We construct a Property Crime (PC) measure using the average rate of robberies, larceny-thefts and burglaries .



Identification strategy

- In order to isolate the information channel, we focus on visible goods which cannot be stolen, but reveal information about individuals' wealth.
- We compare the consumption of visible, non-stealable goods (VN) with that of non-visible, non-stealable goods (NN). The real test for our channel would be to find that VN will be lower relative to NN for households facing higher property crime rates.

Empirical strategy (cont)

We estimate the following baseline specification:

$$\ln \left(\frac{VN_{i,t,s}}{NN_{i,t,s}} \right) = \beta_0 + \beta_1 \ln PC_{s,t} + \beta_2 \ln W_{i,s,t} + \Phi Z_{i,s,t} + \gamma X_{s,t} + \varepsilon_{i,s,t}, \quad (4)$$

- $\ln \left(\frac{VN_{i,t,s}}{NN_{i,t,s}} \right)$ is the ratio of visible and non stealable consumption to non visible non stealable consumption for household i , in State s , and year t .
- $PC_{s,t}$ is the property crime rate.
- $W_{i,s,t}$ is the household permanent income.
- $Z_{i,s,t}$ are household characteristics.
- $X_{s,t}$ are state level controls.
- We use year and state fixed effects in all our specifications. Errors are clustered at the state level.

Empirical strategy (cont)

Identification and Econometric Issues 1:

- $PC_{s,t}$ is exogenous to individual consumption... BUT measurement error could attenuate OLS coefficients. We instrument PC using homicides and arrest rates (for burglaries).
- the CEX income measure for $W_{i,s,t}$ does not perform well, so we use total quarterly consumption as a proxy.
- However, total consumption is a “bad proxy” because crime might affect the relation between permanent income and consumption.
- In order to solve the bad proxy problem we instrument total consumption using the CEX income measure, occupational dummies, and household head education level (Charles et al. (2009)).

Table: Effect of Property Crime on the ratio VN/NN .

	OLS	Instrumenting Crime	Instrumenting Consumption	Instrumenting both
	(1)	(2)	(3)	(4)
Property Crime	-0.173*** (0.047)	-0.293*** (0.073)	-0.162*** (0.050)	-0.252*** (0.077)
Total Consumption	0.473*** (0.012)	0.473*** (0.012)	0.872*** (0.020)	0.872*** (0.020)
R-squared	0.196	0.196	0.113	0.113
Observations	38876	38876	38876	38876
First stage:				
F (Property crime)	-	32.77	-	21.75
F (Total consumption)	-	-	598.39	726.62

Table: Effect of property Crime on VN/NN with additional controls.

	(1)	(2)	(3)	(4)	(5)	(6)
Property Crime	-0.252*** (0.077)	-0.241*** (0.078)	-0.181* (0.099)	-0.257*** (0.079)	-0.251*** (0.077)	-0.201** (0.096)
Total Consumption	0.872*** (0.020)	0.820*** (0.027)	1.320*** (0.041)	0.934*** (0.022)	0.871*** (0.020)	1.442*** (0.070)
Stealable Consumption		0.005 (0.006)				-0.051*** (0.010)
Housing Expenditures			-0.420*** (0.021)			-0.440*** (0.029)
Liquid Position				-0.007*** (0.001)		-0.006*** (0.001)
Avg. State Visible Cons.					0.027 (0.044)	0.005 (0.051)
R-squared	0.113	0.101	0.018	0.087	0.113	.
Observations	38876	35626	38356	38876	38875	35188

Table: Effect of Property Crime on *NN* goods (falsification test).

	Publications, and books	Education	Other Lodging	Airfare tickets	Charity	All NN goods
	(1)	(2)	(3)	(4)	(5)	(6)
Property Crime	-0.222 (0.188)	0.803* (0.444)	0.171 (0.225)	0.556* (0.294)	-0.056 (0.298)	0.055 (0.041)
Total Consumption	1.676*** (0.038)	1.642*** (0.112)	1.722*** (0.070)	1.343*** (0.096)	1.945*** (0.090)	0.713*** (0.009)
R-squared	0.283	0.119	0.173	0.136	0.156	0.736
Observations	36213	15322	17545	11196	15030	38876

Table: The effect of violent crime on VN/NN.

	Property Crime not instrumented			Instrumenting Property Crime			Excluding Property Crime		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Property Crime	-0.183*** (0.056)	-0.139** (0.055)	-0.223*** (0.054)	-0.295*** (0.099)	-0.205*** (0.069)	-0.403*** (0.091)			
Violent Assaults rate	0.043 (0.047)			0.075 (0.057)			-0.011 (0.042)		
Forcible Rape rate		-0.034 (0.055)			-0.017 (0.052)			-0.069 (0.053)	
Suicide rate			0.080 (0.085)			0.114 (0.088)			0.039 (0.089)
Total Consumption	0.872*** (0.020)	0.871*** (0.020)	0.902*** (0.022)	0.871*** (0.020)	0.871*** (0.020)	0.902*** (0.022)	0.872*** (0.019)	0.871*** (0.020)	0.902*** (0.022)
R-squared	0.114	0.113	0.119	0.113	0.113	0.119	0.113	0.113	0.118
Observations	38876	38202	31897	38876	38202	31897	38876	38202	31897

Robustness

Our results are robust to:

- Different specifications (levels).
- Different treatment of permanent income.
- Modified consumption categories.
- Modified property crime measure.

Robustness: Consumption categories

Table: IV Estimates of the effect of crime on the ratio VN/NN modifying VN

	Clothing		Food out		Recreational servs.		Health and beauty	
	(1)	IV (2)	(3)	IV (4)	(5)	IV (6)	(7)	IV (8)
Property Crime	-0.293*** (0.071)	-0.371*** (0.139)	-0.231** (0.107)	-0.349*** (0.109)	-0.166** (0.071)	-0.200* (0.110)	0.011 (0.093)	0.278 (0.181)
Total Consumption	0.438*** (0.017)	0.857*** (0.037)	0.511*** (0.014)	0.955*** (0.027)	0.548*** (0.024)	1.044*** (0.036)	0.081*** (0.017)	0.483*** (0.040)
R-squared	0.112	0.060	0.210	0.159	0.174	0.120	0.076	0.029
Observations	38114	38114	37346	37346	36725	36725	33924	33924

Summary

- This paper proposes and empirically tests a new channel through which criminal activities affect individual behavior. In particular, we develop the idea that individuals face a trade-off between status and security when making (observable) consumption decisions.
- More precisely, the proposed channel argues that crime affects consumption decisions not because consumption can be directly targeted by criminal activities, but because the level of (observable) consumption reveals information about individual's wealth that criminals may actually use to target their potential victims.
- We find robust empirical evidence supporting the proposed model.

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