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Interaction Mechanism of Economic Inequality and New Types of Financial Crimes in the Digital Economy Era and the Path of Legal Governance

Xinnan Cui

Shanxi Experimental Secondary School, Taiyuan, China
SHER.nan@qq.com

Abstract: This study tackles a research gap by spotlighting emerging economic crimes in the digital economy, diverging from the conventional focus on the link between economic inequality and traditional crimes. Past research frequently delves into how economic inequality correlates with traditional violent offenses, yet it mostly neglects the intricate and highly technical nature of new financial crimes in today's digital age, such as cryptocurrency fraud, money laundering, and cross-border underground banking. These criminal activities not only widen the wealth disparity and form a negative cycle, but also present major difficulties for conventional legal frameworks. Through analyzing legal governance methods, this study strives to fortify China's socialist legal system, boost the digital economy's security risk prevention capacities, and back the modernization of the national governance system and capabilities. This study suggests that economic inequality results in a greater concentration of wealth among the wealthy, depriving the less advantaged of equal access to digital resources and skills. Consequently, the rich, with their superior grasp of digital technology, are more likely to exploit it for criminal ends. These offenses, which differ from traditional financial crimes, involve the use of digital platforms and are thus termed "new types of financial crimes." In contrast, people with limited digital education are more susceptible to these crimes due to their lack of understanding of how they operate. Overall, the growing level of economic inequality directly drives the emergence of new financial markets.

Keywords: Interaction Mechanism, Economic Inequality, New types of Financial Crimes, Digital Economy Era, Path of Legal Governance.

1. Introduction

The digital economy is a framework of institutional categories that integrates advanced digital achievements and progressive technologies, enhancing social production efficiency.[1] It also represents an innovation - driven society.[2] Nevertheless, the digital economy era has its downsides. This essay focuses on how it intensifies economic inequality and spawns novel financial crimes.

While new technologies expand access to basic services, boost productivity, spur economic growth, and facilitate knowledge exchange, they also deepen and perpetuate inequalities in outcomes, opportunities, and impacts.[3] As per Cherniavskyi Serhii et al., the rapid progress of information technologies, the widespread use of telecom systems and equipment, and current info - security conditions have set the stage for high - tech crimes.[4] Existing economic crime literature often fails

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to adequately address the unique challenges of the digital economy era. Despite being in the early phase of this new economic stage, much research still focuses on traditional economic crimes. There's a lack of in - depth analysis on the new crimes emerging in the digital economy and strategies to prevent them. This gap underscores the need for more comprehensive studies to provide insights into the evolving nature of economic crimes in the digital age. The rise of these crimes demands that law enforcement carefully assess existing computer systems' technical capabilities and explore their effective use in combating high - tech crime. This paper thoroughly examines the complex link between growing inequality and the emergence of digital - era crimes. By revealing this connection, it aims to offer deep insights to help governments craft targeted policies and innovative governance approaches to effectively lower crime rates. Beyond academic interest, this study could enhance societal security, foster trust and stability in the internet environment, and ultimately support national stability and public well - being.

2. Literature Review

2.1. Digital Economy

The fundamental nature of the Digital Economy lies in its dynamic characteristics rather than static efficiency. It flourishes through the creation of new activities and products, rather than simply focusing on increasing productivity. Macroeconomic growth is driven by diverse actors, including individuals and enterprises, who develop and utilize new technologies. These technologies emerge from innovative combinations of ideas. As connectivity expands, the potential for new combinations of ideas grows exponentially, fueling further innovation and growth within the Digital Economy.[5] In this digital era, businesses and households are increasingly concentrating on new technologies. In this context, individuals who lack professional knowledge in digital technology usage and self - protection during the digital era are at a significant disadvantage. Consequently, these individuals become primary targets for unlawful individuals who are proficient in digital technology and seek to exploit it for criminal purposes.

2.2. Economic Inequality

Economic inequality is a critical concern that reveals the limitations of governmental strategies to overcome developmental bottlenecks. It emphasizes an excessive dependence on education as the sole solution, based on a questionable rationale regarding the future globalized labor market.[6] The root of economic inequality lies in education. In the digital era, the impact of educational inequality on economic inequality is more pronounced. An increasing number of well - paid jobs now require advanced skills. Consequently, individuals without quality education are unable to obtain these skilled positions.

