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"Economic Gangsters"

On August 13, 2008, IBER Web and Publications Coordinator Casondra Sobieralski interviewed Edward Miguel about his thriller of a new book, Economic Gangsters, *co-authored with Raymond Fisman. Miguel is Associate Professor of Economics and Director of the Center of Evaluation for Global Action at the University of California, Berkeley. Fisman is the Lambert Family Professor of Social Enterprise and Research Director of the Social Enterprise Program at the Columbia Business School.*

CS: What IS an "economic gangster"?

EM: An economic gangster is somebody who, in a very calculated and purposeful way, advances his own interest to the detriment of society as a whole. Think of politicians who steal from government treasuries to enrich themselves, or warlords and rebel leaders who loot and steal while terrorizing civilians. In many poor countries, this is a daily way of life. Africa, where I focus my work, has some of the worst corruption in the world. Over seventy percent of countries there have had civil wars since 1980. Economic gangsterism is a widespread phenomenon. Violence and corruption are omnipresent, ubiquitous and real. It is incredibly important to understand economic gangsters in order to have successful economic development.

CS: Chapter one of your book states, "Neither of us started our careers as economists with the intention of spending our lives researching human depravity." So what motivated you to write Economic Gangsters?

EM: I've always been interested in global poverty and global justice, since high school. That is what pulled me towards studying Africa. It has the most poverty, the most civil conflict, the most HIV… Once you start studying global poverty, you cannot avoid these questions of corruption and violence. You come face to face with them. Plus, they are fun topics to work on.

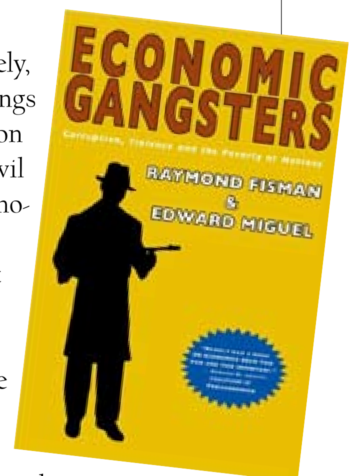
CS: Your book was so much fun to read, yet I was learning economic theory despite myself. Why did you choose to write a book in this style?

EM: The main reason was we wanted to reach more people. We had already reached the academic audience through all of the technical papers listed in the back of the book. That is a limited audience, though, and we wanted to have a broader impact, hopefully influencing policy makers as well – and even voters! This was not an easy book to write. It took a long time, and the goal was to make it accessible. But we had fun writing it.

CS: How do today's gangsters differ from those in The Godfather *movies, for example?*

EM: One big difference is, even though the mafia is very powerful in the United States, we have a legal system that contains it. They have not taken over the system; they are operating on the fringes. In Africa and Asia, where law enforcement and courts are weak, economic gangsters can take power and run things. Americans have never had to deal with a President Al Capone, which would be a terrifying thought. In many poor countries, though, people have to deal with that reality every day.

CS: How does the rate of economic gangster activity compare to 10, 25, 50 years ago? Globally, is corruption growing, shrinking, or just shifting hot spots?



EM: Unfortunately, if you look at things like the proportion of countries in civil war—where economic gangsterism flourishes—that proportion has remained pretty stable around the world. While some of the most notorious gangsters have lost power in the last decade, new crises and gangsters have replaced them. Again, here I am talking especially about Africa and the poorer parts of Asia and Latin America, where civil war is still common and corruption is still widespread.

CS: In your book, you discuss how some countries seem to be more prone to corruption than others because of a complex interplay of economics and cultural norms. Indeed, in my own travels, I have definitely encountered places where small bribes, for example, are expected in order to pass through doors. What factors seem to suggest that a society is going to rate high on the corruption index?

