CORRUPTION IN CITIES:
GRAFT AND POLITICS IN AMERICAN CITIES AT THE TURN OF THE TWENTIETH CENTURY

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ABSTRACT

The essay is an exploration of corruption as practiced by city politicians in the United States at the turn of the twentieth century. Corruption is generally considered to be bad for the performance of governments and for the growth and development of economies, but American cities grew rapidly and were, as far as tangible evidence suggests, relatively well governed. I propose the answer to this conundrum lies in the exact types of graft which were possible. Skimming from city contracts and manipulating local real estate markets encouraged politicians to pursue growth enhancing policies. Many of the most damaging forms of government interference – closing borders and pursuing input-substituting policies – are not possible in cities. Patronage politics made corruption more likely by insulating politicians from (some) voter wrath, but the ability of the tax base to depart the city provided some constraints on rent-extraction. The city Boss did not want to kill the goose that laid the golden eggs.

The analysis of urban graft is based on contemporary reports, especially the very detailed reports in "Shame of the Cities" by Lincoln Steffens. The analysis also answers other important questions raised by the experience of Progressive Era cities: Why did businessmen back reform? And why did machine politics rise, and fall, between 1890 and 1930?

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> “There’s an honest graft, and I’m an example of how it works. I might sum up the whole thing by sayin’: ‘I seen my opportunities and I took’em’”
>
> George Washington Plunkitt[1]

Introduction

Popular reports on Progressive Era city politics have always featured tales of bribery, theft, graft, kickbacks, political influence peddling, insider trading and criminal cover-ups. Enterprising investigative journalists filled newspapers, magazine, and books with reports of these official misdeeds. However, academic studies of the era (1900-1920) have avoided the more sensational aspects of urban corruption, concentrating instead on issues such as relationships between politicians and voters and legal reforms of the institutions of government. Perhaps this oversight results from the observation that the Progressive Era urban politicians were not obviously more corrupt or self-serving than “Robber Baron” businessmen and rapacious real-estate developers. Or perhaps corruption did not damage American cities. But if this is true, it is itself something that needs explaining.

Recent experience in developing and post-Socialist countries suggests government corruption can cripple economic development, but American cities at the turn of the Twentieth century were miracles of economic growth. (See Mauro (1995) for an analysis of the impact of corruption across the globe.) The first question, therefore, is why rent-seeking and corruption did <u>not</u> cripple American cities. The story of urban graft also illuminates the answers to two other

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[1] Plunkitt was a local boss in New York City’s Democratic “machine,” Tammany Hall. He was unusually willing to talk about his activities as a member of the New York machine. In the early years of the twentieth century he gave a series of interviews to William Riordan, a reporter for the *New York Evening Post*, which were republished in book form in 1905. Though it is sometimes difficult to separate writer and subject, the <u>Series of Very Plain Talks on Very Practical Politics</u> is almost the only written source in which the machine politician is allowed to defend himself. Riordon ([1905] 1963, p.3)

important questions: Why was the Progressive Era also the era of the political machine? And what motivated political Reformers?

Section 1: Corruption in Cities

1.1 Sources

Although politicians did not officially keep records of kickbacks, bribes, and insider trading, newspaper journalists and state District Attorneys eagerly investigated and recorded instances of municipal malfeasance. These records, and later histories based on them, are the sources I use to build this description of Progressive Era urban graft. The richest single source on graft is *The Shame of the Cities* by journalist Lincoln Steffens, with over 90 examples of graft in 6 cities. The seven essays, written by Steffens in 1902 and 1903 for *McClure's Magazine*, are arguably the finest survey of urban graft ever written. I augment Steffens with other sources, including William Riordan's lively interviews with New York City machine politician George Washington Plunkitt, and the many city histories I have read while researching the 100 largest cities in America. Riordan. ([1905] 1963) Menes (1997)

Despite the differences between cities in size, in economic structure, and in government structure, there are patterns in the graft. In city after city the books were (relatively) clean and city debt secure, but the street car franchises were almost universally tainted and insider trading on real-estate ran rampant. Overall, however, rent seeking appeared to occupy a position of moderate importance – not irrelevant to, but not entirely dominating, the decisions of politicians and bureaucrats and the performance of government. Politicians spent time and effort stealing, but they spent considerable effort running the city.

