

Wise as Serpents

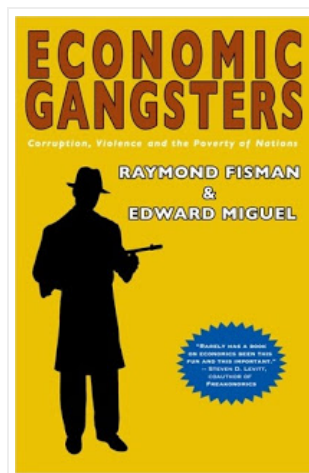
Doug and Mark are two economists seeking to combine biblical scholarship and sound economics to enable the faithful to be "as wise as serpents and innocent as doves" (Matthew 10) when going forth into the world. This may be a different perspective than you're accustomed to, but we hope to be informative, engaged, and occasionally funny. Our emphasis is on missions and living out the Gospel. This requires the full attention of both our faith and our minds. Join the conversation.

Tuesday, March 22, 2011

Economic Gangsters: Book Review

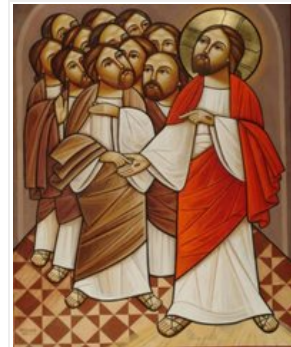
Tonight the Economics Club and others will watch L.A. Confidential. Meanwhile Mark and I will wait in the wings to present our research on how the LAPD went from worst to first in only five or six years. The corruption portrayed in L.A. Confidential is not a caricature of the LAPD in the late 1940s --- in fact, the portrayal is only a shadow of the extent of corruption. When William Parker became police chief in 1949 (after a massive prostitution scandal) he quickly turned the corrupt situation into the model of police professionalism.

I'm certain Mark and I will summarize this research in a future and more detailed blog post; however, the talk tonight reminded me to write a book review of Economic Gangsters. This book was written by Edward Miguel and Raymond Fisman (2008) Princeton Press and explores some important questions surrounding corruption.



Understanding corruption is extremely important because the stakes are so high. First, I will place corruption in the context of the larger debate on economic development. Both Fisman and Miguel were students of Jeffrey Sachs (author of The End of Poverty) at Harvard. Sachs' core idea is "the poverty trap" which suggests that poor people are unable to escape poverty because they have 1) Low Savings, 2) Many Children, 3) Threshold Effect of Capital. Put another way, poor people do not have enough money to make investments that will improve productivity. This leads Sachs to conclude that impoverished countries need a "Big Push" to escape their poverty. What is a "Big Push"? A massive infusion of foreign assistance. Fisman and Miguel write,

"Sachs's ideas for ending poverty make sense in theory. But many other economists hold the opposite view, that we're spending too much on



Favorite Quotes

We all want progress, but if you're on the wrong road, progress means doing an about-turn and walking back to the right road; in that case, the man who turns back soonest is the most progressive. -C.S. Lewis, Mere Christianity

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foreign aid already ---or at least spending it in all the wrong ways and places. Bill Easterly is the public face for these arguments . . . [Easterly claims] Sachs's plan of expanding aid five-fold would likely fritter away trillions more [dollars]. Easterly argues that these enormous sums of aid money have often been spent on grandiose centrally planned projects --- hydroelectric dams, four-lane highways, destinations plants ---in countries ill-prepared to oversee their construction, operation, and upkeep"

Then, Fisman and Miguel add,

"What we do know today is that much of the developing world doesn't have a lot to show for these past foreign aid efforts, barely anything beyond a collection of rusting monuments to good intentions."

Put simply, the effectiveness of foreign aid, in part, depends upon corruption. When we provide aid assistance to other countries we must ask whether the leadership will invest that money for the body politic or if they will pocket the money for themselves and their cronies. The authors tell six stories, three on corruption and three on violence which help shed light on these problems which are critical to helping people experiencing extreme poverty (I write about the stories of corruption here). These stories utilize very interesting methods to research problems (most corrupt people do not announce their corruption to the world and keep well documented Excel spreadsheets of their bribery and extortion). In the end these stories provide some insight into human behavior and ways to get ahead of the curb on corruption.

Chapter 2: Suharto Inc.: This chapter tracks the exploits of "Tommy", the son of Indonesian President Suharto. The question centers around how Tommy accumulated such wealth as a businessman. Was it through shrewd investment or political ties? Then, the question becomes, "How can you prove it?" In a survey, people could say that Tommy was corrupt, but, talk is cheap. We want people put their money where their mouth is. The closest thing to that kind of bet is the stock market. Fisman and Miguel describe how certain stocks dropped significantly whenever Suharto became sick. Those certain stocks were also ones that Tommy was affiliated with. We can infer from those drops and the affiliation that these companies were considered valuable due to their political ties. If Suharto died Tommy would no longer have the same political persuasion and those companies would be less valuable. To boot, this chapter has a nice section on potential benefits from organized crime.

Chapter 3: The Smuggling Gap: Smuggling is big business. Mr. Lai smuggled \$6 billion in merchandise from Hong Kong to China during the 1990s. This chapter is primarily about incentives and how criminals respond to prices and incentives. Because some products were taxed more heavily by the Chinese inspections officials, masking the nature of the product can be pretty profitable. For example, Lai would lie about tobacco being wood pulp or chickens being turkeys (whichever had a lower tariff rate). Additionally, it is estimated that half of the customs officials were "on the take". One lesson learned from this is that tariff rates on similar looking items should be equal. But, there are a lot of really intriguing nuances in this chapter such as whether bribery is grease or sand in the wheels of the market.

Chapter 4: Nature or Nurture: This chapter is a personal favorite because it is just really really cool and involves an interesting population and subject: diplomats and parking tickets. Because each diplomat has diplomatic immunity each of the diplomats face the same external incentives for racking up parking tickets: their wrong behaviors will not be punished by the U.S. There is a high correlation between the most corrupt countries in the world and the diplomats from those countries racking up parking tickets. Since presumably it is equally difficult for everyone to find parking and everyone faces the same incentives Fisman and Miguel infer that there is a significant cultural element to corruption. Some of the diplomats didn't rack up parking tickets simply because that would be taking advantage of their position. It was part of their identity. Fisman and Miguel conclude, "The central lesson . . . is that

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reformers . . . must be aware that values and social norms can undermine their attempts at change."

As I said earlier, there were three more chapters about violence and conflict which I can certainly write about in a later blog post. But, to conclude, this book was a smooth read on a timely topic. Any person with an interest in development economics should definitely read it. Judging by the popularity of Law and Order, CSI, and other crime shows there would certainly intrigue and thrill from the general population. Additionally, you'll get to hear about how these economic sleuths uncovered corruption. Overall, the book is a well formed pair of entertainment and significance.

Posted by Doug at 5:06 PM



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