

Masters in International Affairs

Academic year 2009 - 2010

Political Economy of Black Markets, Corruption and Crime

E698 – Autumn – Political Economy of Black Markets, Corruption and Crime – 6 ECTS
Preiswerk (Rothschild), Tuesdays, 16:15 -18:00

Course Description

This class is concerned with the economics of informal or unlawful exchange. Using case studies, the class deals with the interplay between the social aims pursued by public authorities when setting up regulations and the reaction of the public (consumers and producers). The topics include corruption, illegal markets, informal trade, market rigging, and more generally all attempts to circumvent price, quantity, or property right regulations. Regulations are generally rationalized in reference to the need to protect the economy or the society from bad outcomes (as in the case of the drug market, internet files download, etc.) with the public authority being then seen as a benevolent social planner. But regulations often create economic losses; encourage the emergence of organized crime and increase transaction costs for consumers. The course provides a political economy perspective on governments' attempts at favoring some economic or social groups, on state capture by administrative and/or economic elites, and their incidence on the emergence of the informal economy. Despite difficulties in measuring the resulting economic losses, informality and corruption contributes substantially to underdevelopment in poor countries and inefficiency or crises in rich ones. The course is designed primarily for MIA students with an interdisciplinary interest in the political economy of government institutions. It will provide a perspective on the role of black-markets and illegal trades to development students, and should more generally be attended by students with a taste for microeconomic aspects of policy making.

> PROFESSOR

Vincent Bignon
vincent.bignon@graduateinstitute.ch
022 908 58 51
Office: CV316b
Office hours:
Wednesdays 9:00-10:00

> ASSISTANT

Rachelle Cloutier
rachelle.cloutier@graduateinstitute.ch
022 908 59 48
Office: Rigot 35
Office hours: By appointment

Syllabus

Course Website

http://graduateinstitute.ch/mia/mia/mia_non_compulsory_courses_2/political_economy_blackmarkets.html

Requirements

Students will be evaluated on the following requirements:

1. For 20% of the grade: A multiple choice questionnaire (MCQ). The questions will be based on the lectures and readings of the course. The evaluation will be on October 20 (week 6), and last 15 minutes.
2. For 20% of the grade: A mix of a MCQ and an essay on a basic question related to one of the topics studied in class. This evaluation will be on November 17 (week 10), and last 1 hour.

3. For 60% of the grade: A paper of at least 3500 words (and no more than 6000) dealing with a topic in the course. The topic must be discussed with the professor. The paper is due on January 4, at 6 PM Geneva time.

Readings

The required readings are assembled in a course reader that is available for purchase at *Imprimerie Minute* (7, rue Voie-Creuse, Tel: 022.734.0000, www.imprimerie-minute.ch/minute/). More information will be provided in class.

Course Outline & Readings

Session 1 (September 15)

The Economic Approach of Crime

- Becker G. S. 1968. Crime and Punishment: An Economic Approach, *Journal of Political Economy* 73 (March), p. 169-217.
- Bushway S. and Reuter P., Economists' Contribution to the Study of Crime and Criminal Justice System <http://www.popcenter.umd.edu/criminologyandeconomics/literature/Criminal%20Economists.pdf>

Further (optional) material: Dilulio, J. J. Jr. 1996. Help Wanted: Economists, Crime, and Public Policy, *Journal of Economic Perspectives* 10 (Winter), p. 3-24.

Session 2 (September 22)

Urbanization and Crime

- Lodhi A. and C. Tilly, 1973, Urbanization, Crime, and Collective Violence in 19th-Century France. *The American Journal of Sociology* 79(2), p. 296-318.
- Sampson R. J. 1986, Crime in Cities: The Effects of Formal and Informal Social Control Crime and Justice 8, Special issue "Communities and Crime", p. 271-311.
- Mehlum H., E. Miguel and R. Torvik, 2006, Poverty and crime in 19th century Germany, *Journal of Urban Economics* 59(3), p. 370-388.

Further (optional) materials: Johnson E., 2002, *Urbanization and Crime: Germany 1871-1914*, Cambridge U. Press, chapter 1.

