

# Chapter One



## Fighting for Economic Development

In the summer of 2004, world-renowned Kenyan novelist Ngugi Wa Thiong'o returned to his homeland after twenty-two years in exile. He flew to Nairobi to launch his new novel, *Wizard of the Crow*, his first in over a decade. Ngugi's earlier works—a dozen or so novels and collections of stories, which he began publishing just after Kenyan independence in 1963—had been wildly successful, not only in Kenya but throughout the world. Through his carefully wrought characters and achingly familiar plots of loss and suffering, Ngugi captured the bewildering contradictions left behind in the wake of European colonialism.

Ngugi had lived those contradictions and drew inspiration from his experiences, which were shared by so many of his fellow Kenyans. Ngugi had grown up during the 1950s, when Kenya had been rocked by the Mau Mau rebellion against its British colonizers. He had witnessed the murder

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of his brother, who had died along with thousands of other Kenyans in opposing the British. And he had celebrated with his countrymen as they watched the British imperial machinery retreat in 1963 at the birth of the Kenyan nation. He had also suffered at the hands of the second free Kenyan government—for despite the country's turn to self-rule and hopes for a bright future, Ngugi had been forced to flee Kenya in the 1980s following years of persecution and imprisonment for his sharp criticism of the post-independence regime.

Novels like *A Grain of Wheat*, published in 1967, just four years after Jomo Kenyatta became independent Kenya's first president, provided a window into the hopes and frustrations that came with the dismantling of the Western empires—dreams of economic prosperity measured against tales of corruption seeded throughout the new government. *A Grain of Wheat* is a fable about the early, tumultuous years of a free Kenya, and captures the unwavering hope for a bright future coupled with the fear of what the British legacy of corruption and violence might bring. “Would independence bring the land into African hands? And would that make a difference to the small man in the village?” asks Ngugi through the novel's main character, Gikonyo.<sup>1</sup>

In the 1950s and 1960s, that same question echoed in the minds of the citizens of newly independent countries from Kenya and Sierra Leone to Indonesia and Pakistan. What would the future hold? Would freedom bring jobs, peace, and wealth? The sentiment that drove these concerns would help make Ngugi's novels international sensations; they've been translated into more than thirty languages and are considered classics of African literature. For Ngugi himself, the post-independence years spent in exile had brought

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professional acclaim and prosperity. He had taught at New York University as the Erich Maria Remarque Professor of Languages and is now a professor at the University of California at Irvine, where he directs the Center for Writing and Translation. And he returned to Kenya in 2004 not with bitterness about the past but with optimism for the future. “I come back with an open mind, an open heart and open arms. I have come to touch base. I have come to learn,” he told the crowds of well-wishers upon landing in Nairobi.<sup>2</sup>

But even in the face of the enthusiasm, hope, and joy that greeted his return—a visit that came not long after Kenya’s longtime dictator Daniel arap Moi, his longtime persecutor, had stepped down to make way for a democratically elected government—Ngugi was brutally assaulted in his rented Nairobi apartment, beaten, his face burned with cigarettes; his wife, Njeeri, was raped. Many interpreted the attack as payback from the earlier regime for Ngugi’s outspoken criticism of Kenyan politicians and politics, and served as yet another reminder of the despair and unfulfilled aspirations of Kenya’s people. The parallels were made even more poignant by the widespread political violence in Kenya in early 2008.<sup>3</sup>

This isn’t the way it was supposed to be.



Over the past four decades, we’ve witnessed some of the greatest economic miracles in human history. In 1963, an average person in South Korea or Kenya earned only a few hundred dollars a year. Most eked out a living as peasant farmers. Back then, it wasn’t so clear where you’d lay your bets if you had to guess which country would be rich at the

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end of the millennium. Both countries were recovering from the devastating armed conflicts that had accompanied decolonization. South Korea had already boosted its literacy rates by the early 1960s, but Kenya had much greater natural resource wealth to exploit, including some of the world's richest soil for growing coffee, cotton, and tea.

