Book Review

ECONOMIC GANGSTERS: CORRUPTION, VIOLENCE, AND POVERTY OF NATIONS by Raymond Fisman and Edward Miguel, Princeton University Press, Princeton, 2008, 250 pages, ISBN 978-1-4008-2875-3.

The world of developmental economics is very much like trying to find your way through a maze in the dark. This maze however consists of dead ends, like: poverty, stagnant growth, war, violence and cultural diversity. When successfully navigated economists could discover why some nations stay poor and others become financial giants. Raymond Fisman and Edward Miguel's new book "Economic Gangsters" explores some of the developing world's most persistent problems.

The chapters of this book have been directly drawn from research done by the authors. The imagery conjured up by the title "Economic Gangsters" is a representative and graphic description of the staring characters in the book. Some of the well known leading actors include: Suharto the corrupt national leader, law breaking UN diplomats, Chinese Smugglers and African Warlords. One normally associates books on economics with dry, musty texts full of mathematic notation and econometric analysis, this breaks the mould. This work is targeted to an entirely different audience, namely the non-economists. The book has been designed to hold interest while helping readers to understand some of the complexities developmental economics without getting bogged down in proofs. The story is driven by real world events, weaving a rich story supported by well researched evidence to lead the reader to the author's point.

Each chapter presents a specific issue, explains the problems and limitations and then draws on real world examples to illustrate the point. The examples are relatively contemporary and are excellent tools in explaining complex concepts in relatively simplistic terms. The first major theme tackled in the book is that of corruption and its various forms. Traditionally corruption is not a developmental economics issue, but its links to growth, productivity and income levels make it an important study. And the research done by the authors in this area is an extension of the developmental literature. The author's begin the topic by asking why corruption is an economic problem and poses further questions like: What impact does corruption have on economic growth? If corruption is a problem how big is the problem? How do we measure it? The predominant problem in studying corruption is the lack of data, very few corrupt governments, officials or crime lords leave paper trails or account ledgers. This forces the researchers to look outside the square for ways to gather data.

The investigation begins with attempting to identify if corruption exists and if so, how do economists measure it without primary data. Fisman and Miguel begin by examining Suharto era Indonesia, specifically the financial machinations of son Tommy. Was his fortune amassed using business prowess or corrupt family connections? This is answered through investigation of the share value of Tommy's company. If it was built on business prowess then the stock valuation should be just as volatile as every other in the Indonesian market. But if the valuation was built on family connection, then fluctuations of family power should be seen in the share price. Towards the end of the Suharto era the president was a sickly man, daily rumours of his impending death flourished. Every rumour created a tremble in Tommy's share value, but this was true of many Indonesian stocks as unstable national leadership creates instability in stock markets. A clear link was needed to prove that the stock value was built on corruption. The authors found such a link, pointing to rumours that surfaced in 1996 that Mr. Suharto was on his deathbed. The Indonesian press reported that the leader had flown secretly to Europe for emergency surgery and death was imminent. The Indonesian stock market dropped an average 3-4% but Tommy's company plummeted a massive 15%. The valuation variance is the monetary value the authors place on the family corruption. This value could then be used as proxy for corruption in this country at this time.

The author's also examine the relationship between corruption and culture or why some cultures are more prone to corruption and others are not. Developing world economies appear to be more prone to corruption than those of the developed world. Most of the efforts of governments and lawmakers to stem the tide of corruption have appeared to have failed. As the authors illustrate it is neither practical nor effective to simply transplant the laws of a non-corrupt nation into that of a corrupt one. Problem arise in measuring the effectiveness of anti-corruption changes, are changes due to the laws or some other cultural factor. It has become clear that just changing the laws in a country is not the silver bullet to ending or reducing levels of corruption. So how can cultural differences be investigated across so many different cultures and countries using so many variations of law? The answer is surprisingly simple; make one set of laws faced by all and let the individuals maintain their cultural identity. It sounds implausible, but like most puzzles once you know the answer it seems obvious. The method used by the authors is to investigate parking fines accrued by diplomats attending the United Nations (UN) in New York. Diplomats and their families enjoyed diplomatic immunity, a privilege which enabled them to avoid local laws, including parking violations. With the laws being held constant, the only variation should be that of cultural difference. In this case the accruement of parking fines is used as a proxy for cultural corruption. Countries with cultures prone to corruption amassed very high numbers of parking tickets, whereas others have none.

The simplification of topic is one of the best things about this book. It is by comparing the research papers to the book that you truly appreciate its simplistic effectiveness. It has been written in a leading conversation style, removed the math discussions and added more deductive logic. They have included simplified tables to aid in comparison analysis. But as an introductory incursion into developmental economics it has some fairly serious shortcomings. While this book is intended for casual reading and does extend the traditional theory it omits the vast majority of the subject area. There is little illumination on growth theory, poverty, income distributions, education or urban vs. rural development. The book is a vehicle to promote the research of Fisman and Miguel and to generate interest in the field they are obviously so passionate about. The chapters are the simplified reflection of the excellent work done in their research papers. The nature of this book leads to its other minor shortcoming, it is shallow. Every chapter is a self contained section discussing a single topic and conclusion, hardly enough time to really delve into the murky depths of any single topic. That being said this book is still a great read for undergraduates or anyone interested in gaining insight into the issues facing the developing world. For economists this book will hold no great surprises but for a general audience the authors develop some interesting stories that lead the reader to contemplate the economic causes of events. This book is an easy and interesting lesson on the problems associated with economics in the real world.

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