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In This Issue:

The Power of Social Incentives in Online Information Systems

by Coye Cheshire, Assistant Professor, UC Berkeley's School of Information

photo by Coye Cheshire

A remarkable amount of cooperative and pro-social behavior exists on the Internet. Many online file sharing networks, public help forums and wikis depend on individuals to make information available to others—often at some cost to the contributor such as time, effort, and Internet bandwidth. Notable examples include the photo-sharing site Flickr and the popular online encyclopedia Wikipedia. No one is required to submit information to these systems, yet enough people choose to contribute their time and knowledge that it produces enormous Internet "information pools."

My current research examines how social incentives encourage contributions to information pools. I began my investigation with a series of computer-based lab experiments in which participants chose whether or not to share digital information goods (i.e. music, movies) with one another over a series of rounds. Each participant received some monetary benefit if others shared, but there was a small cost to sharing one's own digital information goods.

The goal of the study was to determine if the social approval of others or the observation of cooperative behavior could significantly increase sharing in a limited-information environment, even though these social incentives provided no direct monetary benefit to the contributor. In the social approval conditions participants received a popularity rating based on the percentage of others who liked their last contribution. In the observation of cooperation conditions, participants viewed a bar chart showing the percentage of participants who shared during the last round. Finally, there was a control condition with no information about the behavior of others.

The results showed that those who observed high amounts of sharing from others contributed slightly more than those who observed less sharing or received no information at all. In addition, those who received high amounts of social approval from others were far more likely to share than those who received no information. One of the most surprising findings was that individuals who received very low levels of social approval shared as much as those who received high amounts of social approval. While this may seem counterintuitive, post-experimental questionnaires and interviews revealed that participants continued to contribute because they were striving to raise their social approval ratings—even though they knew that the ratings had no effect on their earnings in the study.

To test the effect of various social incentives in a real-world setting, PhD student Judd Antin and I constructed an Internet field experiment based on an online system (Mycroft) that he co-developed with other students at the UC-Berkeley School of Information. Mycroft is a web-based exchange system that distributes small tasks (e.g. transcribing text or tagging photographs) to individuals through widgets embedded on websites. If an individual made a contribution through the system, she was randomly assigned to receive one of four outcomes: (1) no feedback, (2) a "thank you" message, (3) a count of all prior contributions, or (4) a percentile ranking against all other contributors based on her total contributions to date. We ran the study for several months and collected data on hundreds of unique contributors. As expected, we found that individuals voluntarily contributed more information—at least twice as much—when they received one of the three forms of social feedback compared to when they received no feedback at all.

Together, the lab experiments and the field study demonstrate the power and effectiveness of direct social incentives on contribution behavior in information pools. In our ongoing research we continue to examine how various social incentives can encourage pro-social behaviors on the Internet such as cooperation, solidarity and trust.

For more information on Professor Cheshire's work, please see: http://people.ischool.berkeley.edu/~coye

Coye Cheshire

Shachar Kariv Named New Xlab Director

an interview by Casondra Sobieralski

CS: Please give us a brief overview of what the Xlab is.

SK: The Xlab is an experimental lab for all of the social sciences broadly defined, such as sociology, psychology, marketing, even finance. Experiments have become an important research tool in all of the social sciences. Economics was the latest of them to adapt to this.

There are many experimental labs in economics departments now, but what is unique about the Xlab is its interdisciplinary approach. We do so many kinds of experiments, and such a diverse array of experiments, that the lab is capable of doing just about anything for faculty and graduate student researchers alike. It is a one-stop shop where researchers are provided opportunities to test theories, and students are afforded exposure to a wide variety of research questions. Further, undergrads can run experiments and get experience as research assistants. The Xlab is the most interdisciplinary place on campus. It is the only place where so many different disciplines come together.

CS: What drew you to the role of Xlab Executive Director?

SK: Because the Xlab director is so involved with research all over campus, being the Director gives me the opportunity to have a huge impact on the burgeoning careers of graduate students--through helping them define protocols or find grants, for example.

CS: What vision do you have for the Xlab and its growth?

