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BOOK REVIEW. THE ECONOMICS OF CRIME: LESSONS FOR AND FROM LATIN AMERICA, BY RAFAEL DI TELLA, SEBASTIAN EDWARDS, AND ERNESTO SCHARGRODSKY

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According to the latest Latinobarometro results, crime and delinquency are among the most pressing issues that Latin American countries are facing today; in eleven out of nineteen countries in the Latinobarometro sample, delinquency and insecurity ranked first as the main problem facing these countries today. But more worrisome than the level is its tendency: while self-reported victimization rates have remained relatively stable during the last decade (in a range that oscillates between 30 and 40%), the perception of insecurity has steadily increased over the last decade. More precisely, while only 8% of the population in Latin America regarded crime and delinquency as the most important problem in their country in 2000, by 2010 the fraction had increased to 27% (e.g., a three-fold increase during the last decade). As a result, crime and insecurity are among the most difficult challenges that Latin American policy-makers face today. Pressing policy problems often call the interest of academic research, and crime has not been an exception.

The Economics of Crime: Lessons for and from Latin America makes an important contribution to the study of crime and violence in Latin America and to the debate about what works for reducing crime (and at what cost?). As the title of the book correctly suggests, the book brings together contributions from Latin American economists on the determinants and consequences of crime, as well as contributions and lessons about similar and related issues from other regions of the world. Importantly, many of the chapters in this book make use of available data together with solid empirical strategies in order to understand the causes and consequences of crime.

The first chapter of the book follows a reductionist approach to disentangle the main determinants of crime in the region. Soares and Naritoimi, the authors of this chapter, make the compelling point that once structural determinants of crime such as high inequality, a small size of police forces and low incarceration rates are taken into account, the levels of crime in Latin America are not exceptionally high when compared to those in other regions of the world. This finding challenges the view that the high crime rates observed in the region are explained by "unusual and exceptional" characteristics of the countries in this region. This important observation directly speaks to policy makers by telling them that there are aggregate structural determinants of crime that determine the high levels of crime in the region and that are under their direct control, such as the rates of incarceration and the size of the police force. Importantly, the authors of this chapter describe two success stories, Sao Paulo and Bogota, which further support their main message. In particular, these two cities have witnessed a steady decline of crime rates after the successful implementation of policies that combine sticks (repressive measures) and carrots (social programs) in order to reduce crime rates.

The second section of the book is devoted to six chapters that study the determinants and consequences of specific crimes in specific countries in Latin America. The first three chapters in this section, all of them about Colombia, focus on how crime distorts economic decisions; these chapters measure the costs of crime in different dimensions of economic activity, such as firms' investment decisions, higher housing prices and significant forced displacement rates. The second chapter, written by Rony Pshisva and Gustavo Suarez, uses detailed data on the victims of kidnappings in Colombia together with firm's financial-statement data in order to disentangle the effect of firm-related kidnappings on corporate investment decisions. The authors' main finding is that firms tend to invest less when kidnappings target firm owners and managers in the region where they are located. In contrast, they find that other forms of crime and violence that do not directly target the firm do not affect the firms' investment decisions. In the third chapter, Alejandro Gaviria, Carlos Medina, Leonardo Morales, and Jairo Nuñez study another consequence of high crime rates using data for Bogota. In particular, they use hedonic price models in order to estimate the value that households are willing to pay in order to avoid high levels of crime. They find that households living in the highest stratum in Bogota (six) pay up to 7.2% of their house value in order to avoid an increase of one standard deviation in the homicide rate, while households living in the fifth stratum pay up to 2.8% and those living in stratum four pay up to 4.4% of their house value in order to avoid crime. This chapter reveals the existence of a private market that implicitly auctions security to the richest households and finds that these households are willing to pay considerable amounts of money in order to avoid high crime neighborhoods. The fourth chapter, written by Ana Maria Ibañez and Andres Moya, focuses on the costs of violent conflict in Colombia in terms of asset losses as a consequence of forced displacement. The authors show that better-off households (e.g., those with larger asset holdings) are attractive targets for illegal armed groups seeking to consolidate territorial control in strategic areas of the country. As a result, these households suffer substantial asset losses following displacement. Furthermore, the chapter combines qualitative and quantitative evidence from interviews and finds that about 75% of displaced households are not able to recover from their asset losses following displacement, thus creating a conflict-induced poverty trap that affects long-run development.