Session 3 (September 29)

The Socio-economic Determinants of the Evolution of the Crime Rates

- Freeman R., *The Economic Approach to Crime*, Chapter 52 of *The Handbook of Labor Economics*, Volume 3. Edited by O. Ashenfelter and D. Card, Elsevier Press.
- Levitt, S. D., 2004. Understanding Why Crime Fell in the 1990s: Four Factors That Explain the Decline and Six That Do Not. *Journal of Economic Perspectives* 18(1), p. 163-190.

Further (optional) materials: Foucault Michel, *Surveiller et punir*, Part 2 "Punition", Chapter 1 "La punition généralisée". Collection Tel Gallimard, p. 87-122.

Session 4 (October 6)

Police Enforcement and Prices

- Freeborn B., June 2006. Arrest Avoidance: Law Enforcement and the Price of Cocaine, Working Paper 30, College of William and Mary.
- Reuter, P. and Kleiman, M. "Risk and Prices: An Economic Analysis of Drug Enforcement" *Crime and Justice*, vol. 7 (1986), p. 289-340.
- Trautmann F., P. Reuter, A. van Gageldonk, D. van der Gouwe, 2005, "Drugs problem and drug policy, developments between 1998 – 2007", Annexed report 4 of the "Report on Global Illicit Drugs Markets 1998-2007", European Union Commission, http://ec.europa.eu/justice_home/doc_centre/drugs/studies/doc/report_10_03_09_en.pdf

Further (optional) materials:

- Caulkins J. 2001. Drug Prices and Emergency Department Mentions for Heroin and Cocaine, *American Journal of Public Health* 91(9), p. 1446-1449.
- Reuter P. and J. P. Caulkins. 2004. "Illegal Lemons: Price Dispersion in Cocaine and Heroin Markets", *Bulletin on Narcotics* Volume LVI (1-2), p. 141-165.

Session 5 (October 13)

Gangs and the Structure of Criminal Markets

- Paoli L. and P. Reuter, 2008, Drug Trafficking and Ethnic Minorities in Western Europe, *European Journal of Criminology* 5 (1), p. 13-37.
- Levitt S. and Venkatesh S., 2000. "An Economic Analysis of a Drug-Selling Gang's Finances." *Quarterly Journal of Economics*, 115(3), p. 755-89.
- Venkatesh S. and Levitt S. 2000. Are we a family or a business? History and disjuncture in the urban American street gang, *Theory and Society* 29(4), p. 427-462.

Session 6 (October 20)

Does Participation in Illegal Activities Pay?

- Caulkins, J., and Reuter, P., 2006, Illicit Drug Markets and Economic Irregularities, *Socio-Economic Planning Sciences* 40, p. 1-14.
- Strumpf K. , 2003, Illegal Sports Bookmakers, <http://www.unc.edu/~cigar/papers/Bookie4b.pdf>
- Rosen E. and Venkatesh S., 2009, A "Perversion" of Choice: Sex Work Offers Just Enough in Chicago's Urban Ghetto, <http://www.sociology.columbia.edu/pdf-files/rosenvenk.pdf>

Further (optional) material: MacCoun Robert and Peter Reuter, 1992, Are the Wages of Sin 30 \$ An Hour? *Economic Aspects of Street Level Drug Dealing, Crime & Delinquency* 38(4), p. 477-492.

Session 7 (October 27)

War on Drugs

- Caulkins Jonathan P., Peter Reuter, Martin Y. Iguchi, James Chiesa, 2005, How Goes the War on Drugs: An Assessment of U.S. Drug Problems and Policy. RAND publications, <http://www.publicpolicy.umd.edu/faculty/reuter/How%20goes%20the%20war%20on%20drugs.pdf>
- Miron Jeffrey A. and Jeffrey Zwiebel, 1995, The Economic Case Against Drug Prohibition. *The Journal of Economic Perspectives* 9(4), p. 175-192.