On the other hand, those from wealthier families receive high - quality education during their student years. Upon adulthood, they can secure well - paid and skilled jobs. This situation further widens the economic gap between children from rich and poor families, thereby exacerbating economic inequality. Furthermore, as economic inequality increases, poorer individuals have fewer opportunities to access good education and connect to the internet. As a result, the acquisition of digital skills becomes polarized. Those who can master these skills may exploit them for criminal activities, while those who cannot become victims in the digital economy era.

2.3. Cyber Financial Crime

The escalation of cyber - functional capabilities has greatly amplified the scope for criminal activities, especially in the domain of cyber - financial crime. As the digital environment evolves, malefactors are progressively exploiting the Internet both as a channel for conventional crimes and as a foundation for cultivating new forms of financial violations. These violations encompass identity theft, phishing attempts, unauthorized transactions, and the exploitation of security flaws in digital payment systems. The surge in cyber - financial crime highlights the necessity for more effective cybersecurity protocols and regulatory frameworks to safeguard individuals and institutions from these emerging risks.[7] This represents a downside of digital - economy development. In the new digital - economic era, the rise in economic inequality has led to an increase in cyber - financial crimes. Given this developmental trend, governments must implement measures to prevent new types of cyber - financial crimes in the digital age.

2.4. Legal Governance

The legal governance framework is advancing on two primary fronts: prevention and enforcement, and across three main levels: national, regional, and international (global). Prevention mainly centers on regulatory measures such as sanctions, regulation, and supervision, while enforcement involves prosecution, punishment, and investigations. In reality, even with the involvement of criminalization agencies, the entire process is predominantly regulatory in nature. This highlights the importance of legal governance as a holistic approach that merges regulatory frameworks with enforcement mechanisms to effectively combat financial crime. It emphasizes the requirement for a coordinated strategy that balances regulatory oversight with efficient enforcement actions to uphold the integrity of financial systems and ensure legal compliance [8].

In the digital economy era, new types of cyber - financial crimes have become more difficult to monitor and investigate, further complicating law - enforcement efforts. This situation indirectly emboldens criminals. To address these challenges, priority should be given to developing more effective legal governance frameworks and advanced technologies. These measures will assist law - enforcement officers in punishing criminals, maintaining social peace and harmony, and ensuring the safety of residents.

3. A Higher Level of Economic Inequality Caused by Digital Economy

To comprehend how higher economic inequality drives the emergence of new financial crimes, it’s crucial to first analyze why inequality has risen during the digital economy era. We emphasize skills because evidence shows that biased technological progress, such as the shift to the digital economy, can significantly influence wage and employment opportunities across different skill groups in all sectors. However, even if technological bias were the sole structural change, other dimensions—like sector, age, and gender—would still affect how these changes propagate and shape final outcomes. For instance, some groups, such as middle - aged workers, may enjoy better protection due to institutional support and bargaining power, resulting in unequal impacts. Deindustrialization can also interact with digital transformation, particularly when wages are rigid and transitioning from manufacturing to service jobs leads to larger wage losses for low - skilled workers [9].

Under the "Rural revitalization" strategies, China has achieved remarkable success, with rural residents generally securing better jobs and higher incomes. Nevertheless, as we gradually enter the digital economy era, more basic jobs are being replaced by artificial intelligence, causing rural unemployment rates to rise. The digital economy demands high - level digital skills from people. However, given China’s vast population, children in the "compulsory education" system often struggle to receive quality digital skills education.

Critiques of the household registration system frequently highlight its impact on access to education and other social services. Many rural migrant children in Chinese cities, lacking urban household registration, are effectively excluded from the public school system and have limited

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alternatives. The focus is on addressing educational inequality within the compulsory education system and proposing measures to tackle this disparity.[10] Conversely, children from wealthy families can enter better and more expensive schools that emphasize rounded development and provide more opportunities to learn digital skills and access the internet early. Consequently, upon entering the job market, those from affluent backgrounds leverage their digital skills experience to secure better - paying jobs or even establish their own companies for higher earnings. In contrast, children from ordinary backgrounds, lacking sufficient internet experience and capabilities, may lose many opportunities. As a result, the wealthy remain or become wealthier, while those from common backgrounds may end up with lower - paying jobs (in their parents' time, the economy demanded physical labor, not digital skills) or even unemployment. This situation exacerbates economic inequality.

4. New Types of Financial Crime Caused by the Higher Level of Economic Inequality During the Digital Economy Era

In the fields of criminology and sociology, extensive research has been conducted to identify factors contributing to criminal behavior, with a particular focus on property crimes. The role of economic inequality in driving such crimes has garnered significant attention due to its compelling and straightforward impact.[11] Upon entering the new digital economy era, the nature of financial crimes has evolved, yet their root cause remains economic inequality. As previously mentioned, socio - economic inequality, the digital skills gap, and low awareness of cyber - threats collectively intensify the risk of new financial crimes in the digital economy era.

