

Brad DeLong

Grasping Reality with Every Possible Tentacle: Brad DeLong's Semi-Daily Journal--Fair, Balanced, and Reality-Based 99.4% of the Time

December 22, 2008

Fisman and Miguel, Economic Gangsters

Links:

<http://www.amazon.com/Economic-Gangsters-Corruption-Violence-Poverty/dp/0691134545>
<http://www.economicgangsters.com/>

Questions and Answers:

Brad: Sub-Saharan Africa looks like it has gone significantly backward in real GDP since 1960 while it has gone significantly forward in literacy and (except for AIDS) public health. Why do education and health seem to evolve according to different logics of corruption and rent-seeking than does the economy?

Ted: You raise an important point, which is that not everything is gloom and doom in Africa. There have been some positive trends, most notably in education and Africa's recent successes in holding freer democratic elections. But the gains remain fragile, as we witnessed in Kenya's recent slide towards chaos following elections last year and in the collapse of Zimbabwe and Ivory Coast, which had been held up as African success stories as recently as the 1990s.

Ray: The problem of HIV/AIDS, which you note parenthetically, is more emblematic of future challenges rather than past success. Thus far, public health systems all over Africa have failed abysmally to deal with this mounting problem. It's hard to separate the continent's various problems from one another. It's surely the case that by applying some of the lessons we've learned in Economic Gangsters in fighting violence and corruption, the benefits would spill over into education, health, and other non-GDP measures of development success.

Brad: Even the poor of the world today are rich according to the yardstick provided by our ancestors of three centuries ago--as shown by indicators like life expectancy and adult height. Can we take the idea of a "poverty trap" seriously given that if such a thing exists our ancestors of three centuries ago were presumably caught in it as well?

Ray: We'd also side with the view that the evidence for a poverty trap is really thin. Decades of foreign aid, totaling billions of dollars for some countries, haven't been enough for many poor countries in Africa, South Asia, and Central America to break out of extreme poverty. And some of the world's greatest economic miracles in recent years, including China, Korea, and the other so-called Asian tigers, have done well without much foreign aid at all. So it can't be that simply throwing more money at poor countries will jumpstart the growth process.

Ted: One of the goals of our book is to understand why all of this foreign aid hasn't had the impact you might think it would. We focus on the role played by corruption and violence, and the economic gangsters responsible for these calamities.. Attempts to break countries out of poverty traps -- by building schools and roads meant to boost future economic productivity -- have too often failed because foreign aid has fallen into the hands of thieving dictators, or the fruits of aid have been destroyed by civil wars. You can't understand the modern economic development experiences of most poor countries without tackling the issues of corruption and violence head-on.

Brad: A successful developmental state has to be fettered enough to respect entrepreneurship and enterprise while at the same time being unfettered enough to control roving bandits, local notables, and its own functionaries. Isn't this an impossible state of affairs? Why is life in America today so relatively uncorrupt, anyway?

Ray: There are trade-offs, to be sure. But that's very different from saying we can't strike a balance between

bureaucratic oversight and unleashing the spirit of enterprise. This is actually a very interesting time to be thinking about this, as the spirit of financial innovation in America seems to have gotten a little out of hand of late, and most sensible people think we could use more oversight of Wall Street's own bandits. For the many less developed countries that are over-regulated, though, the more important risk at this time is of an anti-market, anti-globalization backlash.

Ted: How did America become relatively uncorrupt? It's worth remembering that it wasn't always this way. And there's been plenty of talk about Chicago political machines and our own lingering corruption in recent weeks, with the Blagojevich Senate seat scandal. We can learn a lot from the American experience but I don't think there's a one-line answer. The world is much too complicated for grand unified theories of the economy and society. I'd recommend your readers check out *Economic Gangsters* for more nuanced answers.

Brad: Someone said that your book is the opposite of Malcolm Gladwell--that he has a simple central theory and a lot of evidence that does not fit it while you have a lot of evidence well-presented but no central theory. If Malcolm Gladwell had written your book, what would it have been called and what would your central theory have been?

Ted: It's certainly flattering to be compared to one of the world's best-selling non-fiction authors of the past decade or so! I like to think that if Malcolm Gladwell had written *Economic Gangsters*, he would have called it *Economic Gangsters*, too. Our central premise is that lots of global development problems can be understood by thinking about the individual economic incentives to do things that are bad for society as a whole. That's where the rational, calculating economic gangster comes in. Al Capone, after all, was an accountant before he started applying his skills to such businesses as racketeering, prostitution, and rum running during Prohibition.

Ray: That said, it's the nature of good economics research to proceed carefully and methodically. So understanding these and other problems will necessarily involve precision bites rather than grand sweeping statements. But the evidence we present – and the stories we tell – do help us chip away at the world's development problems one by one, using new insights from research.

Brad: You state somewhere that in Meatu, Tanzania, there are people hacking to death their grandmothers with some regularity--and that this is largely motivated by economics, by the fact that you are in near-famine conditions and that if you off your grandmother for being a witch you get to consume 20% more calories per capita over the next year. But why is the "witch" required? And what is different about Meatu from all the regions that don't accuse grandma of being a witch and hacking her to death in a famine?

