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The impact of absolute inequality on pecuniary and violent crime rates

Standard economic theory argues that crime rates are closely correlated with income inequality. To be more precise, it is widely accepted that an increase in the difference between the legal income of the poor and the possible income gains from crimes against the rich generate strong incentives to commit pecuniary crime. Sociological theories come to similar conclusions. The Strain Theories, for example, argues that status differences within a society foster crime. Higher inequality typically translates into greater status differences and therefore is expected to lead to an erosion of social cohesion and trust, with the outcome that not only pecuniary crime rates but also violence increases within a society.

However, the empirical evidence about the impact of income inequality on crime rates is inconclusive. Some studies present evidence that supports the above mentioned theories, whereas other studies do not find a significant relationship between inequality and pecuniary and violent crime rates. One reason why many studies find no correlation between inequality and crime could be that the inequality measure that is typically used is not adequate. Existing studies use relative inequality indices that show disproportional income changes (like the Gini coefficient) as proxies for income inequality, but (i) economic theory clearly refers to changes in the absolute difference between legal and illegal income, and (ii) surveys shows that many people think about absolute income differences when they assess their status position. Hence, an indicator that controls for changes in absolute income differences most likely is a better suited to test for the relationship between inequality and crime than a relative inequality indicator.

To test this hypothesis, we estimate unbalanced panel models using two dependent variables (pecuniary crime rates and violent crime rates) and two measures for inequality. The primary explanatory variables of interest are a unique self-constructed absolute income inequality index (based on the variance between income deciles) and readily available relative income inequality data (measured by the Gini coefficient). Our study is the first that tests for the effect of absolute inequality on crime.