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Boom to Bust: Exploring the Relationship between Economic Conditions and Crime

The Canadian province of Newfoundland and Labrador is an interesting case study of the resource curse. Historically, the region was consider one of the poorest provinces in the Canadian Federation with per-capita income well below the Canadian average. It was a region heavily reliant on federal government transfers. In the Canadian context it was known as a “have not province”. However economic conditions changed dramatically when the price of oil increased in the early 2000s. Over a ten year period per-capita income surged and the transfers were replaced by oil royalties. Prosperity was seen in rising wages and increased government spending. The cycle turned downward when oil prices began falling in 2008. Fiscal imbalances caused by falling resource prices trigger austerity plans that involve cuts to public sector employment and wage freezes. In the private sector positive economic sentiment was replaced by economic conditions that was brought on by the downturn. The economic spinoffs associated with prosperity disappeared and were replaced by negative multiplier effects that lead to rising unemployment and declining economic conditions. There are many papers that show that prosperity or higher income levels lead to increased crime but one could also argue that in dire economic conditions crime increases. What is the relationship between economic conditions (prosperity/decline) and crime? The purpose of this paper is to examine the long-term relationship between changing economic conditions and crime. An econometric analysis shows no consistent long run association between economic conditions and crime (homicides, robbery and drug arrests). In addition the relationship between detrended crimes data and detrended economic data is explored.