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A Case Study of Malaysia

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ABSTRACT

Crime levels have been rising in most countries. Apart from imposing social security problems (psychic costs of crime) that are worsening, crime also absorbs a large amount of resources for its control (percuniary costs of crime), thus having implications on the economy. However, socio-economic factors like poverty, unemployment, income inequality, urbanization and so forth are found to have implications on crime levels, while development of the police, courts, prisons and legislations that stipulate punishments for offences against the law are said to have deterrent effect on criminal behaviour.

This study undertook an economic analysis of crime in Malaysia with respect to trend of crime levels, the public cost of controlling crime and the determinants of crime. Crime levels and costs are found to be rising at statistically significant levels while many of the hypothesised economic factors are found to have explanatory power on crime levels.

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PART I

CHAPTER 1

INTRODUCTION AND GENERAL BACKGROUND

1.1 Introduction

Economics is part of Social Science which concerns itself with the utilization of scarce resources for the maximum welfare of all. All branches of economics are fundamentally directed toward the achievement of the above mentioned goal. However in the midst of the social and economic activities, numerous social problems have cropped up. These problems are basically problems of resource allocation, distribution of income and stabilization. Among the issues that fall under resource allocation are problems like pollution, health issues and crime. Crime seems to be the issue that has been least dealt with as far as resource allocation is concerned. In most of the countries in the world crime level has been rising¹. In the United States for example, repeated surveys have shown that people feel that crime is a

¹David J. Pyle, The Economics of Crime and Law Enforcement (London: MacMillan, 1983). p1-3.

worsening problem in their communities². Large amount of resources is being spent annually to control crime³. Spurred by such realization, recent years have seen a rise in the contribution of economists in this area. Pioneered by Gary Becker in 1968, economics of crime has now become a distinct area of applied microeconomics theory.

From an economics angle crime may be viewed as an issue of negative externality for which the public and private individuals take steps to minimize its occurrence. However economic analyses have also been applied in a wide sub-areas of crime. Among topics that have been researched are: empirical inquiries into the determinants of crime, analysis of law enforcement agencies, police and courts, the size and nature of hidden economy and the analysis of illegal drug abuse and trafficking.

²Don C. Gibbons, Society, Crime and Criminal Behaviour (New Jersey: Prentice Hall, 1982). p2.

³Ibid. In the United States, some US\$21.5 billion has been spent by the Federal and State governments on all criminal-justice activities in 1977. See Gibbons, op. cit., p100.

1.2 The Objective of the Study.

The objective of this thesis is to undertake an economic analysis of crime in Malaysia. This study is timely since Malaysia is about to enter into the category of newly industrializing countries (NICs). We say timely because generally in most countries, an increase in the rate of development has been accompanied by a rise in crime rate. Economic growth or development is conventionally measured by the growth in GNP. Per capita real GNP is normally used as a measure of living standards. A rise in per capita real GNP is supposed to mean a rise in the living standards. However we believe that a proper measure of living standards should be more comprehensive, not only to include income and wealth but also other factors like distribution of income, pollution level, crime level, unemployment rate, general health of the public and so forth. An index or something that includes all the above would definitely give a better picture of living standards compared with per capita GNP. This is because such an index would include the micro-side of an economy that gives a better picture of the situation of the individuals in an economy. Per capita GNP only gives a general macro situation that may not reveal the true state of affairs. For example per capita GNP may be high for a country, but if the income inequality is also high, then a majority of the population might be living in poor living

conditions. In this work we would however confine ourselves to the issue of crime alone.

1.3 Why Economics of Crime?

Why should we dwell ourselves into analysing crime from economic perspective? In other words, why economics of crime? We believe that the analysis of crime from an economic perspective is warranted from the fact that crime is increasingly taking its toll on both the developing and developed societies. Apart from absorbing a larger and larger share of a nation's GNP for its control, crime also causes greater and greater loss to future economic production especially through the rise in certain specific crimes like drug addiction, murder and robbery, leading to insecurity from individual perspective.

Crime has a lot to do with economics. Apart from absorbing large portion of a nation's income for the controlling of crime, crime itself is, to large extent caused by economic pressures like unemployment, poverty and inequality in the distribution of income⁴. The negative economic effects of crime on a society may be summarized as below:

⁴Many researches are increasingly proving this statement. A few of such studies are given in the Bibliography.

