Volume Title: Corruption and Reform: Lessons from America's Economic History

Volume Author/Editor: Edward L. Glaeser and Claudia Goldin, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-29957-0

Volume URL: http://www.nber.org/books/glae06-1

Conference Date: July 30-31, 2004

Publication Date: March 2006

Title: Limiting the Reach of the Grabbing Hand. Graft and Growth in American Cities, 1880 to 1930

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URL: http://www.nber.org/chapters/c9978

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Limiting the Reach of the Grabbing Hand

Graft and Growth in American Cities, 1880 to 1930

Rebecca Menes

> The people had been taught to expect but little from their rulers: good water, good light, clean streets, well paved, fair transportation, the decent repression of vice, public order and public safety, and no scandalous or open corruption, would more than satisfy them . . . the public was getting something for its money,—not full value, but a good percentage.
> —Lincoln Steffens ([1904] 1957, p. 144)

American cities present us with a puzzle. Between 1880 and 1930 the cities were notorious for corruption. Corruption generally undermines government performance and cripples economic growth, but American cities prospered. The cities grew rapidly, attracting new residents from the rural United States and from abroad. American firms built new factories in the cities, developing new products and new processes and making the United States the leading industrial power in the world. The city governments accommodated the new growth, leading the world in the provision of clean water, sewers, paving, education, gas, electricity, public safety, public health, and mass transportation (Teaford 1984).

Corruption deters economic activity and investment, just as a tax does, because it lowers returns to economic activity. However, corruption can do more damage than a tax of the same size. Corruption is unpredictable and can increase as the economic returns to an activity increase. Corruption can lower the quality of government. Corrupt governments may provide

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The term "Grabbing Hand" is borrowed from Shleifer and Vishny (2002).

lower quantity and quality of the public goods and social services, such as infrastructure and education, that support economic growth. Corruption can suppress economic growth by encouraging officials to interfere with private business. Corrupt officials discourage entry and investment in the private sector by demanding bribes for licenses and inspections and by accepting bribes from businesses that wish to have local markets manipulated in their own interest. And corruption can undermine the police and courts, protecting criminals, subverting the enforcement of private contracts, and decreasing the security of property (Kaufmann 1997; Krueger 1993; Murphy, Shleifer, and Vishny 1993; Shleifer and Vishny 1993).

At the end of the nineteenth and beginning of the twentieth century, American urban politicians took advantage of their opportunities. Municipal contracts and franchises were notoriously corrupt, regulations were applied unevenly, and access to rail and water was available only for a price. In most cities, politicians and officials accepted bribes from organized crime, and in some cities, politicians and officials organized the crime themselves—especially gambling, prostitution, and illegal sales of alcohol. How did corruption *not* cripple growth? There is no single answer, but corrupt officials faced strong incentives to limit their corruption and to provide good government in spite of corruption. The open borders of the cities, the ballot box, and the bond market punished greedy politicians who ignored the limits. Rapid city growth rewarded the circumspect grafter with opportunities for what one famous Tammany Hall politician termed "honest graft" (Riordan [1905] 1994, p. 53).

In this essay, I first discuss the evidence for corruption in American cities over time and across the nation, showing that corruption did indeed peak between 1880 and 1930. Second, I compare the conditions in American cities with what we now believe to be the causes and consequences of corruption. Third, I introduce a guide to corruption as it was practiced in the United States between 1880 and 1930. Fourth, I discuss two important democratic responses to corruption, political machines and political reform.

2.1 History of American Urban Corruption

Were American cities unusually corrupt during what we now call the Reform or Progressive Era—broadly speaking, from the 1880s until the New Deal? Contemporary observers believed they were. Authors such as Lincoln Steffens and James Bryce reported that city governments had grown more corrupt than previously, that they were generally more corrupt than state or national governments, and that they were more corrupt than foreign city governments—at least, more corrupt than the governments of northern European cities (Bryce 1895, 2:163; Steffens [1904] 1957; Teaford 1984, p. 1). Ever since the New Deal, interest in many aspects of city government, including corruption, has declined. The decline may reflect a fall in corruption, or a fall in concern as the relative importance of local government declined. The histories of individual cities suggest that corruption did subside in most of the larger cities. However, it would be more convincing to find a single historical source that allows a comparison of corruption in cities across time.