After decades of first manufacturing textiles, then refining steel, and finally producing high-end consumer goods and advanced electronics, South Korea pulled off an economic leapfrog that today puts it among the world's wealthy nations. South Korean citizens now enjoy a standard of living rivaling the Japanese, their former colonizers, and that of many European nations. But the average Kenyan is no better off today than he was in 1963.

What went wrong? In looking back over four decades of history, what can we learn of why South Korea—and Malaysia and Thailand and now China—began to close the income gap with Europe and North America, while Bangladesh, Pakistan, Central America, and most of sub-Saharan Africa remain mired in extreme poverty?

This is the puzzle that gets the two of us out of bed and into the office each morning, and solving it is the ultimate purpose of the research that we'll share with you. This book isn't about finding *the* singular explanation for why poor countries are poor. You should probably be suspicious of anyone selling you a grand unified theory of poverty (or anything else). Human societies are far too complicated for that.

But neither do we subscribe to the view that no one can make progress on such a vexing problem. Many hard lessons have been learned since 1963. The experiences of newly independent Kenyans—the fruits of their hard labor lost to

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corruption or destroyed by violence—foreshadow the twin evils of corruption and violence that have been so central to Kenya’s modern economic experience as to be inseparable from it. As we’ll see, Kenya’s story is far from unique: from the post-colonial plundering in Indonesia to the bloody civil wars of Central America and Africa, the destructive power of corruption and violence is clear for all to see.

*The Lives and Times of Economic Gangsters*

Al Capone is remembered as a gangster and a brutal, cold-blooded killer. It is perhaps less widely known that Capone was also an accountant for a Baltimore construction firm before joining and eventually leading Chicago’s North Side Gang.<sup>4</sup> We don’t normally associate the relatively humble and perhaps humdrum vocation of bookkeeping with mob icons like Capone. There are no scenes of Al Pacino struggling to balance the books or poring over financial statements in the films *Scarface* or *The Godfather*. But Capone’s training as an accountant was instrumental in helping him organize a vast criminal business empire. The emphasis was on *business*—it’s just that Capone’s business happened to be in prostitution, gambling, racketeering, and selling booze during Prohibition, illicit trades where disputes were settled with machine guns rather than lawyers.

According to biographer Robert Schoenberg, Capone was “a businessman of crime [with] lucid, rational, and discoverable reasons for his actions.”<sup>5</sup> He is the quintessential economic gangster: a violent and lawless criminal who wrought havoc on 1920s Chicago, but did so in a rational, calculating way.<sup>6</sup> A cold-blooded killer, yes, but violence was simply a tool Capone used to keep the money rolling in.

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The pathological cruelty of gangsters like Capone makes them particularly repellant—they're guilty of crimes of calculation, never passion—but also the source of endless fascination. Yet their narrow self-interest, driven by money and power, makes them more understandable to economists, not less. It's not that we economists do not realize how important emotions can be in governing behavior (we are in fact people too). But the side to human behavior that economists choose to study is embodied in the species *Homo economicus*, or Economic man—a rational, self-serving being whose actions and choices are based on logical decisions, not rash impulses. If the criminal mind, like Capone's, really is very close to the self-serving ideal in our models, then economic analysis can be a useful tool in figuring out how to combat corruption and other forms of lawbreaking.

There's good reason to believe that the characters that populate this book—from the despotic warlords of sub-Saharan Africa to the smugglers of the South China Sea—do indeed obey the logical laws of economics. To understand why, it's useful to think about what keeps you from cheating a little on your taxes, or slipping out of a restaurant without paying the bill. It's in part a fear of the legal consequences if you get caught. But the punishment of tax cheats is rare and usually light, and you could stiff a waiter his tip without risking any legal penalties (although you may not be welcome back at that particular restaurant). Yet most people still do the right thing most of the time. Probably more than fines or jail time, what constrains us from breaking the law is the fact that it just isn't right. We're constrained by conscience.