1.2 The City Economy

The most powerful limit to urban corruption is the ability of wealth to leave the city. A corrupt government can only steal if the wealth both exists and cannot escape. Therefore the opportunities for urban graft increase if the productive economic activity must occur within the city limits. Economic and technological trends c. 1890-1920 created urban wealth and limited its mobility. At the end of the nineteenth century a combination of improvements in long distance transportation and communication, increases in economies of scale in manufacturing, and less tangible shifts in legal conditions and management techniques encouraged the development of a truly national market, dominated by large firms which often enjoyed market power and immense profit. In short, it was the age of the Robber Baron. And the Robber Barons were stuck in cities. A few industries built factories big enough to create their own cities (e.g. U.S. Steel in Gary, Indiana), but most firms located their plants in already existing cities to be near professional services, labor, and rail access. Once built, these factories further increased city growth, attracting floods of foreign and domestic in migrants. Firms enjoyed some flexibility when choosing cities, but once the factories were built, the workers moved, and the new neighborhoods developed the investments were sunk – and expropriable.[2]

Rail centralizes, the internal combustion engine disperses. In 1900 raw materials, finished goods, and the coal needed to convert one into the other, moved cheaply by rail over long distances. Moving the same stuff within a city, by animal drawn wagon or human powered push

[2] This brief review of U.S. urban economic development will be found, expanded, in any American economic history text, such as Cain and Hughes (1997). For city history leading up to the period covered in this paper I recommend Teaford's fine book, *The Unheralded Triumph*, 1984.

cart, was expensive. So small firms stayed close to rail yards, and large firms, who could build (with city approval) their own sidings and short tracks, needed to be close to the rail lines. The human transportation system, the street car, reinforced the tendency of firms to locate near the city center. The street car also gave the city government, which issued street car franchises, considerable control over the pattern of suburban development. Any commuter rail system works most efficiently if it can be constructed around a central hub, with radiating spokes. People live along the spokes, and work at the hub. The street car also expanded the land area that could be developed, creating new fortunes and new opportunities for rent seeking. By expanding the distance a commuter could cover in an hour from three miles to about six miles, the street car quadrupled the feasible urban real estate, increasing the value of the outlying suburbs and of the center. The street car and the rail road encouraged the development of large cities with most employment, including the rich, productive manufacturing firms, located within the political boundaries of the central city.

Other important advances in technology during these decades made city life more attractive. Innovations included advances in paving, bridge building, and the construction of tall buildings, the introduction of gas, electricity, the telephone, and clean piped water, the removal and treatment of sewage, the professionalization of sanitation, police, and fire departments, improvements in public health, improvements in education (especially the spread of high schools), the development of urban planning for and provision of civic amenities like parks, libraries, and museums, as well as the invention of the electric street car. All of these innovations made cities work better. Many of them were technologies with increasing returns to scale over the relevant output levels, which meant they were available first, and cheapest, in the larger cities. One indication of the value of these services is the prevalence of suburban annexation. Despite the complaints of middle class reformers against corrupt and costly city government it was common for middle class suburbs to vote to join such cities, in order to enjoy access to the new goods and services.

The growth of government-provided goods and services increased the opportunities for graft. It was easier to steal undetected when the government was doing so much more. The opportunities for theft were highest when services were new. Today the electricity generating plants are built and the teachers are hired (and organized), but in 1900 the contracts were still to be let and the jobs assigned.

1.3 City Politics

At the end of the nineteenth century the governments of many (though not all) large American cities came to be dominated by what was known at the time as "machine" politics – patronage based political systems where the government dispensed private favors in exchange for votes and governed not through the legislative process but through back-room deals between the "boss" and interested parties. By the term "political machine" I do not mean simply a city government dominated by working class Irish politicians, but a particular political institution with three characteristics 1) private deals between government and citizens, especially the exchange of favors for votes; 2) a large hierarchy of local politicians who carry out the exchange of favors for votes; and 3) a boss who organizes the work of the local politicians, centralizing the collection of votes and of revenue and paying the local politicians by sponsoring them for elective office or employing them in municipal jobs. Machines are common in democracies, but not universal, either in U.S. cities c. 1900 or in modern democracies. Bridges (199) Chubb (1981) Johnson (1986) Menes (1997) and Sidel (1997)

To contemporaries it was clear; political machines were corrupt and hence machine politics caused corruption. However they may have reversed the causal relationship. Machines require material resources to operate and so they only develop when there is something to steal. When opportunities for graft dry up, the machine dies. The kinds of graft available to a city government, such as manipulating real estate markets, inflating contracts for infrastructure, and extorting kickbacks from vice, were unusually lucrative at the beginning of the twentieth century. Changes in technology, including the internal combustion engine and electricity, the completion of the major new infrastructure (paved roads, water, sewers, gas and electricity, and new high schools), and the rising intolerance for the unofficial government regulation of vice all lowered the rents available to city government in the years following the First World War. Therefore it is not surprising that the institution of the political machine began to decline at the same time.