The most comprehensive political history of large American cities over time is the *Biographical Dictionary of American Mayors, 1820–1980,* edited by Melvin Holli and Peter d'A. Jones. I use this history to determine whether American cities were unusually corrupt between 1880 and 1930. The *Biographical Dictionary* includes the histories of the 678 mayors of fifteen large American cities.[1] The book is not an antiquarian exercise but an academic work by two leading urban political scientists. The authors are forced by the discipline of the format to evaluate each mayor, the obscure and dull as well as the famous and colorful. Each entry includes a personal history, election or elections, and the leading issues, accomplishments, and failures of the mayor's administration, including corruption.

Government corruption is the misuse of public power for private purposes. Based on this definition, I code each mayoral administration according to two measures: (a) whether any member of the administration was reported to be corrupt, including the mayor, and (b) whether the mayor was personally corrupt.[2] I do not separate the administrations into honest and dishonest periods. If corruption ever occurred, the administration and/or the mayor is considered corrupt for the entire term of office. This classification seems more realistic than calling the government corrupt only in the year someone was caught. I now turn to consider the relationship between the measures of corruption and the city characteristics. The major limitation to this analysis is the size of the population, only fifteen cities, but it cannot be expanded since this is the historical population of large American cities.

According to the *Biographical Dictionary,* corruption in the fifteen large

1. The cities are listed in table 2.1. There is no single year in which these fifteen cities were simultaneously the largest fifteen, but viewed from the vantage of 1980 they are the fifteen most important. For ease of discussion I shall refer to this group as simply the fifteen large American cities.

2. The coding includes venal corruption and vote fraud, but not patronage or political violence. The Biographical Dictionary captures corruption that involved the mayor or senior members of the administration. The source is not perfect. Especially good grafters may have escaped detection, honest politicians were occasionally unfairly smeared, and in periods of extreme political or economic upheaval only the most serious corruption may have been noticed. The 1930s and 1960s may suffer from this last bias. However, the evaluation is far more consistent, across cities and years, than any other source I have found for the United States. When the mayor is coded as honest, I mean he was personally honest. He may or may not have condoned corruption in his administration. By this measure, Mayor Daley, Sr., of Chicago was honest. I do not code for the combination of corrupt mayor and honest administration, since it was not observed. I will employ the male pronoun for the corrupt mayors, as none of the handful of women mayors were reported to be personally corrupt.

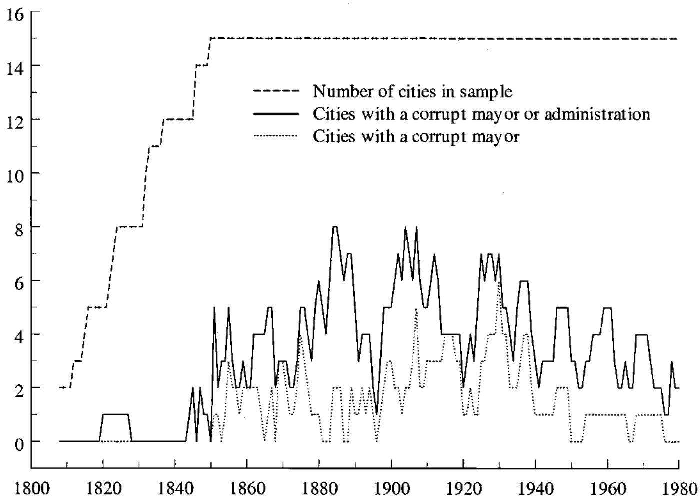

Fig. 2.1 Presence of administrative and mayoral corruption in fifteen large U.S. cities

Source: Corruption measures are derived from Holli and Jones (1980).

Note: See text for discussion and table 2.1 for the identity of the fifteen cities.