But antisocial personalities like Capone were blessed with relatively few such encumbrances. So if anyone is going

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to behave in their narrowest self-interest—by cheating on taxes or restaurant bills, or even killing off business rivals to earn a few dollars more—we would expect it to be a criminal character unconstrained by scruples, what we call the “economic gangster.” And as we’ll see, there’s a bit of economic gangster in each of us. When placed in desperate circumstances all people are reduced to the rational calculus of survival, with conscience a forgone luxury.

The goal of this book, and the research it’s based on, is to understand the havoc wrought by the corruption and violence of the world’s economic gangsters, and to place their impacts on economic development in sharper relief. (To appreciate the problem, imagine what life would be like under Mayor Capone of Chicago or even President Capone. Unfortunately, many people in the developing world don’t need to use their imaginations to grasp what it means to be ruled by thuggish bandits.)

While we certainly don’t have all the answers, in our research odyssey to make sense of corruption and violence over the past decade, we have uncovered some amazing facts—and surprising solutions.

We are researchers and professors in development economics at U.S. academic institutions (Ray at the Columbia Business School and Ted at the University of California, Berkeley). But our research forces us out of the ivory tower to get a closer look at the real world. Our economic detective work has taken us from remote Kenyan villages to the floor of the Indonesian stock exchange for new angles on the sources of global poverty. Unexpected answers about corruption and violence are found in the most unlikely of places: in tales of smuggled Chinese chickens, diplomatic parking tickets in Manhattan, and even Tanzanian witch-hunts.

This book brings together the lessons we’ve learned by

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marrying economic analysis with the insights gained in our expeditions through the rural back roads and glittery new skyscrapers of the developing world. We hope these lessons can, in some small way, help Kenyans and the rest of the developing world finally realize the economic aspirations they hold for themselves and their children.

It's not an overstatement to say that the question that we confront—how best to fight global poverty—is of epochal importance. The well-being of most human beings is at stake. Recent World Bank calculations estimate that a billion people live on less than one dollar a day, while half the world's population—about three billion—gets by on a daily income of less than two dollars.<sup>7</sup>

How do people survive on so little? The answer is brutally simple: not well. Hunger plagues daily life for hundreds of millions, and health care is scarce or nonexistent. In war-torn Chad, Niger, and Sierra Leone, adult literacy rates still hover under 30 percent, and children have a better chance of dying before age one than they have of graduating from high school.

Global poverty matters a lot even to those Americans (and other privileged citizens of the Western world) who generally have little regard for what goes on beyond their own borders—even if they aren't conscious of it. As we'll see repeatedly throughout this book, we're all stuck with one another on this planet. Poverty breeds desperation and discontent: we wake up daily to headlines of terrorist threats, environmental degradation, and other global ills that find their origins in Middle Eastern slums and the rainforest clear-cuts scarring the Congo River basin. Tackling the problem of global poverty is an imperative for the entire world, both rich and poor.

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*Hope For a New Generation?*

International economic development returns to the public eye in the United States every few years. Lately, renewed interest in Africa's plight in particular has been fueled by the star power of Angelina Jolie and U2's Bono, combined with devastating images of the HIV/AIDS epidemic and genocide in Darfur, Sudan. We hear pleas for debt relief and more generous international aid from America and Europe. Entrepreneurs like Bill Gates and Warren Buffett are spending tens of billions of their own dollars to fight malaria, treat AIDS, and educate Africans, to ultimately "make poverty history."<sup>8</sup>

But we've been here before. Our generation had its LiveAid concerts and "We Are the World" albums following the horrific 1984 famine during the Ethiopian civil war—star power (there's Bono again) mixed with the iconic image of a starving child left to die on the dusty earth. Private charities and countries' foreign aid agencies have spent billions annually for decades now hoping to wipe out poverty. We've seen round after round of debt relief since the 1970s. But despite all this the average Kenyan is still no richer today than in 1963. Will things really be any different this time around?

Well-informed people hold widely divergent and passionate views on this fundamental question. You might think economists mainly spend their time engaged in emotionally inert conversations on the niceties of monetary policy or crunching numbers on next month's inflation (and this does describe what many economists do). Yet these otherwise mild-mannered, monotone academics have almost come to blows over the question of why foreign aid to developing countries seems to have failed so spectacularly.