I have in previous work considered the conditions which favor the development of the machine, and I will review the relevant conclusions here. One must consider the costs of organizing the machine, compared to the costs of employing alternative political arrangements for winning elections and the benefits that arise from winning the election. In my own work, and in much of the modern literature on machines, it is clear that certain kinds of communities encourage the development of machine organizations because in these communities people value the favors doled out in exchange for votes. Specifically, poverty, economic segregation, and ethnic diversity favor machine politics over other forms of political organization. Menes (1997)

Merton (1957) Reid and Kurth (1992) However these conditions are clearly not sufficient, as many poor, economically backward communities in democratic polities fail to organize machines. Bridges (1999) I suggest that even when votes are relatively cheap, the machine is an expensive political technology. (Even poor voters are costly to organize.) Politicians will only turn to the machine if they can extract enough from control of the city to pay for the costs of winning the election. Wealth, as well as poverty, is necessary for machine politics. Erie (1990)

The rent seeking chronicled in this essay was not limited to "machine" dominated cities. In some cities corrupt politicians found other ways to win and hold control. "Boss" Ruef in San Francisco used union support, not a neighborhood based political machine. Bean (1968) "Doc" Ames' administration in Minneapolis was, according to Steffens, one of the most corrupt ever to disgrace an American city, but he was apparently not planning on re-election. Ames did not waste resources building a machine, but stole as much as he could in one term. Steffens ([1904] 1957) Political competition could also force relatively honest politicians to organize machines, such as Boss Speer, in Denver. Dorsett (1976) However the machine may have made rent extraction easier and safer, and even an honest Boss was forced to find the resources to run the machine. A political machine may have had an advantage in protecting itself, since the Boss often controlled appointments to the bench and the D.A.'s office. The famously corrupt regimes that stayed in power for years or decades despite being widely known as corrupt, such as Boss Dennison in Omaha or Boss "I am the Law" Hague in Jersey City, ran machines. Foster (1968) Menard (1989)

Machine politics declined sharply after the 1920s. Existing machines continued, but few new machines were organized. There is a rich literature to explain this decline, but it is incomplete. Did the reformers weaken and eventually defeat political machines? Did New Deal programs push out the machine by replacing the vote buying favors with entitlement programs? Or did the end of immigration destroy them? Reformers, Federal interference, and ethnic change have all killed individual machines. Boulay and DiGaetano (1985) DiGaetano (1991) Reid and Kurth (1992) But political machines were never immortal. If we want to understand why the institution faded from the scene we want to know why it no longer paid to organize new machines. I suggest that neither the presence of reformers, the actions of the Federal government, nor the changes in immigration are sufficient alone to explain the timing of the extinction. The decline in extractable rents made it harder and harder to organize new machines.

Reformers did constrain the machines all through the Progressive Era. Nothing happened around 1920 to suddenly make the reformers more powerful then they had been in 1890 or 1910. In fact, most activists had lost interest in urban reform by the 1920s. The timing of the rise of the Federal Government is better, but it is difficult to identify the "smoking gun." Poverty is not banished in the 30s, despite the New Deal. President Roosevelt did use New Deal funds and programs to interfere in state and local politics, but on a case by case basis. He was as likely to support a machine (Chicago) as he was to oppose it (New York). Finally the timing on immigration is wrong. It looks good, but the apparent relationship doesn't take into account the lag in immigrant political activity. The ancestors of the Irish politicians of the 1900s had started arriving in large numbers in the late 1840s. The political power of the new Italians and Eastern Europeans arriving between 1890 and 1910 could be expected to peak in the middle and late twentieth century – as it did, although mostly without machines. And if poverty and segregation made city residents into machine voters, then where are the powerful political machines in

Washington D.C., Newark, or Detroit today? There is plenty of corruption and mis-government in cities today, but no organizations like Tammany Hall or even the Daley machine.

Cheap votes are necessary, but they are not sufficient for a political machine. The early twentieth century machines did need the mid-nineteenth century Irish migration, and the discrimination and segregation these new Americans and their children faced from the native-born, to provide the machine with voters. But even "cheap" voters need to be bought. In this paper I show that the resources available to the entrepreneurial kleptocrat peaked when the machine peaked, between 1890 and 1920. Before 1890 few city governments were big enough (New York City being the major exception), and after 1920 the auto, the truck, and electricity destroyed the city's ability to control the tax base.

1.4 The Reformers

City politics was unusually competitive during the "machine" era. The opponents, self-styled "reformers," were part of the larger intellectual and political movement known loosely as Progressivism. I do not argue that graft explains all of Progressivism, but I do argue that graft brought one important ally to the reform side during the Progressive era, the owners and managers of large manufacturing firms. Not all businessmen supported reform. Real estate developers, brewers, and traction (street car) system owners were not in the forefront of urban reform. Successful developers, brewers, and traction magnates were, in general, colluding with the government to manipulate markets. But manufacturers could not be co-opted – the city government could not help organize national markets. Given the kinds of graft available to city officials, they could not help the manufacturers increase their profits, except by running an efficient city. However, the machine politicians could not afford to eliminate the manufacturers. Manufacturing created the rents everyone else wanted to enjoy.