SK: As an experimental lab, we are doing extremely well given the resources we have. However, the vision is to expand the Xlab beyond being an experiment facility. Yes, we want to increase the facilities for experiments; but we also want to increase program assistance, expand the hours of the lab, make more grants available to researchers, design more online experiments that can be done and submitted remotely, implement a lecture series, and host conferences. Let's make it a meeting place, where scholars can communicate with one another and exchange views. The boundaries among social sciences are no longer clear, so let's push the envelope for interdisciplinary cooperation. As far as I know, this is not done any other place. The Xlab model represents the frontier in the social sciences.

CS: Would you like to see your personal research on game theory and social behavior shape those plans?

SK: My research focuses on individual decision making and game theory. As a graduate student, I was looking at the interplay between theory and experiments, models and testing models. We have had very different directors over the history of the Xlab. All were committed to experimental approaches, but each director's thinking originated from a different place. I think each of us brings something from our own research. However, the reverse is also true. Because the type of research undertaken through the Xlab is so diverse, I can learn a lot from the Xlab! For example, we are moving towards incorporating new online tools, like online surveys. This is not an approach I had in my own research tool kit previously.

This is what is spectacular about the Xlab. People from all over campus come through here and offer something. Just in the past two months, combing over the protocols of others' research projects, I have learned a lot. The role of Executive Director is a fabulous intellectual experience, beyond being an administrative role.

Shachar Kariv

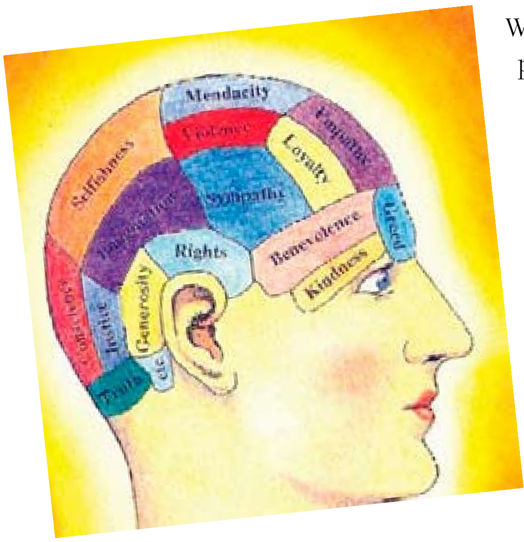
We in the Xlab feel enormous demand from faculty and students. The schedule was packed this summer, and we aim to make the lab busier still. Often people measure productivity in terms of input; but productivity needs to be measured in terms of output, too. We are outputting impressively at the Xlab.

Shachar Kariv, Associate Professor of Economics, was educated at Tel-Aviv University and New York University, where he received his PhD in 2003, the same year he joined Berkeley's economics department. He has received a National Science Foundation Grant for studying decisions under uncertainty (2006-7). Professor Kariv's research includes social learning, social networks, social and moral preferences, and risk preferences.

For more information on Shachar Kariv and his research, please see his homepage: http://emlab.berkeley.edu/~kariv/index.htm

Zachary Grossman: Behaving Well to Look Good

Zachary Grossman, a recent Ph.D. candidate in the Department of Economics, completed his research with the help of an IBER mini-grant.



What drives people to donate to charities and social causes, volunteer, contribute to public goods, and pay a premium for socially conscious consumer products? The motivation for giving can be quite complicated.

When given $10, participants in laboratory experiments routinely share sums with anonymous partners. However, given the opportunity, many of the same people opt out of the giving decision—keeping the entire $10 minus a small cost—if it prevents the potential recipient from ever finding out about it. Similarly, when participants are given the opportunity to remain ignorant of how their choices affect others, many so-called altruists choose not to know, while reverting to selfish behavior.

While direct concern for the well-being of others and for social causes clearly is important, these examples suggest that individuals care not just about physical consequences, but also about how their choices reflect upon them. Previous research has explained these findings by arguing that individuals want to be perceived as kind or generous; but this existing research has not adequately disentangled the importance of social image versus self-image.