1. It creates feelings of insecurity among the public and hence may be viewed as a negative externality.

2. It takes up a large portion of a nation's wealth to control crime. The control of crime includes both public and private expenses. The public expenses may be as follows:
 - a. apprehending costs - police
 - b. trial and convicting costs - courts
 - c. punishing and rehabilitating costs - prisons and rehabilitation centres.
 - d. other costs like expenditures on medical and fire control services for crimes that involve these. For example rape, murder and physically hurt victims may need medical attention. Similarly, controlling fire set with criminal intentions has its costs on the Fire Brigade services.

The private individuals also incur costs especially those of preventive in nature, for example.

1. Installing burglar alarms in homes, offices, vehicles etc.
2. employing security guards.
3. keeping guard dogs.

4. Using locks and bolts.
5. Using safes.
6. Keeping valuables in bank deposit safes.
7. Purchasing insurance
8. Expenses for legal services etc.

3. The happening of crimes also causes other costs like:

- a. Loss of future income - This loss may be caused by crimes like murder and drug addiction or incapacitation. While murder can cause the loss of the stream of future incomes of the victim, drug addiction may cause an even greater damage through not only the loss of manpower of the addict but it itself may bring about other types of crime like theft, burglary, extortion and even murder. Rampant crime level may also cause loss of future production because if anyone can take anyone else's wealth by force, then the incentives for further production will be impaired.

Crimes like theft can also cause loss of future earnings. This can happen if for example the theft involves a capital good. In such cases, the loss

to the victim is not confined only to the value of the capital good but to the collapse of the victim's part or entire production process.

- b. Opportunity Costs - There are two kinds of opportunity costs involved here. Firstly, the amount of resources that the public and private use for the prevention and control of crime could have been used in more beneficial alternatives. Secondly, the amount of resources including the labour and time of the criminals could have been used in nation building activities.
4. The fourth cost of crimes is the psychological costs imposed on the victims, victims' families and friend and the nation in general. Such costs may be brought about by any crime especially like rape and murder. In the case of rape, for example, victims might suffer the psychological trauma of their experience throughout their lives. The incident may also affect the feelings of others especially the immediate family, friends and the community as a whole. Such psychological pressure may also be felt by the dependents, relatives and friends of murder victims.

In Figure 1.1 we summarize the costs imposed by crimes on society in a flow chart that shows the links that may exist between the institutional structure of an economy, crime prevention, crime occurrence, apprehension, conviction and punishment.

At the beginning of the diagram, we assert that the institutional structure (paradigm) and the moral-religious beliefs of a society are the fundamental determinants of criminal activities in a society. If moral-religious values are upheld in a society, then criminal activities would be minimal in that society. In Saudi Arabia for example, the people feel that their society is a secure and safe one⁵. This is greatly attributed to the conservation of values and the practice of Islamic law. The legal system is held in high esteem by the people and is respected as a fair and equal enforcer of the law. Even if a society is not based on Islamic law, criminal activities may be reduced if moral values are inculcated into the society. However, the success may not be as great as in a society that practices

⁵Bakri Mohammed Basha, The Significant Influence of Islamic Law on Decreasing Crime Rate in Saudi Arabian Society : Attitudinal Comparative Study Diss. United States International University, 1979.(Ann Arbor: UMI, 1979. 8016484). p97