I am not the first scholar to point out the manufacturing antecedents of so many reformers, but the standard explanations do not explain why owners and managers of manufacturing firms, but not other businesses, formed the core of Reform. Businessmen, it has been suggested, were offended by the favor-trading personal approach of the machine politician and by their ethnic roots. Businessmen wanted organization and experts, preferably Anglo-Saxon. Hofstadter (1962) Wiebe (1967) Businessmen wanted public goods and infrastructure, while poor ethnics wanted favors. Hays (1964) All of these arguments are true, but insufficient. The businessmen did want public goods, but machine governments built them. The Brooklyn Bridge and the Boston subway were built by corrupt machine governments. Cities with machine governments installed as much, or more, durable paving as other cities. Economic conditions, not type of government, were much stronger predictors of investment in public goods. Menes (1997) Many businessmen were opposed to favors, and presumably to the graft that funded them. Some Businessmen did think government would be improved by being run more like a business; they felt that a more organized city would run cheaper, and would be easier to monitor. But is it a coincidence that the owners and managers of such firms as National Cash Register (in Dayton) and Pittsburgh Plate Glass favored reform, while street car owners like Elkins & Widener and Huntington, did not? All of these individuals were upper class, white, Anglo-Saxon businessmen. The division between reformer and collaborator is better explained by asking who won, and who lost, when corruption was suppressed.

Section 2: The Literature on Corruption

2.1 Definitions

A kleptocracy is a government with the objective function of maximizing the profits the politicians take home. A kleptocrat is not interested in graft *per se* but in revenue extraction. Revenue extraction by a government is exactly what it sounds like, the extraction of material wealth from citizens. Graft is revenue extraction by illegal means. Not all revenue extraction is graft, but graft is necessary when the revenue extracting official is constrained by stronger powers or subject to the rule of law. In a democratic city, with power divided among different branches within the city and shared between the city, state, and federal levels, even politically powerful kleptocrats cannot legally expropriate city funds without explanation. Therefore in this essay I will use the two terms essentially interchangeably. Graft is not the only corrupt act. Corrupt acts may be (loosely) defined as acts by which a government official, elected or appointed, abuses his power by using it for purposes for which it is not legally intended. Vote buying, for instance, is a corrupt act but it is not graft, because no revenue is extracted.

2.2 The literature on government rent-seeking

The literature on corruption comes to every possible conclusion – corruption can hurt or help government performance, economic efficiency, and growth, depending on the circumstances. Context is everything. But little analysis of the context of graft has actually been done. Most papers present a model of one or another particular form of graft, then conclude that graft is, or is not, a problem depending on the model.[3] In this next section I will consider models that have the most relevance in the context of American cities in 1900.

Government corruption almost always involves a private sector accomplice. As a result, corruption creates a rentier class, who then vigorously campaigns against reform. Anne Krueger points out the role that dirigiste development policies, perhaps well meant in the beginning, had in creating an economy whose major players were dependent on government assistance. Mancur Olson proposes that the growth of rent-seeking coalitions is a widespread problem, affecting many nations throughout history. In both cases the rent-extracting policies become politically difficult to eliminate, even if the politicians realize the costs. In many countries (including the U.S. today), trade restrictions and other import substituting policies create the rentier classes, who then spend lavishly to maintain their privileges at the expense of the rest of the economy. But because U.S. cities could not control trade, the manufacturers became reformer, not rentiers. (The manufacturers' allegiance to laissez-faire held at the local and state levels only. The same businessmen were interested in maintaining high U.S. import tariffs.) As manufacturers bought inputs, and more importantly sold output, outside the city, there was little the city could do to co-opt them into the system.

The wealth of the city depended on the success of these firms, so the kleptocratic city government, benefitting from the growing wealth, could not afford to eliminate them through destructive government policies. This combination of conditions created viable, and valuable, political opposition which in itself may have limited the burden of corruption and forced even

[3]Heidenheimer (1989) is a good compilation of work on corruption. Shleifer and Vishny (1993) are interested in exactly the issue of context, although they do not consider the context in any particular time or place.

corrupt city governments to pursue growth enhancing policies. The competition between cities for new businesses may have limited the tendency common among rent-seeking politicians to over-expropriate from new economic activity, new firms and new types of products. Shleifer and Vishny (1995)

Many scholars have commented on how corruption distorts policy choice, encouraging large and unnecessary infrastructure projects (presumably easier to skim from) over smaller projects or over the provision of services such as health care and education. U.S. cities aggressively invested in infrastructure at the beginning of the twentieth century. They built water systems and bridges and schools. They paved everything in sight. But far from appearing useless, these projects were popular and apparently worthwhile. Cain and Rotella (1990) U.S. reformers did not ignore corruption in the development of infrastructure. They often complained about the inflated costs, kickbacks and boodle. However they did not try to stop the building, instead they supported (and often got) various taxing and accounting mechanisms to tie project and spending together, such as dedicated taxes and bond issues which kept the funds for infrastructure separate from the general budget. In the Third World the most expensive infrastructure projects are often built with foreign aid money, and no local accountability. The comparison suggests that local accountability may not eliminate over-spending, but it does limit the construction of unnecessary infrastructure.