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Fundamentally, it boils down to whether rich countries have already provided too much money to help Kenya and others out of poverty—or not nearly enough. Leading academic researchers have lined up on both sides. The answer turns out to hinge critically on one's views of the role that corruption and violence play in the impoverishment of nations. Maybe corruption and violence are mainly just the symptoms of poverty. If this is the case, once rich-country donors finally send enough money to Kenya to jump-start economic growth, its citizens will no longer have to fight one another to survive. On the other hand, if most foreign aid is lost to the grabbing hands of corrupt officials or destroyed in civil strife, then how could aid dollars ever lift countries like Kenya out of poverty? More aid would just enrich an already corrupt elite, and could even make the twin problems of corruption and violence worse by giving people even more money to fight over.

These questions are central to understanding the current foreign aid debate and the inflamed passions of development economists (including ourselves), and are an underlying motivation behind everything else that follows in this book. Before we dive into our own new findings, though, we'll introduce you to the broader debate that lurks in the background. Hundreds of scholars are engaged in the full-time study of global economic development, but many fit into two main camps whose views are captured by two leading development thinkers.

Jeffrey Sachs, director of Columbia University's Earth Institute, is a tireless public campaigner for more international development assistance. Sachs was a professor at Harvard when we were getting our economics PhDs there, and we were both fortunate to experience his academic brilliance

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and rhetorical talents firsthand. He is that rare thinker whose observations can leave you feeling like you understand the world a little better after every conversation. And in the world of socially awkward professors that we inhabit, Sachs's charisma is legendary. Ted was actually inspired to do development work in Africa during graduate school, in part, by one of Sachs's mesmerizing speeches on the moral dimensions of fighting global poverty.

Sachs is the leading proponent of the "poverty trap" view of economic growth. The idea behind a poverty trap is simple. A poor Kenyan farmer cannot easily rise out of poverty on his own. He can't afford to buy adequate food to nourish his family or to send his children to proper schools, and any savings he may salt away from a good year will quickly be wiped out by a bad harvest or disease the next. The farmer's destitution almost guarantees that he and his children will remain destitute. And so on, over the years.

In Sachs's view, foreign aid is the sudden jolt that can lift a farmer—or village or entire economy—out of this cycle of poverty-induced poverty. There's a catch: building health clinics, improving schools, and adding infrastructure like roads and power generators for a whole country or continent is expensive, and by Sachs's reckoning, the foreign aid budget of the United States would need to increase at least five-fold to pull the developing world out of its poverty trap.

As laid out in Sachs's recent best-selling book *The End of Poverty*, Kenya is poor because we in the rich world aren't spending nearly enough to help them out, but if these resources were available poverty could be eliminated from our planet in short order. Sachs argues that "the wealth of the rich world . . . make[s] the end of poverty a realistic probability by the year 2025."<sup>9</sup>

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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 foreign aid already—or at least spending it in all the wrong ways and places. Bill Easterly is the public face for these arguments. Since being forced out of the World Bank for publicly slamming its foreign aid policies, Easterly, now a professor at New York University, has become the primary spokesperson for the view that aid has done very little good overall for the world's poor. He claims that *trillions* of U.S. dollars have already been wasted by the World Bank and other donors, and that Sachs's plan of expanding aid five-fold would likely fritter away trillions more. Easterly argues that these enormous sums of aid money have often been spent on grandiose, centrally planned projects—hydroelectric dams, four-lane highways, desalination plants—in countries ill-prepared to oversee their construction, operation, and upkeep.

Easterly compares the approach of most foreign aid donors to that taken in the 1950s by Soviet economic planners, who dreamed of a new economic order where wise Moscow bureaucrats would perfectly anticipate and meet the needs of all workers and peasants. But, he asks, how can foreign aid central planners, parachuted in from Washington D.C., really know how to make distant economies develop? How did they know that Kenyans needed hydroelectric dams rather than new universities? Why more highways than irrigation ditches (or vice versa)? And even for programs that were designed to build desperately needed schools or health clinics, how could the donors be sure that Kenya's leaders actually used the money as intended—and didn't steal it or spend it on something else entirely?

