

NEW YORK POST

HOW FRAUD BECOMES CONTAGIOUS

By RAY FISMAN and EDWARD MIGUEL

October 5, 2008 --

New Yorkers are understandably shocked by the alleged abuse of disability benefits by Long Island Railroad employees. This was apparently not the case of a few rogue claimants: since 2000, virtually every LIRR worker has claimed disability benefits after retirement, defrauding taxpayers of millions.

Yet the widespread nature of the LIRR scandal should actually not surprise us at all: cheating is often an all-or-nothing affair. Just last month, Bostonians were shaking their heads at the astronomical rate of false disability claims by their firefighters (one claimant competed in a bodybuilding competition while claiming benefits). And based on the results of a recent World Bank bribery survey, relatively few countries are halfway corrupt: either most firms in a given country reported having to pay bribes to get government contracts, or almost none at all. You're generally part of a corrupt bribe-paying culture or you aren't.

Why do rail workers, firefighters, and entire societies so often "tip" in either one direction or the other? Imagine being one of few cheaters in an otherwise law-abiding country. Odds are you'll quickly be found out and find yourself in prison or at best a social pariah, once others realize what you're up to. For offenses like bribery that require a partner in government, you'll have trouble finding collaborators to take your money - and will probably get turned in if you try.

But once "everyone is doing it," the logic of social pressure flips. Self-righteousness is never popular, and others are suspicious of those that won't go along with the group. The fate of Frank Serpico, a New York City patrolman (portrayed in the eponymous Sidney Lumet film) who struggled to stay clean in the midst of all-pervasive police corruption in the 1960s, is telling: while Patrolman Serpico remained honest to the end, his end was not pretty.

Being surrounded by a culture of corruption can throw one's own internal compass off course. We've seen repeatedly - from the torture chambers in Abu Ghraib to Enron accounting cheats - that otherwise ordinary people can commit serious crimes if these acts become viewed as routine. It's not that their consciences vanished overnight. But we all benchmark our own virtue against those around us. So when everyone else is cheating the system, it's easy to follow along.

What can be done to nip cultures of corruption - like the LIRR alleged disability scam - in the bud before they really bloom?

We recommend that officials first take a "broken windows" approach to initial infractions, following up with stern punishment and condemnation of the behavior, to stop the slippery slide towards social acceptance

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of corruption. In the case of LIRR, there was too little internal monitoring to detect the scandal-in-the-making early on. The example of ethical leaders is also critical, since organizational culture can be best re-shaped by those at the top. In countries where brazen corruption extends to the president's mansion (or the CEO's corner suite), why should everyday citizens believe there's anything wrong with lining their own pockets a little? We hope the response from New York's leaders won't parallel the blame game played by Pentagon bosses, who pushed responsibility for Abu Ghraib far down the chain of command.

Finally, it's unproductive to label the alleged LIRR rogues - or others caught up in a culture of corruption - as bad people. Most human beings would have done exactly the same thing in their shoes, if everyone else was doing it. Officials should focus on reforming the institutions and economic incentives that led these otherwise normal people to commit their crimes in the first place.

Ray Fisman and Edward Miguel are authors of the forthcoming book "Economic Gangsters: Corruption, Violence and the Poverty of Nations" (Princeton University Press).

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