In an experiment partially funded by an IBER mini-grant and conducted in the UC Berkeley Xlab, I set out to do this disentangling; I independently tested the extent to which laboratory giving is motivated by social-image versus self-image. I did so by giving subjects a choice between: a) getting $7 while an anonymous partner received $3, or b) sacrificing $2 to allow for the more fair allocation of $5 each. The twist was, with some probability (known only to the decision-maker), the final outcome was sometimes determined by chance, not always by the decision maker's choice. I analyzed the frequency with which decision-makers chose ($5, $5) while varying the probability that their choice would count. I also varied the recipient's information about the decision maker's choice and the conditions under which it was made.

Theory predicts that, if the choice is directly observed, then lowering the probability that it counts from $p = 1$ to $p = 1/3$ would lead more people to choose ($5, $5). In theory, lowering that probability lowers the expected cost of the positive beliefs earned by "doing the right thing". When the cash recipient observes this choice, varying the probability provides a test of the hypothesis that concern for social-image is driving giving. However, when the recipient observes only the outcome, and he is only told that the two probabilities are equally likely, his information is held constant. Thus, any difference in the frequency of ($5, $5) across the two probability conditions can only be attributed to the beliefs of the decision-maker herself, thereby identifying self-image concern. I found little support for self-image concern. The frequency of giving increased from 0.20 to 0.25, and the difference of 0.05 is not large enough to be statistically significant, despite a rather large sample (100 participants in each probability condition).

In a separate test, I found strong evidence of social-image concern. Holding constant the probability that the decision-maker's choice counts, I varied whether the recipient observed the choice directly, observed only the outcome and knew the probability, or observed the outcome without being told the probability. Improving the recipient's ability to infer the decision-maker's choice from what he observed significantly increased the frequency of giving, from 0.20 to 0.35. Compared to financial incentives, in order to generate an effect of this size, one would have to pay the decision-maker roughly one more dollar to choose fairly. I conclude that giving is largely tied to what it says to others about the giver, as opposed to what it says to the self.

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Meet the 2008-2009 Shapiro Fellow: Miguel Almunia

Miguel Almunia

Miguel Almunia, a Ph.D. student in Economics, receives the 2008-2009 Shapiro Fellowship donated by Ellen and Sherman Shapiro. IBER's Casondra Sobieralski set out to learn more about him.

CS: Where do you call home?

MA: Madrid, in Spain. But I have been living in the United States for two years, in Boston, where I did an MPA in International Development at Harvard University's Kennedy School of Government.

CS: What is your research focus?

MA: I am interested in economic development, particularly political economy and economics of institutions. I study the economic rules of societies. Similar forms of government can have different forms of regulation and different guiding principles of economic development. I want to focus on Africa eventually. Recently, though, I was working for a Yale economics professor on several research projects in Peru. I was involved in running randomized experiments evaluating microfinance projects to see whether they were effective or not. That was a good experience. I was working in a development context with people who were receiving these services, listening to how they feel about them. On the research level, I was investigating whether these microfinance programs are effective. On a human level, I was learning what these communities thought about NGOs that come to try to help them in general, as well as what they thought about this particular program.

CS: Why were you interested in coming to Berkeley?

MA: Well, first Berkeley has a great economics department. Second, the University has a very special history, with all the political movements that were strong here. I also was attracted to where it is—the climate is great compared to Boston!

CS: What are three challenges you would like to meet while you are in Northern California, whether in the academy or beyond?

MA: Mostly they are academic, since that is why I am here. I want to go from learning what other people thought to developing my own research ideas . I've been a student continuously except for my one year in Peru. I want to learn more about different countries in Africa—their history, their culture—to see how economic development theory can be applied to that context. Additionally, when you are a grad student in economics, having a life outside school is a challenge. So being happy and smiling—that will be a goal.

CS: What do you hope to share from your culture?

MA: The food. Spanish omelets are my specialty. I like cooking. One thing Spanish people have as part of our culture is we do not take ourselves so seriously. We like to laugh about ourselves. That is something I would like to transmit to my American friends.

photo left: Miguel Almunia in Peru

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Economizing Time: Economics Power Couple Ulrike Malmendier and Stefano DellaVigna Offer Words of Wisdom on Balancing Career and Family

Interview by IBER's Casondra Sobieralski

CS: What kind of research do you both do?