Several theories of government performance shed light on the role of institutional limits to corruption and the institutional rewards for good government. Any discussion of the performance of city governments must consider Tiebout's "Theory of Pure Public Goods" and any discussion of kleptocracy, McGuire and Olson's "Stationary Bandit." Tiebout (1956)

McGuire and Olson (1995) Together these authors suggest a theoretical model of the power of borders, while my own work on vote buying suggests the relationship between democracy, vote buying, and graft. Menes (1997) In McGuire and Olson's polity, the "bandit" government pursues economic development if he can expect some of the profits. These profits depend on his expecting to stay in power and expecting to be able to extract more wealth from a wealthier polity. Given the kinds of corruption that were common in U.S. cities, politicians and bureaucrats could expect to see their "take" rise as the city grew in size and wealth. Tiebout, on the other hand, provides a theoretical framework for the limitations on corruption provided by the open city border. With an entirely mobile tax base, and a sufficiently large number of jurisdictions, each taxpayer gets the services he desires at the lowest possible price, leaving no room for the politician to skim off the top. In the United States, the tax base was mobile, but not infinitely mobile, and the level of extraction appears to have risen, and fallen, with the fall, and rise, of the mobility of economic activity. And finally democracy should limit corruption, since any politician offering the same policy package at a lower price should be preferred to a politician who promises the goods and services without the graft. However vote buying relaxes this constraint. Menes (1997)

The theoretical literature provides support for the conclusion that the institutional framework determines what kinds of corrupt behavior are likely, and what burden they will impose. This suggests why U.S. cities survived their corrupt period so well – within the cities a complex balance of forces allowed but limited corruption, making no one entirely happy but encouraging everyone, politicians, voters and businessmen, to work hard, invest in the cities, and create growth. Teaford (1984)

Section 3: Graft in American Cities

3.1 A taxonomy of graft

The analysis that follows is organized by the type of graft, and for each class of rent-seeking behavior I have considered who gained and who lost, both economically and politically. Local government at the turn of the twentieth century levied taxes, enforced the criminal code, provided both public and private goods and services to citizens, and contracted out to private firms to provide goods and services. Rent seeking officials turned all of these responsibilities to private gain. Politicians stole directly from the budget. The police sold lax or differential enforcement of the criminal code (especially lucrative for selling protection to "vice" interests – drugs and alcohol, gambling, and prostitution). Government contracts and franchises were let on favorable terms for a consideration, or were awarded to firms owned by city government officials. The government regulated many activities, issued licenses for businesses and charged directly for goods provided to citizens or for access to the city infrastructure. These activities altered the returns to private property, and hence produced opportunities for insider trading. Each kind of graft created its own incentives for politicians and for private citizens to stay or leave, to invest, to encourage investment or to confiscate, to provide political support or to fund political opposition. But when compared to the opportunities available to a modern national government, several key powers are missing, most especially control of territorial borders and control over the money supply.

3.2 Direct extraction from the city treasury

The most striking aspect of direct theft is that it was brought under control long before the rest of the rent seeking chronicled here. Between 1868 and 1871 the ambitious, able, innovative, and deeply corrupt William Magear Tweed, boss of the first true urban "machine," Tammany Hall, was able to mastermind the theft of somewhere between 30 million and 200 million dollars from the City of New York, much of it lifted directly out of the budget.[4] Mandelbaum (1965) But the unexpected death of Tweed's book-keeper, James Watson, on January 21, 1871 opened the books and revealed evidence enough to shut down the "ring" of conspirators, put Tweed in jail, and nearly destroy Tammany Hall. In the years that followed Tammany's Bosses ostentatiously eschewed strict embezzlement. A line was drawn between "honest" and "dis-honest" graft, and the line appears to have been largely observed, in New York City and elsewhere. As George Washington Plunkitt explains "The books are always all right. The money in the city treasury is all right. Everything is all right. All they [the reformers] can show is that the Tammany heads of departments looked after their friends, within the law, and gave them what opportunities they could to make honest graft." Riordan ([1905] 1963, p. 5) I am not claiming no one ever stole from the till. Steffens does report a single example. In Pittsburgh the City Attorney, W.C. Moreland, and his assistant, L.H. House, were convicted of embezzlement of nearly $300,000 in public funds. Both of the men went to prison without revealing what they had done with the money, but later check stubs were found which indicated that checks for at least $118,000 had been made out to the Pittsburgh boss, William Flinn. ([1904] 1957, pp.120-121)[5] However, only one example among ninety descriptions of graft indicates the rarity of this form of revenue extraction.

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[4]These are 1870 dollars, worth more than ten times our current dollars.

[5]All unattributed page references are to Steffens ([1904] 1957)

Cities were rewarded for fiscal probity by the bond markets. City debt was issued around 3% percent (nominal), allowing cities to borrow and invest in new infrastructure. And the trust in the cities was well placed. No large, or even medium sized, cities defaulted on their debt between the late 1870s and the Depression.