Economic inequality limits certain groups' access to digital skills, making them more susceptible to cybercrime. For instance, individuals in impoverished regions with restricted access to quality education or the internet are especially vulnerable. Conversely, wealthier individuals can readily acquire digital skills and possess a deeper understanding of the mechanisms of cyber - financial crimes, the workings of the financial market, the challenges faced by those in need of funds, and the existing legal loopholes.

In recent years, the rapid development of the digital economy and the level of economic inequality have shown a complex interactive relationship, further fueling the emergence of new financial crimes. Specifically, from 2015 to 2024, China's digital economy growth rate has stayed high, rising from 8.5% to 13.0%. This signifies the crucial role of the digital economy in driving economic growth. However, despite a slight decline in the Gini coefficient from 0.46 to 0.37, it remains at a relatively elevated level. The Gini coefficient is a common metric for gauging income disparities among residents, with higher values signifying greater income inequality. This inequality not only restricts some individuals' access to digital skills but also makes them more prone to cybercrime.

Meanwhile, the number of new financial crime cases has risen annually, from 0.4 ten thousand cases to 0.85 ten thousand cases, showing a clear positive correlation with the rapid development of the digital economy and the high level of economic inequality. This suggests that, to some extent, economic inequality propels the increase in new financial crimes. On one hand, economic inequality limits low - income groups' access to digital skills, putting them at a disadvantage in the digital economy and increasing their incentive to obtain wealth through illegal means.

5. The Path of Legal Governance

In tackling new types of financial crimes, several countries have implemented legal governance measures. Take the U.S. as an example; three main government departments coordinate its financial crime policy: the Department of the Treasury, the Department of Justice, and the State Department function as primary regulators. Moreover, the U.S. plays a leading role in offering foreign AML/CFT training and technical assistance, with the Department of the Treasury, the Department of Justice, and the State Department funding this initiative. Secondary agencies, like the Office of Terrorism and Financial Intelligence and the Office of Illicit Finance, support these efforts. They collaborate to close legal and regulatory gaps that ill-intentioned actors exploit to infiltrate the U.S. financial system [12].

Viewed from this perspective, the Chinese government should bolster its cybercrime regulation capacity by innovating in new digital technology. securing the internet, and instantly warning residents when they encounter cyber financial crime. This technology can assist law enforcement in solving cyber financial cases more efficiently, as these offenses are highly concealed and technical.

Furthermore, the fundamental approach to solving this problem is to address economic inequality. The optimal strategy for this is to lessen educational inequality and stop the excessive concentration of wealth. The government can allocate more funding to boost education quality and emphasize children's digital skills. It can also set up more information technology and networking majors to cultivate information and data security talents for cybercrime investigation.

Considering that cybercrimes are often cross-border in nature, international cooperation is essential for effectively combating new types of cybercrime.

6. Conclusion

Overall, there is a significant link between the new types of financial crimes and economic inequality during the digital economy era, and the government can play a crucial role in preventing this kind of crime. The basis of economic inequality is educational inequality, and the government can reduce this problem by providing more subsidies for education and focusing on children's comprehensive development. After addressing educational inequality, children born into ordinary families can have the opportunities and capabilities to compete with those who are naturally rich. In this scenario, the issue of class gap solidification can be alleviated, thereby reducing economic inequality. Consequently, people will be better able to recognize the nature of new types of cyber - financial crimes and how they operate, thereby reducing the risk of being defrauded. When criminals find that people are no longer falling for their schemes and that cyber - financial crimes are no longer profitable, they are likely to reduce the frequency of their crimes, thus lowering the rate of new cyber - financial crimes.

Furthermore, the government also needs to play a crucial role in deterring crimes. Enhancing cyber - security systems and cyber - criminal tracking systems will ensure that fewer people fall victim to criminals, and that criminals can be apprehended in the shortest possible time after a crime occurs. Given the covert and transnational nature of cyber - crime, countries must strengthen cyber - security cooperation to protect people's information, lives, and property worldwide, and further prevent the occurrence of terrorist cyber - attacks. In daily life, governments should also enhance the promotion of cyber - security to raise public awareness and encourage timely reporting of criminal activities. By working together, governments and citizens around the world can jointly combat crime.

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