SD: We both do research broadly defined as psychology in economics. That means we take insights from psychology and apply them to economics. This approach was pioneered by scholars in our department, professors George Akerlof and Matthew Rabin, so we are fortunate to be here with them. Ulrike works more on behavioral aspects of finance, I work more on the effect of media on behavior. We have done work together, though, on self-control, studies looking at the health club contracts people choose. (They choose contracts that they think will make them exercise more.)

CS: With academia being such a competitive field, how have you had to rearrange career goals to meet the personal goal of having a family?

UM: For us, it is fantastic that our jobs are so flexible in terms of where and when we do our work. We basically just need a powerful computer each, as opposed to a whole science lab.

SD: The day after the baby's delivery--two weeks earlier than expected--we were both sitting on the hospital bed and writing our undergraduate exams. For the rest of the summer, we mostly worked from home. Right after the birth, Ulrike's students came to our house for advising. We moved to Berkeley from San Francisco.

UM: The flexibility of living close helps. But the type of work we do also makes it possible.

SD: It's never easy, but we are lucky that, being in the same field, we have been able to combine goals. Plus, for both of us, economics is a passion. So when we spend time together, and we are talking economics, is that fun, or is that work?

UM: The other big part of our academic life is conferences. We can go together, with the baby, and one of us looks after the child while the other presents a paper.

I have had a lot of good advice from more senior women about how to plan for a baby, and how to get help once a child arrives. I had not heard about "night nurses," for example. It sounded like a luxury for nineteenth century aristocrats! But this tip has been so helpful towards academic productivity. Be with your kid, do your research, and the other stuff get help with; that is the advice that female colleagues gave me. It has been working out very well. Honestly, I expected it to be even tougher.

CS: Do you think having a child will change the scope of your research at all? Do you expect that concerns will change, and that you will want to investigate certain research topics as a result?

SD: I don't know. It has not so far, but it may. I find my research is sometimes motivated by things I care about personally, like the impact of media bias on voting—media bias is so blatant in the Italian media! As a parent, things like health care and the quality of schools—those topics could fold into research questions.

Here is an example of how what is going on in life can influence research questions: Ulrike mentioned night nurses. These are nurses that come at night so new parents can sleep. Interviewing them we found that they all told us up front, "My rate is \$18 an hour." Conversely, we have found that nannies all asked, "What are you willing to pay?" It is almost the same job. As economists we ask, what does this difference express about these two markets?

CS: UC Berkeley is known for having family-friendly policies. Are there any policies in place that you feel have benefited you? Any that we do not have yet that you think would be useful to implement?

SD: Berkeley does have family-friendly policies. Some were implemented recently, such as reduction of teaching loads for new parents. Berkeley is one of the most generous universities now in this regard. However, while the policies are generous, the University does not necessarily support the department chair by offering more money to hire temporary instructors to fill in. So if five people have children in one year, the department is severely impacted in terms of course offerings. I would like to see the University give more funding to cover this.

UM: On the other hand, the new policies are a big step ahead. Berkeley used to be worse than Stanford at supporting families. Then Berkeley updated their policies two years ago. When making the decision to leave Stanford and to take a position here, their improved maternity leave became a plus, whereas previously (when I was first on the job market six years ago) their poor policies were a minus. In my case, family leave was not a dominant factor in my choosing to teach here; there were other reasons, especially the strength of the department. But perhaps other talented candidates would have weighted factors differently.

SD: We have two other couples working in our department, David and Christina Romer, George Akerlof and Janet Yellen. It is an honor for Ulrike and me to have those examples. If we can even come close to their level of productivity—a Nobel laureate, the CEO of the San Francisco Fed, top advisors to Barack Obama… These two couples are also among the nicest people we know. It is very encouraging to have such role models in the department, people combining research and teaching excellence with a very warm human side.