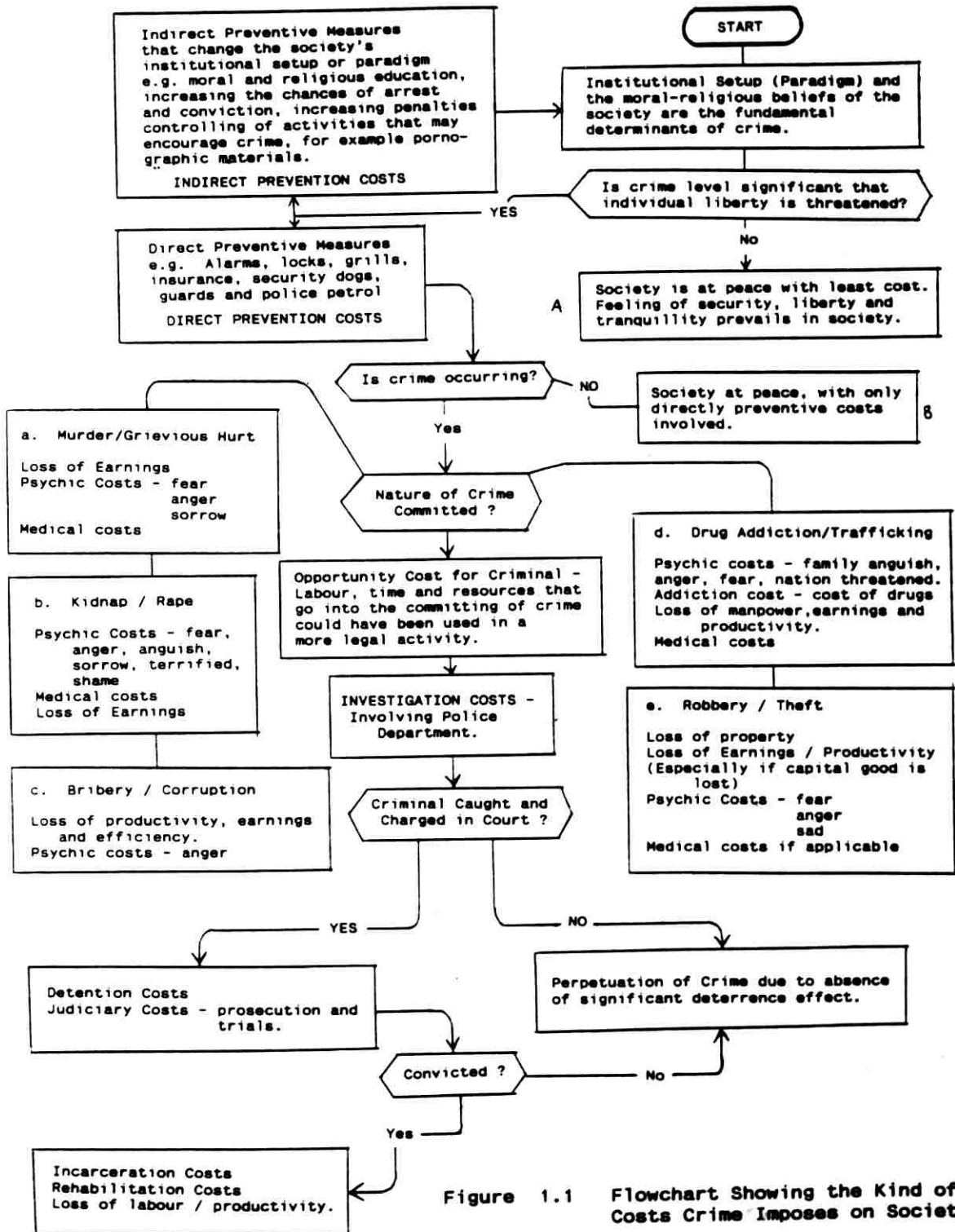


Figure 1.1 Flowchart Showing the Kind of Costs Crime Imposes on Society

Islamic law wholly. We make this statement based on two things, i.e. faith that the God-given Islamic law is superior to other laws in generating peace in the society and from historical facts. One could see from historical observation how peaceful the societies based on true Islamic laws were. The Islamic state established by the Holy Prophet s.a.w. in Medina, and the reigns of Umar Ibn Abdul Aziz and Harun al-Rashid are classical examples.⁶

The Marxists too believe that the institutional structure of an economy determines the crime level in an economy⁷. However, they normally seem to compare the capitalistic set-up with that of Marxian type and assert that the Marxian one is superior. They do not seem to give importance to the moral-religious values as determinants of crime.

Given the institutional set-up of an economy, we believe that the criminal activities in the economy, its growth and associated links and costs have already been determined. The individuals in the society may or may not feel secure and safe, depending on the level of crime rate that pre-

⁶Masud-ul-Hasan, History of Islam, Vol. I, (Lahore: Islamic Publications Limited, 1987), pp. 79, 178 and 215.

⁷Daryl A. Hellman, The Economics of Crime (New York: St. Martin Press, 1980). p51

vails, which in turn depends on the institutional structure adopted by the society. If the choice of the structure is "naturally" correct, then the society would be at situation A in the diagram where criminal activities would be minimal and society would be at peace with least cost. Feelings of security, safe and tranquill would prevail. This is because the society at large views crime negatively as a result of the dominance of values. This is the ideal society as far as crime is concerned.

However, if crime level is significant that individual liberty is threatened, then the society may take direct and indirect preventive measures to curb crime. Direct preventive measures include those we have mentioned earlier like installing alarms, safes, employing guards, purchasing insurance etc. Police patrol is also a form of preventive measure.