What we do know today is that much of the developing

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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. Trillions of dollars were wasted on roads to nowhere or power plants that never lit up a single home. Billions more were stolen. To add insult to injury, the world's greatest economic miracles have occurred in countries—including both China and India, both of which had African-level poverty as recently as the 1980s—that largely spurned the advances of the big foreign aid institutions. If these two economies have managed to expand at record speed for decades without meaningful foreign aid, why is a big push from foreign aid really the right remedy for Kenya, say? Why not follow in China and India's footsteps instead?

Easterly and his fellow “institutionalists” contend that before we multiply our foreign aid budgets five-fold, we need to make sure the recipient countries can really use these extra dollars. Countries receiving aid money need to be well-governed and someone needs to keep watch to make sure the money is spent to serve the interests of the “common man” rather than The Man in the president's mansion. Aid recipients should have well-functioning government institutions and civil society organizations, like media and community associations, that will hold the government accountable, and prevent economic gangsters from coming to power.

Many developing countries are far from this ideal. Until they fix up these so-called institutions, Easterly argues, the best we can do is fund small-scale social entrepreneurs—what Easterly calls “Searchers” in his recent book, *The White Man's Burden*—who find innovative solutions to local development problems.<sup>10</sup> Such small-scale interventions can be monitored and held accountable by donors and the community even in

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the midst of generalized central government corruption. If successful they could be scaled up to benefit even more people. As societies find ways to deal with corruption and disorder, people in poor communities will feel more comfortable investing in their own futures, and economic development should follow. But until then, we shouldn't throw good money after bad.

Everyone likes a good fight (especially Sachs's and Easterly's book publisher). But these two points of view are not completely at odds. Sachs and Easterly are two very smart people. Sachs isn't advocating that donors direct-deposit billions of dollars into the Swiss bank accounts of corrupt dictators, or bring them briefcases full of unmarked hundred dollar bills and hope for the best. And Easterly isn't suggesting that we in the rich world completely abandon poor countries to their collective fate, waiting stubbornly for them to get their houses in perfect order before writing any checks at all.

Yet critical distinctions separate them. Sachs's poverty trap view holds that we need to pull people out of poverty first and then pretty much everything else—good government, an active media, and community participation in politics—will follow. But the first step is making sure the poor no longer have to worry about where their next meal is coming from.

Easterly's opposing perspective counters that this would be putting the cart before the horse. We've tried the economic "big push" before to the tune of trillions of dollars over decades, and Africa is just as poor as it was in the 1960s. An even bigger push by foreign aid planners could simply result in even more money lost to misuse and abuse (and greater disillusionment among potential future donors).

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Both prescriptions for how best to help poor countries are plausible. But to evaluate their respective merits, we need to better understand corruption, violence, and the motivations of the economic gangsters who are responsible for so many past development failures.

*A Walk on the Dark Side of Economic Development*

Neither of us started our careers as economists with the intention of spending our lives researching human depravity. In the beginning, we only wanted to better understand why poor countries were so poor and what could be done about it. Yet the concurrence of violence, corruption, and persistent poverty is so pervasive that it is almost impossible to separate the study of poverty from these other social ills. So we've each spent over a decade now thinking and writing—and sometimes even dreaming—about corruption, violence, and poverty, and we've made it our life's work to understand exactly how they're related.

Because all three often appear hand in hand, figuring out where we should focus our efforts is a classic chicken-and-egg problem, and one that is intimately connected to the Sachs-Easterly debate. If countries first deal with corruption, will economic growth follow? Or should donors pull countries out of poverty first before they can ever hope to deal with violence and corruption? Both views are reasonable, but for now they're just theories. What we really need are better real-world answers.