Economizing Time (continued)

UM: Comparing us to previous couples, I'd like to add that having had my first child, experiencing and understanding a bit better how much it changes everything, how much busier we are, I appreciate how much more difficult even it must have been for women who came before me. They didn't have good maternity leave or the same sort of support. It gives me a whole new level of respect for what they accomplished.

CS: Who changes more diapers, and would you actually agree upon the answer?

SD: At least in the first two weeks, changing diapers was something I really wanted to do, since there were places I could not fill in for Ulrike as the mom. Now it is more shared.
UM: I definitely agree. Stefano is great that way! He is very involved. We both want to be close to the baby, and as the mom I have an advantage in that I am the one feeding him. So Stefano likes to play and take care of him.

CS: Any last bits of advice to other scholar couples?

SD: I learned a joke from another economics power couple, Justin Wolfers and Betsey Stevenson at Penn. They say it is both fun and difficult to work together, but you know you've crossed the boundary when one person says, "Have you revised chapter three of the book yet?" and the other says, "No, but I finished the laundry."

To be further inspired by the amazing professional accomplishments of these unstoppable young professors, see their profiles at:
http://www.econ.berkeley.edu/econ/faculty/malmendier_u.shtml
http://www.econ.berkeley.edu/econ/faculty/dellavigna_s.shtml

Economic Gangsters, continued from page 1


Edward Miguel

EM: One of the strongest patterns is that poor countries tend to be more corrupt. This is probably because, as countries gain wealth, they are able to strengthen the forces that weed out corruption, like legal institutions. But economic factors will only take you so far. Even within Western Europe, where all countries are pretty rich, Italy, for example is infamously corrupt, generation after generation, while France is consistently less corrupt. Corruption is a product of Italy's history. It is very persistent and hard to get rid of.

CS: You wrote a bit about the relationship between climate change and economic gangsterism. Can you pull those threads together for our Bulletin *readers?*

EM: Definitely. One of the striking findings in the book is the link between economic downturns and civil war. The risk of civil war is much higher following a drought year relative to a good rainfall year. Crops fail, incomes fall, and a lot of people find themselves suddenly on the edge of survival. In those years, the risk of political violence shoots up. That has implications for how we should think about climate change, especially in Africa. If climate change makes drought years more common, it can increase risk of civil war in the coming decades. There is still debate about what climate change will look like in Africa, but some of the leading models are quite pessimistic. So we need to take this issue seriously.

CS: What are some of the top-grossing gangster schemes globally today?

EM: That's tricky. The corruption associated with economic gangsters is massive and takes place in so many ways, it is hard to characterize simply. I'll mention one scheme from the book: smuggling. We actually study smuggling into China by comparing official records of what is imported to official records of what is exported out of other countries into China. Perhaps surprisingly, those numbers do not add up. Particularly when Chinese tariff rates are high, a lot of products mysteriously "disappear." The smugglers make money by avoiding tariffs, and the customs officials receive bribes for looking the other way.

CS: What are some strategies for ameliorating economic gangsterism?

EM: There are a lot of different types of policies that could reduce corruption. We could raise salaries for bureaucrats to see if that lowers the temptation to take bribes. We could boost the anti-corruption arms of police forces. Ultimately, different approaches could work better or worse in different places. There is no single silver bullet. What we advocate for in the book is a more scientific and experimental approach to finding out what works in fighting economic gangsterism. We strongly believe that governments, NGOs, and foreign aid donors should all devote more resources to the rigorous impact evaluation of their development projects. Right now, there is more rhetoric than hard evidence about what works.

Here at UC Berkeley we have created the Center of Evaluation for Global Action (CEGA) around this central goal of promoting impact evaluations in developing countries. I hope people will visit CEGA's website to learn more about this tool for fighting global poverty.

CEGA's URL is: http://cega.berkeley.edu
For more information on the book Economic Gangsters *and its authors, please see: http://www.economicgangsters.com*

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