There were less direct methods of accessing the budget. Patronage hires used tax dollars to pay for the machine. Though Steffens was less interested in patronage then in other forms of graft, he did report the selling of positions in the police department in Minneapolis (p.48) and of teaching positions in Philadelphia (p.155) In my own work I have found at least part of the cost of machine patronage in the city budget. Municipal wages for unskilled workers, when compared to similar private sector wages, were 8% higher in machine cities than in non-machine cities in 1909. The overall budgets in machine cities, controlling for size and region, are about 15% larger in the machine cities. Menes (1997) This increased cost undoubtedly slowed growth slightly, but the burden is relatively modest and the distortion likewise would have been.

3.3 Vice: Unofficial regulation of a market

At the beginning of the twentieth century, many city governments unofficially regulated and licensed "vice," collecting payoffs for tolerating establishments offering gambling, illegal alcohol, or sex.[6] Steffens reports revenue from "vice" in all six of his cities, although the methods of collection varied from city to city. In some cities, such as New York and Minneapolis (even before Ames) city officials and the police were directly involved and collected the payoffs in person. (pp. 47-65, pp. 206, 211) In some cities the relationship was

[6]All cities taxed and regulated the sale of alcohol in some manner. Some cities were in states that had already adopted complete prohibition of alcoholic beverages.

more discreet, as in Philadelphia where “vice graft” was the business of “syndicates.” (pp.116-117.) The protection rackets allowed the production of goods and services that some voters wanted, even if the majority had voted to make them illegal. The machine also limited production and extracted part of the resulting monopoly profits. The number of disorderly houses, gambling establishments, and saloons (legal and illegal) was regulated and the proprietors paid kickbacks in order to remain among the fortunate few.[7] Vice graft was not much related to the rent-seeking which interests most economists and the models and theories of corruption do not apply.

Opposition to implicit official tolerance of vice was rising during the Progressive Era, driven both by religious revivals and by growing intolerance for the foreign born (among whom the public consumption of alcohol was more common.) Rising intolerance meant rising pecuniary returns, but also rising political costs, for vice protection. It is possible that the political cost limited the exploitation of these rents. “Doc” Ames in Minneapolis was, according to Steffens, the most dependent on vice for graft. He was also, according to Steffens, not interested in re-election.

3.4 Insider trading

Insider trading was widespread in U.S. cities circa 1900, and city politicians were eager to participate. Steffens lists the Philadelphia “brokers who deal in ring securities and speculation on ring tips” (p.147) and “real estate dealers who like to know in advance about public improvements.” (p.148) George Washington Plunkitt apparently did well from insider trading,

[7]Whether vice increases or decreases utility overall depends on normative as well as positive judgements which I am unwilling to make. The social and cultural ramifications of implicitly sanctioned vice are not the subject of the essay.

buying land he knew would be condemned and bought by the city. Riordan ([1905] 1963) Insider trading occurred in real estate markets and in markets for the debt of city franchises holders (such as street car companies). The city's own corporate debt appears to have been largely protected from manipulation. Insider trading encouraged socially costly market manipulation and decreased confidence in markets, thereby decreasing economic efficiency. However it allowed politicians to cash in on rising real estate values and therefore rewarded politicians who pursued growth enhancing policies.

3.5 Boodle – bribes and kickbacks on city contracts and franchises[8]

Bribes and kickbacks paid for contracts and franchises were so common they had their own name, boodle. Bribes for contracts to provide city services, and especially to build city infrastructure, are reported by Steffens in all cities save Minneapolis. Not all contracts involved large infrastructure projects, such as roads and bridges. Local governments, the largest government sector in the U.S. in 1900, purchased a wide array of goods. City money was deposited in favored banks (St. Louis, p.23; Philadelphia, p.147; New York, p.207). City hospitals bought drugs and city poorhouses bought groceries from favored suppliers (St. Louis, p.23-24) and some cities hired out for services such as street sweeping and garbage collection. Colonel Butler, the boss of St. Louis, after successfully dodging several investigations into the distribution of street railroad franchises, was caught paying a $2,500 bribe to two members of the Board of Health in exchange for their approval of a contract for garbage collection. (St. Louis, p.40.) However, the value of contracts to purchase goods and services pales before the

[8]Boodle - the contemporary term for graft, originally a New York term, is derived from the Dutch word boedel, which means a lot or estate. Etymologically it is related to the English word "bundle."

value of payoffs on contracts for building public infrastructure. Steffens reports that between 1890 and 1900 the construction firm belonging to Boss Flinn of Philadelphia was awarded 3.5 million dollars worth of contracts for paving alone. The politicians extracted revenue by awarding contracts and franchises to themselves, as Steffens reports for Pittsburgh (p. 117) and they accepted bribes and kickbacks from private entrepreneurs. In New York, Steffens reports, "there are public works for Tammany contractors" (p.209).

This form of graft is common in the modern third world and often blamed for encouraging governments to pursue overly large, overly capital intensive projects (bridges, dams, highways through the Amazon jungle) instead of smaller scale, less lucrative government programs such as improved education, micro-lending, or reforms of the courts. U.S. cities pursued capital intensive projects, but there is little evidence that they built large quantities of unnecessary or unpopular projects. Cain and Rotella find that cities were getting good returns from sewers and water systems. Cain and Rotella (1990) The street car was extremely popular and cities were re-built to take advantage of the technology. It is impossible to determine that the choices were first best, but city governments were not stinting on "soft" investments like education either. By any reasonable measure, the choices made by U.S. cities between 1900 and 1920 look good. We are living with their infrastructure today.