That's where our research and this book come in. Our main objective is to understand the intricacies of the corruption–violence–poverty chicken-and-egg question using cold hard facts rather than rhetoric. The foundation of what

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follows is our own research from academic economics journals (sometimes based on work with other coauthors whom you'll meet as well). To bring new evidence to the debate, we apply the tools and insights of economic analysis to data that we've carefully collected over years working in Asia and Africa. We believe that the developing world's best hope is to base policy decisions on rational analysis rather than ideology.

In the chapters that follow, we'll tell six stories—three on corruption, three on violence—that have started to breach the barriers to understanding violence and corruption in the developing world. These stories take us on journeys to the hidden and often chaotic worlds of economic gangsters. From massacres in Vietnam to the container ports of Hong Kong, in remote African villages to the streets of midtown Manhattan, the answers come in far-flung and rather unusual places, and also in unexpected ways.

For better or worse, we humans seem to have an innate interest in corruption, violence, and other mortal sins. The questions we're asking, and the back doors we discover in our search for answers, hold a fascination in and of themselves, and we'll show you the latest tools and tricks of the economics trade along the way. Beyond our Mafia tales and war stories, you'll see that the brand of economic sleuthing we use is closer to Sherlock Holmes than C-SPAN.

As we'll see, the answer to the chicken-and-egg problem of poverty and violence can, quite literally, fall from the sky in the form of rain. To measure the value of political ties, we use a massive betting pool where investors wager billions on the value of connections. Is corruption a matter of conscience, culture, or fear of punishment? Answers can be found in the

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expired parking meters around New York City's United Nations Plaza.

Throughout the book we take our research lessons and draw out their practical implications for foreign aid and other debates on how best to fight global poverty. In the process, and particularly in our concluding chapter, we'll introduce some new ideas for helping the world's poorest citizens achieve their economic aspirations. By the end of the book, we hope you'll see the potential that economic research has in helping to really make poverty history.

*Counting Invisible Chickens and Eggs*

If so many people care so much about global poverty, and violence and corruption are important pieces to solving the puzzle, you might wonder why we don't already have all the answers. Why haven't we already resolved whether corrupt governments and violence undermine economic growth, or if poverty creates the conditions for civil conflicts and thieving bureaucrats?

The problem is that chicken-and-egg problems are hard to resolve—that's why we have the phrase "chicken or egg," so we can wave our hands at a problem and move on. But we can't just wave our hands at global poverty. Later in the book we'll describe the tragic history of Chad, one of Africa's poorest countries. Recent decades have seen a near-continuous sequence of political upheaval, violent civil wars, government theft, and economic decline. But which came first, the wars or the economic collapse? They're both happening at the same time so it's hard to know for sure. Or perhaps the fighting is caused by something else entirely, like political rivalry between Christian and Muslim Chadians. In that case, the

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root cause we need to address is ethnic conflict. But so much is happening at once—political battles, rising ethnic tensions, environmental degradation, diversion of the country's oil wealth, worsening poverty—that we start to feel like a dog chasing his tail in trying to figure out what's really going on.

Besides, this is all assuming we have enough information to argue ourselves in circles to begin with. Before trying to understand whether violence and corruption cause poverty or vice versa, we first need to know how much violence and corruption is actually out there. Corruption—Transparency International defines it as “the illegal use of public office for private gain”—is something which by its very definition takes place out of sight.<sup>11</sup> If bribe givers and takers are doing a halfway decent job of it, there's no obvious paper trail of what took place. Bribes don't appear in companies' tax returns, nor are they reported to shareholders in annual reports or cash-flow statements.<sup>12</sup> So we're now trying to solve a chicken-and-egg problem where we can't even see the chickens (or the eggs).

But if we can't see bribe payments taking place, we could try asking people about them directly. We could talk to company officials about their back-alley deals, or ask the bribe-takers in government about how much they are bringing in on the side. Yet given the legal consequences, there are good reasons to believe that responses to the question, “How much did you pay last year in bribes?,” are of questionable accuracy.