The chapter by Di Tella, Galiani, and Shargrodsky (Chapter 5) takes advantage of a significant increase in crime rates in Argentina during the late nineties in order to document different types of crime avoidance activities by individuals. They find, for instance, that rich individuals tend to hire more private security; tend to use less jewelry when going out; and both the poor and the rich tend to avoid dark places. The chapter has two important results. First, the authors show that a lower victimization rate in one group of the population does not necessarily mean that this group faces a lower burden of crime, as this group might be paying a high cost of avoiding crime by investing in security devices and changing its behavior (by, for instance, not going out at night or avoiding certain places). Second, and related to the previous point, they show that there is a significant amount of crime displacement towards the poor, as a result of actions taken by rich households to protect themselves against increases in property crime. This chapter is an important contribution to the relatively scarce literature on how crime distorts economic decisions. The chapter by Joao De Mello and Alexandre Schneider emphasizes the importance of long-run structural fundamentals in explaining the geographic and dynamic crime patterns in Brazil. In particular, they focus on the role of demographic factors as a structural determinant of the level of crime. De Mello and Schneider show that the aggregate time-series of homicides exactly matches the time-series pattern of the male population aged fifteen to twenty-four.[1] Without neglecting the importance of other short-run determinants of crime rates (e.g., gun control policies, dry laws, and increasing in incarceration rates, among others), the authors show that only demographic factors can jointly account for the rise of homicides between 1991 and 2000, the decline in 2000s, and the exact timing of the turning point. The last chapter in this section of the book (Chapter 7), by Alzua, Rodriguez and Villa, studies the role of prison-based education programs on in-prison conflicts and misbehavior among prison inmates. Using an interesting identification strategy that makes use of a Law in Argentina mandating that all prisoners with less than the minimum required educational level must participate in prison-based educational programs, the authors find that participation in these programs significantly reduces inmates' misbehavior (e.g., injuries, property damage, sanctions, etc.). The authors propose two channels through which education programs can reduce violence between inmates. First, these programs can potentially affect inmates' moral values and their attitudes towards their peers, thus making them less prone to engage in fights in order to resolve disputes. Second, the effect might just be the result of less idle time, as these educational programs can keep inmates busy during a significant part of the day.

The last section of the book is composed of five chapters devoted to study international evidence of particular interest and relevance for Latin America. The first chapter in this section (Chapter 8), by Angela Dills, Jeff Miron, and Garrett Summers, focuses on the role of illegal drug markets on violence. The authors first start the chapter with a pessimistic overview of the state of knowledge in the field of the economics of crime. For this, they use correlations of aggregate data over long periods of time between different crime measures and potential determinants of crime, such as arrest and incarceration rates, the size of police forces and the number of executions, among others. As the authors themselves correctly point out, "the raw correlation between crime and a potential determinant can be misleading in the presence of endogeneity." Thus, the real contribution of this chapter is with respect to the relationship between illegal drug markets and violence. The authors' main argument is that violence is more common in circumstances where mechanisms for nonviolent dispute resolution are absent. In the case of illegal drug markets, prohibition forces drug markets underground, thus encouraging the use of violence to resolve disputes. In Chapter 9, Brendan O'Flaherty and Rajiv Sethi propose an IO model to explain the rise or murders in Newark, New Jersey during the first half of 2000s. Their model is motivated by two main stylized facts. While the incidence of overall shooting incidents didn't rise significantly during this period, the murder rate did. The authors argue that what happened in Newark between 2000 and 2006 was a strategic decision by criminals to increase the lethality of the shootings triggered by a strategic complementarity. In particular, they argue that a small initial increase in the

[1] The authors provide convincing evidence showing that young males in this age bracket not only are the main victims of homicides, but also the main perpetrators.

likelihood of being killed by someone else raises the incentives to kill them first, and, thus, an expectation of a high murder rate becomes self-fulfilling. In the authors' own words, "murders beget murders". This analysis is particularly relevant for understanding the recent experience in some cities in Latin America that have gone through long and pronounced cycles of violence, such as Medellin, Rio de Janeiro, and, more recently, Caracas. Chapter 10 focuses on the causal effect of the deployment of police on crime. In particular, Mirko Draca, Stephen Machin, and Robert Witt, the authors of this chapter, measure the amount of crime displacement after a substantial and highly visible increase in police deployment in five boroughs in central London—the so-called "Opertation Theseus"—that lasted for six weeks following the terrorist attack in July 2005. While the authors find a significant decrease in crime in areas that were intervened, they don't find any evidence of a significant displacement effect, neither geographical nor intertemporal. In Chapter 11, Naci Mocan and Kaj Gittings study the effects of death penalty related outcomes (executions, commutations, and removals) on murder rates. Even though capital punishment is a rare event, using different estimation strategies the authors find a significant deterrent effect of capital punishment on murder rates. Given this controversial result, the authors undertake different robustness checks to verify their results. The evidence they present is convincing in showing that indeed potential criminals do respond to incentives. Finally, in Chapter 12, Radha Iyengar shows that the extrapolation of results from randomized policy evaluations in the economics of crime may lead to unintended consequences. In particular, Iyengar shows that right after mandatory arrest laws in cases of domestic violence were passed, intimate homicide rates increased. In other words, a policy directly aimed at protecting women from domestic violence ended up *increasing* intimate homicides as a result of women fear of reporting to the police cases of domestic violence. This thus led to fewer police interventions and an increased probability of escalated violence.

Almost forty-five years after the publication of Gary Becker's seminal work, the field of the economics of crime is more active than ever before. The availability of more and better data on the incidence of crime, together with data on different types of interventions aimed at reducing violence and delinquency, has allowed researchers to undertake solid empirical studies aimed at assessing what works in reducing crime and at what cost. This collected volume is a must-read for any researcher interested in the field of economics of crime and for policy makers working in this area.