3.6 Boodle and more on Franchises – the special case of the Street Car

Demand for electric street railways exploded after the first successful overhead electric system was installed in Richmond, Virginia in 1888. We sometimes view the street car as a quaint period detail, but the system was vital to the structure and economy of cities. Warner (1978) The dependence of city residents on mass transit made residents dependent on city government in a way that today's auto dependent metro-area citizens are not. The street rail road provided current city residents with new options and encouraged the development of outlying residential areas completely dependent on the street cars. The street car turned farm land into urban real estate, with a concomitant rise in value. The system of tracks was a "natural monopoly," which opened new opportunities for market manipulation, profits, and graft. A few examples from Steffens will elaborate on some of the many ways an enterprising politician could turn a street car franchise to profitable effect.

In St. Louis, Steffens reports in detail on the results of the criminal investigation of the Suburban Railway Company. The President of the firm, a Mr. Charles Turner, testified to paying $144,000 in bribes to legislators in the upper and lower houses of the St. Louis Assembly for franchise rights purportedly worth three million dollars. (p.28-34) As is clear in *The Shame of the Cities*, however, the bribe to the politician for his vote on the franchise was only the beginning of the money to be made on street rail roads. Street railway companies could be "maced" by issuing new, competing franchises to new firms and forcing the old companies to buy out, or be bought out, to maintain the valuable monopoly rights.[9] Steffens describes, in some detail, three separate instances in which street railway franchises are sold to firms whose only interest was in selling out to, or buying up, competitors, including the above mentioned Suburban Railway Company franchise deal in St. Louis (pp. 28-34), an earlier deal, the Central Traction franchise grants, also in St. Louis (p.35-37), and a "mace" of the Widener and Elkins street railway monopoly in Philadelphia (pp. 156-158)

[9]The verb "to mace" was, according to Steffens a Philadelphia term. It may relate to the noun "mace," one of whose meanings is the ornamental staff of authority carried before a public official or legislature.

Not recorded by Steffens, but amply chronicled in the histories of successful real-estate developers such as Huntington and his political allies in Los Angeles (not a machine city), was the money to be made selling real estate which the new street cars and inter-urbans made accessible to development. Bottles (1987) The fairness of the distribution of the windfall profits may be argued, but it is clear that the accessibility of the profits encouraged the city governments to franchise extensive systems of commuter rail. (In part, it can be argued, setting up a suburban pattern of development better suited to the car than the street car.) Again, the technology provided opportunities for graft which made politicians rich but also motivated them to encourage growth.

Boodle and insider trading were unlikely to produce leaders for the reform movement. Success depended on political access. A prospective contractor or street railroad owner might oppose any particular machine boss, and back his own man, but he was unlikely to want to fundamentally alter a system through which he could hope to control the market for his products.[10] There was political opposition amongst voters to street railroad and other franchise abuse. "Traction" problems, insufficient trains and overpriced service, were issues in local elections in both machine and in non-machine cities.

The timing of the street-car led expansion of cities, and the timing of the replacement of street cars with autos, closely parallels the rise and fall of the machine. The street car franchises were in trouble by World War I, with many systems overexpanded, the windfall profits from the

[10]The unsuccessful contractor or franchisee could inadvertently precipitate reform. Steffens reports how the reform D.A. in St. Louis was able to crack the Suburban Railway case when the Railway owner, impatient that his franchise extension was being held up in the courts, leaked a rumor of the payoff he had made to the St. Louis press in hopes of spooking the boodling legislature into some sort of action.

development of street car suburbs pocketed, and the new automobile encroaching on ridership just as the systems required massive new investments in infrastructure. These systemic problems were exacerbated by the unexpected war time inflation, doubling prices between 1914 and 1920. Street car fares were fixed by contract in almost every city.

3.7 Charging for services and regulating activity

In many modern theories of corruption, rent seeking damages the economy through the government's control of business activity. The power of the state is used to stifle competition, suppress innovation, and keep up the prices of domestically produced goods. U.S. cities appear to have suffered little of this sort of damage. One explanation is that in the "laissez-faire" atmosphere of the gilded age the city government simply lacked the legal resources for indulging in this sort of corrupt rent-seeking, but this simple interpretation is insufficient. Legally, city governments had relatively extensive powers of regulation, often more than the powers of the national government or even the state. The city government could legally license businesses and regulate building activity, business hours, city markets, and access to much of the vital city infrastructure. Menes (2003) The difference between modern third world bureaucrats and the sachems of Tammany Hall was not a difference in the legal ability to regulate firms, but differences in the political and economic constraints on such regulations. The politicians could not fully expropriate rents without creating costly political opposition or driving economic activity out of the city.