By indirect preventive measures to control crime, basically we refer to the changing or improving of the society's institutional structure including the moral-religious institutions. Therefore, if a society moves from Capitalistic paradigm to Socialistic or Islamic or other paradigms and vice versa, then the crime level would change according

to the system adopted⁸. If for example, a society moves towards a capitalistic paradigm, then its associated characteristics of crime and its related issues would prevail; like the rise over time in the per capita crime level and the crime control expenditures, case backlogs in courts and the overcrowding of prisons and rehabilitation centres. There would exist a trade-off relationship between the control expenditures and the crime rate, case backlogs and overcrowded prisons collectively. This-trade off would be rather inevitable in any capitalistic environment but may vary in degree according to how much capitalistic the society is. Thus, the growth in crime rate, case backlogs and overcrowding of prisons and other crime related issues may vary between capitalistic countries, but nevertheless, they would exist as a manifestation of the capitalistic environment. Rising crime rate, case backlogs and overcrowded prisons have been the "universal phenomena" in the capitalistic world. If a society moves toward the Socialist or Islamic paradigm, then the "universal phenomena" of the respective paradigm will ultimately prevail as far as crime issues are concerned.

⁸For example, according to the Iranian Consulate in Malaysia, during the Islamic revolution in Iran, many forms of crimes including prostitution and gambling perished without any direct effort on the part of the revolutionary government.

Other indirect measures that may be taken to reduce crime rate include providing and enhancing moral-religious education in the society, controlling and checking things that encourage crime like sale of pornographic materials, violent movies, change in lifestyles that might threaten the breakdown of the institution of family etc.

The increase in the probability of arrest and conviction and the increase in severity of punishment are also indirect means of curbing crime rate. The subjective and objective probability of arrest and conviction may be increased by carrying out punishments in public like some of those prescribed by the Shariah⁹ or through greater spending on the police, for example. This may allow them to increase the police establishment or increase their patrol duties. The severity of punishment can be increased by imposing harsher sentences or fines.

⁹The Holy Qur'an commands that flogging be carried out in public for unmarried persons found guilty of adultery or fornication (Qur'an 24:2). The jurists extended this command to all other *hadd* punishments in order to achieve the fullest deterrent effect. Please see Mohamed S. El-Awa, Punishment in Islamic Law, (Indianapolis: American Trust Publications, 1982), p.31

There are many other forms of indirect measures, including narrowing the income inequality in the society, or providing employment opportunities. Which among the indirect measures a society should choose depends upon the causes of crime in the society which are in turn determined by the institutional structure defined in that society.

Whether the society adopts direct or indirect preventive measures, or both, costs are incurred. Direct preventive measures are largely borne by the civilian public while the indirect measures are largely borne by the government.

The direct preventive measures taken may or may not be successful in controlling crime. If it succeeds, then we will be in position B in the diagram where the society will be at peace with only preventive costs involved. Situation A is obviously better than situation B because in A even the preventive costs are minimal because crime is abhorred by almost everyone in the society while in B the criminalistic tendency in individuals is checked through the direct preventive measures taken by the society, and this of course involves greater cost.

If crime occurs inspite of the preventive measures taken then labour, time and resources that are used in committing the crime are themselves opportunity costs to the society. Since the criminals are engaged in the production of bad environment which the society disapproves, the resources used in committing them are rather "wasted". It would have been definitely better if those resources are put into the production of goods and services that the society would prefer to have.

Apart from the opportunity costs mentioned above, the kind of costs crimes impose on the society would depend upon the kind of crimes committed. For example in the case of murder and grievous hurt, the costs involved are loss of earnings, psychic costs like fear, anger and sorrow and medical costs. A victim of murder for example may not be able to earn any more and may leave his dependents helpless. His potential income 'for the rest of his life' is lost. Furthermore, his death may also cause feelings of anger, sorrow and fear to prevail among his family, friends and others. Medical attention like post-mortem would also involve cost.

In the case of robbery and theft, the associated costs are loss of property, loss of earnings or productivity, medical costs if applicable and psychic costs like fear, anger and

sadness. While some may argue that robbery or theft merely transfer of goods from one person to another in the society and this in aggregate does not impose any cost on the society, we argue this is not so. Since society at large disapproves robbery and theft¹⁰, the preventive measures already taken have its costs on society. Apart from that, it could cause loss of earnings and productivity especially if capital good is involved in a robbery or theft. The loss of a capital good can disrupt the entire production process. Also severe crime levels can discourage further production since the safety of property itself is highly threatened. Thefts like house breaking can also cause destruction of property like the breaking of gates, iron grills, glasses etc. Repairing or installing new ones would further add to the cost. There may also be medical costs, for example, where robbery victims are physically hurt or shot. Again there may be psychic costs like fear, anger and sadness. Considering all the above, the argument that theft and the like only involve a transfer of goods in the society without any loss is a fallacy.

¹⁰Even a thief would not like others to steal his property.