In general, we economists are skeptical of what people say on any topic. We call it “cheap talk,” since words don't need to be backed up by money or actions. And we're particularly suspicious of cheap talk on sensitive topics like bribe

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payments and embezzlement. This is obviously true for those directly involved in illegal payments—the givers and takers of bribes—but we also don't put too much stock in the opinions of the supposedly disinterested experts who might estimate the bribe payments made by others.

Suppose, for example, we're trying to figure out how much Tarique Rahman, son of the former Bangladeshi prime minister, collected in bribes from foreign companies in 2005 (we'll take up the closely related question of what it's worth to be the president of Indonesia's son in more detail in chapter 2). If you survey informed Bangladeshis on this matter, you'll end up with a number that could be much higher or much lower than the actual amount the First Son pocketed, depending on whom you ask. It's obvious, really. People's stated opinions reflect their unstated agendas and biases. When asked, supporters of the former Bangladeshi government will naturally downplay the extent of corruption in the First Family, while opponents might inflate the scope of the problem. Similarly, the main objective of business owners in answering a corruption survey is to stay out of prison, and hence they are likely to underreport their own bribe payments.

And that's the heart of the problem: we humans often say what we *wish* was true rather than describing things as they actually are. Let's take a little test: What kind of coffee do you like? As noted by author Malcolm Gladwell, the odds are that right now you're thinking you love a dark, hearty roast.<sup>13</sup> Yet when most people put in their morning order at Starbucks, they choose a thin, milky cappuccino. Somehow the dark roast fits with the self-image many of us have as robust, adventurous drinkers (and people). The problem is, hearty roasts just don't taste very good. So we may claim our

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preferences are one thing but reveal very different preferences when called to action.

Finally, opinions disproportionately reflect people's own personal experiences. During visits to the allegedly corrupt country of Bangladesh, Ray never observed policemen shaking down passersby for cash. At worst, he witnessed them milling about looking bored and smoking cigarettes when they probably should have been out directing traffic. Similarly, there were no overtures by airport customs officials to have their palms greased in exchange for allowing Ray to leave the country. So if you ask Ray—or other similarly privileged foreign visitors—Bangladesh doesn't seem corrupt at all. If we extrapolated from Ray's own positive personal experiences, the whole corruption problem would seem totally overblown.

Rather than only listening to what people *say*, we need to see what they *do*. If Nescafé wants to know how you really like your coffee, they're much better off running blind taste-tests than asking you to fill out a form. And if we want to know how much people are taking in bribes in Bangladesh, we have to find a way to overcome the cheap talk problem and follow the money.

*Say "Cheese"*

One way of getting a "real" measure of corruption is to arm yourself with a hidden camera, pose as a shady arms dealer, and see if you can catch politicians red-handed on tape. The FBI actually did this in the late 1970s, creating a phony company called Abdul Enterprises to solicit favors—including assistance in laundering money—for a fictitious wealthy Middle Eastern oil sheik. Undercover FBI agents offered cash

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to senators, congressmen, and other U.S. politicians, all with the tape recorder running. This so-called “Abscam Operation” resulted in convictions of five congressmen, a senator, and numerous local officials, and caused a public uproar over apparently rampant corruption in the U.S. government.

The media can substitute for the FBI in countries where governments are less inclined towards self-examination. The Indian magazine *Tehelka* pulled off an Abscam-like exposé in 2001. In an elaborately staged deception, a pair of journalists posed as representatives for a nonexistent London-based company, West End, hoping to sell night-vision cameras to the Indian Army. The journalists caught senior government officials and army officers on tape taking bribes or discussing the mechanics of making bribe payments. These revelations, broadcast to the world via the Web, rocked India for weeks. In the wake of the scandal, and perhaps in part as retribution, *Tehelka’s* offices were raided on multiple occasions and several of its journalists wound up in prison.

As tempting as it might be, in this book we leave these sensationalist methods—and the opportunity to get an insider’s perspective on Indian prisons—to others, and instead employ the tools of the economics research trade to uncover corruption. A challenge, to be sure, but as we’ll see starting in chapter 2, some briefcases of cash leave footprints we can follow.