Session 8 (November 3)

Governance Issues in Non-National Contexts

- Leeson Peter T. 2007, An-arrgh-chy: The Law and Economics of Pirate Organization. *Journal of Political Economy* 115(6), p. 1049-1094.
- Palan Ronen, 2002, Tax Havens and the Commercialization of State Sovereignty. *International Organization* 56(1), p. 151-176.

Session 9 (November 10)

**The political economy of the Emergence of Black Markets:
The Siege of Sarajevo**

- Andreas Peter. 2008. Blue helmets and black markets: the business of survival in the siege of Sarajevo, chapter 6, Cornell University Press, pp. 118-132.
- Andreas Peter, 2004, The Clandestine Political Economy of War and Peace in Bosnia, *International Studies Quarterly* 48(1), p. 29-51.
- Lindauer D., 1989, Parallel, Fragmented or Black? Defining Market Structure in Developing Economies, *World Development* 17(12), p. 1871-1880.

Session 10 (November 17)

**The Political Economy of Black Market's Eradication:
Post-World War II Germany**

- Hughes M., 1998, Hard Heads, Soft Money? West German Ambivalence about Currency Reform, 1944-1948. *German Studies Review* 21(2), p. 309-327.
- Menderhauser H., 1949, Prices, Money and the Distribution of Goods in Postwar Germany, *The American Economic Review* 39(3), p. 646-672.

- Roesler Jörg, 1989, The Black Market in Post-war Berlin and the Methods Used to Counteract it, German History 7(1), p. 92-107.

Session 11 (November 24)

White Collar Crime: Administrative Corruption

- Bertrand M., S. Djankov, R. Hanna and S. Mullainathan (2007). Obtaining a Driver's License in India: An experimental Approach to Studying Corruption", Quarterly Journal of Economics, 122(4), p. 1639-1676.
- Pradhan, Sanjay et al. (2000), Anticorruption in Transition: A Contribution to the Policy Debate. The World Bank. Chapter 1, <http://lnweb90.worldbank.org/eca/eca.nsf/0/D74DB51B2D46615D8525695B00678C93?OpenDocument>
- Svensson, J. (2005). Eight Questions about Corruption, Journal of Economic Perspectives 19(3), p. 19-42.

Session 12 (December 1)

Further Measures of Administrative Corruption and its Impact on Economic Efficiency

- Fisman, R. and J. Svensson, 2007, Are corruption and taxation really harmful to growth? Firm-level evidence, Journal of Development Economics 83 (1), p. 63-75.
- Pradhan, Sanjay et al., 2000, Anticorruption in Transition: A Contribution to the Policy Debate. The World Bank. Chapters 4 and 5.
- Sequeira S. and Djankov S., 2009, On the Waterfront: An Empirical Study of Corruption in Ports, mimeo. http://www.doingbusiness.org/documents/Corruption_in_Ports.pdf

Session 13 (December 8)

State Capture and Estimates of Economic Losses

- Fisman Raymond, 2001, Estimating the Value of Political Connections, The American Economic Review 91(4), p. 1095-1102.
- Mauro P. 1995. Corruption and Growth. Quarterly Journal of Economics 110(3), p. 681-712.
- North D. C., Wallis J. J. and Weingast B. R., "A Conceptual Framework for Interpreting Recorded Human History", working paper 75 Mercatus Center at George Mason University, <http://www.mercatus.org/uploadedFiles/Mercatus/Publications/A%20Conceptual%20Framework%20for%20Interpreting%20Recorded%20Human%20History.pdf>

Session 14 (December 15)

Property Rights Protection and Internet File-Sharing

- F. Oberholzer-Gee and Strumpf K., 2007, The Effect of File Sharing on Record Sales: An Empirical Analysis. Journal of Political Economy 115(1), p. 1-42.
- F. Oberholzer-Gee and Strumpf K., 2009, File-Sharing and Copyright. NBER's Innovation Policy and the Economy series, volume 10. ed. Joshua Lerner and Scott Stern. MIT Press http://www.unc.edu/~cigar/papers/File-Sharing_and_Copyright_2009-05-16.pdf