Ted: A witch is certainly not required. In many poor societies there are similarly brutal responses to extreme resource shortages that have nothing to do with witchcraft. Among certain Inuit groups, for example, when food runs short the elderly are placed on ice floes and pushed out into the sea to die. And the Inuit are not alone: related traditions hastening the death of the elderly during lean times have been documented in Iceland, the Amazon, Siberia, Fiji, among North American Hopis, Gabon Fang, and Australian Tiwi, among other groups. It sounds unbelievably barbaric to modern sensibilities, but people living on the edge of subsistence cannot avoid this harsh calculus of survival.

Ray: Some societies have also learned to deal with shortages in less macabre ways. There's an interesting case we highlight in our book, about the region of Ulanga in Tanzania where witchcraft is similarly strong as in Meatu, but where few if any witch killings take place. The difference? In Ulanga a safety net put in place by local healers saves old women accused of sorcery from an otherwise grim fate,. Traditional healers take in accused witches during hard times, feed them and take care of them, and go through some rituals to "cleanse" them of their witchcraft. Then when the lean times ease up, they return to their families, who later pay the healers back. The same idea is behind our proposal for a new foreign aid mechanism to provide insurance for poor households during economic downturns; you can read the details in *Economic Gangsters*.

Brad: In what sense was Suharto--who delivered 5% growth in per capita income a year for a quarter century--"corrupt"?

Shouldn't we want more of this kind of "corruption"?

Ray: It's not that we'd want more corruption (though some economists have in fact taken that point of view in the past). Yet not all corruption is created equal. It's crucial to understand the differences between the relatively "benevolent" corruption of Suharto, and the destructive kleptocracies of Zimbabwe's Robert Mugabe and others. In *Economic Gangsters* we lay out the crucial differences between centralized systems of corruption like Suharto's from the more chaotic situations that prevail in many of the poorest African countries.

Ted: It's also the case that Indonesia might have experienced even faster economic growth in recent decades had it not been for the grabbing hands of Suharto and his cronies. Ray's comments about the different types of corruption also gets to the heart of what sets our work apart from most other recent books on global poverty. Simple one-size-fits-all descriptions and prescriptions of the world – like those who say "more foreign aid is always good" or "this is the way to eliminate corruption" – are unlikely to work out as advertised. We need evidence-based development economics to take hold if we're going to make real progress in fighting global poverty. Half the world's population still lives on less than two dollars a day. This is too important a problem to be left to ideologues.

J. Bradford DeLong on December 22, 2008 at 01:28 PM | [Permalink](#)

Comments

1

PeonInChief said...

A couple of quick comments:

1. We started many of those destructive wars. The US is, for instance, directly responsible for 1.5 million deaths in southern Africa between 1975 and 1995. We didn't have to support Jonas Savimbi in Angola, and frankly the US should have to pay billions in reparations to the government of that country for our bad behavior. And then there's the Congo(Kinshasa)...
2. Both Republican and Democratic administrations have spent large sums of money insuring that "foreign aid" largely benefits US enterprises. The markup is about 300%--yes, you read that right--300%. So we're not really giving as much money as we think we are.
3. Poverty is a relative measure. What is more relevant is the increasing number of destitute in the world. I don't think anyone would tell a family living in a friend's garage after suffering foreclosure that they should be happy that they are better off (in some sense) than Americans 300 years ago. Doesn't make it here, and shouldn't in looking at other countries.

Reply December 22, 2008 at 02:06 PM

2

shah8 said...

One slight quibble. Zimbabwe is a bit more complex in the sense that Mugabe was dealing with a messed up situation with the white settlers and Great Britain's wavering support for decolonialization.

Not to say Mugabe wasn't bad, but the Zimbabwe situation was severely aggravated by circumstances out of his control. On the other hand, Suharto waged major wars on his own citizens in Papua island, Timor, Eulethro, and Sumatra. More people died because of Suharto's actions than Mugabe's. Mugabe was also *never* as bloodthirsty as either Sukarno or Suharto.

Reply December 22, 2008 at 11:23 PM

3

KenHoughton said...

"In what sense was Suharto..."corrupt"?"

That "Brad" had to ask this question tells us much more about the failures than the entire rest of the interview--and perhaps reading the book--would.

Also, What PeonInChief Said. We expect an Easterly to pretend that "we gave \$100MM in aid" should be taken at face value.

Most of the rest of the world would look at that and say, "Yes, but \$75MM of it was earmarked for your domestic firms to be paid to Educate Those Poor Black People."

Reply December 23, 2008 at 12:40 PM

4

Lawrence Krubner said...

"In Ulanga a safety net put in place by local healers saves old women accused of sorcery from an otherwise grim fate,. Traditional healers take in accused witches during hard times, feed them and take care of them, and go through some rituals to "cleanse" them of their witchcraft."

The healers must have some surplus food to feed the women they take in. Without a surplus, there is no extra food to keep these women alive. The food that the healers give to the women can not be considered magically outside of the society which is under discussion. Therefore, the above sentence simply indicates that this society has a social institution that supports the accrual of a surplus during good times so as to protect society's most vulnerable individuals during hard times.

Reply December 24, 2008 at 04:52 PM

5

Lawrence Krubner said...

From 1945 to 1989 America and the Soviet Union fought proxy wars in the Third World. Talking about "Why aren't these countries getting richer, faster?" and not mentioning that fact is like noting a decline in living standards in Germany circa 1943-1945, but only looking at domestic causes for the answer.

Reply December 24, 2008 at 04:56 PM

6

capitalistimperialistpig said...

Economic gansters are no help, but fertility rate is the problem.

Reply December 24, 2008 at 07:33 PM