At the turn of the century zoning did not exist, but city governments could and did regulate construction and land use, regulate, license and inspect many businesses, and indirectly control much activity through control of access to city provided goods and services, such as train sidings, port facilities, water, gas, and even the right to sell on the sidewalk. Control of access to rail and water was a particularly effective method for extracting graft, especially from manufacturers. Common law guarantees abutters access to the roads, but does not guarantee a firm access to an adjoining railroad or wharf. Embezzlement, patronage, protection of vice, insider trading, and boodling extracted revenues largely from and through the domestic sectors of the city economy. To the extent that the graft raised the cost of production in the export sector the burden also fell on manufacturers who sold their output outside the city. The power to regulate access to freight transport, however, gave the city government power over almost every industrial establishment in the city.

Steffens gives examples of payment for access in all of the cities, except Minneapolis. In St. Louis, in a Grand Jury report presented by Steffens, an investigator reported that for at least the previous ten years, "There was a price for a grain elevator, a price for a short switch; side tracks were charged for by the linear foot, but at rates which varied according to the nature of the ground taken; a street improvement cost so much; wharf space was classified and precisely rated." (p.22-23) In Pittsburgh similar privileges were used as both a carrot and a stick, "The manufacturers and the merchants were kept well in hand by many little municipal grants and privileges, such as switches, wharf rights, and street and alley vacations [the right to build on or over a city street]." (p.109) Though in some cases the additional tracks or easements did cost the city, in many cases the firms were being charged for access to infrastructure that already existed. The city government was extracting revenue directly from the export firms.

The granting of city easements and licenses to export firms can be compared to similar deals made with domestic interests, such as shopkeepers or local builders, where it was apparently common practice to split the value of the favor. In Philadelphia Steffens reports the machine made deals "with shopkeepers who don't want to be bothered with strict inspections" and in New York "Architects and builders... [c]alled on the right man and they settled on a scale which was not fixed, but which generally was on the basis of the department's estimate of a fair half of the value of the saving in time or bad material." (p. 208)[11]

3.8 Political Response to Graft

Graft raised the price of living in the city, even for voters who supported the corrupt government. In such cases, a political machine may have had a political advantages over non-machine governments because they could pay off their own supporters for the costs that corruption imposed on everyone. As the social reformer Jane Addams reports in her essay "Why the Ward Boss Rules:" "Even when they are intelligent enough to complete the circle, and to see that the money comes not from the pockets of the companies' agents, but from the street-car fares of people like themselves, it almost seems as if they would rather pay two cents more each time they ride than give up the consciousness that they have a big, warm-hearted friend at court who will stand by them in an emergency." Addams (1898)

Voters may have valued good services over low taxes. Steffens reports with some disgust that inflated government contracts were apparently understood as a sale, at inflated prices, of real goods. "The people had been taught to expect little from their rulers: good water, good light, clean streets, well paved, fair transportation, the decent repression of vice, public order and

[11]It is interesting to note, from the point of view of the organization of a machine, that the appointed representative of the city machine in the Building Department had more leeway in setting bribe rates than the elected representative of the St. Louis' legislator's ring. Perhaps this is because the boss would have more direct control over appointed than over elected officials.

public safety, and no scandalous or open corruption, would more than satisfy them. It would be good business and good politics to give them these things... – not full value, but a good percentage." (pp. 144-145) It has even been suggested that the machine structure, because it centralized power in cities where the legal distribution of power was decentralized, was more effective at getting things done than even an honest non-machine government would have been, and that the voters valued the ability of the machine to make and carry out decisions. Merton (1957) As Steffens explains: "it was much easier to deal with a boss in promoting their corporate interests than to deal directly with the people's representatives in the municipal legislature." (p.126)

4. Conclusions

The patterns of urban graft suggest answers to the three questions raised by the experience of Progressive Era cities: Why American cities grew rapidly, despite the presence of corruption? Why American businessmen campaigned to reform urban government? And why the political machine rose so swiftly to national prominence in the last decades of the nineteenth century and then, after appearing unconquerable for nearly three decades, declined in importance almost as swiftly as it had arisen? The answers, although rooted in the particular experience of American cities, increase our understanding of the role of corruption in economic development in general.

The monetary value of graft available to urban politicians rose as the city grew. The kinds of market manipulation – kickbacks on infrastructure, franchises and vice and the manipulation of real estate markets, did not create rentier classes whose future wealth depended on suppressing future economic growth. Instead, the limited powers of the city government, especially the inability to close the borders and pursue "import substitution," ensured that a powerful and politically important group, the owners of large manufacturing firms, could not be co-opted by a corrupt city government. The economic and political institutions of the city protected the economy from many of the worst distortions created by corruption.

Finally, it is necessary to give the auto, and the metropolitan fragmentation fostered by the auto, its due. Whatever the drawbacks to "sprawl," the increased mobility of firms and residents increased competition between municipalities, and decreased corruption.

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