American cities peaked during the Reform Era, 1880 to 1930. In figure 2.1 I plot the change over time in the two measures of corruption, starting in 1820. According to these measures corruption was nearly nonexistent before 1850, rose between 1850 and 1880, remained at a relatively high level—fluctuating but with no overall trend—between 1880 and 1930, and then declined from the 1930s through the 1970s. In table 2.1 I summarize the presence of corruption (the first measure, mayoral and/or administrative corruption) for each of the fifteen cities.[3] Between 1851 and 1880, on average nearly one out of four of these cities was corrupt; between 1880 and 1930 the level rose by nearly 50 percent, to more than one out of three; after 1930 the reported level declined, falling back to about one out of four.

Corruption in the fifteen large cities is correlated with city size, but not with region or with city growth. In table 2.2 I report the population and rate of growth for each of the fifteen cities. In general, the larger cities were more corrupt. In the last row of table 2.2 I report the correlation between

3. Tables 2.1 and 2.2 omit 1820–1850. Before 1850, corruption is reported in only three cities, New Orleans, San Francisco, and Pittsburgh. However, this may underestimate the presence of corruption, because the population of cities is incomplete before 1850. However, even when we adjust for the number of years reported for each city, corruption was rare before 1850. For the 332 city-years covered before 1850, only fifteen city-years, or 4.5 percent, were corrupt according to the first measure. The cities for which corruption is reported are also somewhat unusual. Pittsburgh was still a small town more than a city. Politics in New Orleans and San Francisco was complicated by the transition from colonial legal systems (French and Spanish, respectively) to American.

Table 2.1 **Fraction of city-years under a corrupt mayor or administration, by city, for fifteen large U.S. cities**

City	Corruption 1850–1880	Corruption 1881–1930	Corruption 1931–1980
Baltimore	0.43	0.18	0.08
Boston	0	0.46	0.14
Buffalo	0	0.04	0.30
Chicago	0.50	0.76	0.92
Cincinnati	0.27	0.12	0
Cleveland	0	0.24	0.20
Detroit	0.03	0.26	0.12
Los Angeles	0.27	0.22	0.12
Milwaukee	0.20	0.28	0
New Orleans	0.33	0.64	0.54
New York	0.67	0.58	0.18
Philadelphia	0.17	0.68	0.42
Pittsburgh	0.23	0.32	0.06
San Francisco	0.33	0.20	0.16
St. Louis	0	0.20	0.04
Average	0.23	0.35	0.23

Notes: Corruption is measured as the percentage of years during the period in which the city had a corrupt administration or mayor. The fifteen large American cities are those whose political histories are included in the *Biographic Dictionary of American Mayors: 1820–1980* (Holli and Jones 1980). See text for discussion of the corruption variable.

population at the beginning of each period and corruption during the period. The correlation is always positive, hovering around 0.6 until 1930, then dropping to 0.28 between 1930 and 1980. Despite the small number of cities, this result is not driven by outliers. Between 1850 and 1880 three of the five largest cities were among the most corrupt; between 1880 and 1930 four of the five largest cities were among the most corrupt. Only after 1930, when the governments of both Boston and New York improved (slightly), were three of the five most corrupt cities also relatively small.[4] Corruption was not consistently related to location. Northeastern, midwestern, western, and southern cities all experienced periods of corrupt government.[5]

The American growth paradox remains. There is no evidence that corruption was good for growth, but likewise no evidence that corruption was bad for growth. Across the fifteen cities there is no statistical relationship at all between corruption and growth. As I show in the last row of table 2.2, the correlation between growth and corruption bounces around,

4. The positive correlation is not because random chance produces more corruption in the larger administrations of large cities. Each city has only one mayor, but mayoral corruption is also positively correlated with city size.

5. The two California cities may exhibit a slightly different pattern over time. Corruption appears to peak earlier, between 1850 and 1880, in Los Angeles and San Francisco.

Table 2.2 **Population and growth rates of fifteen large U.S. cities, by period, and correlated with corruption**

	1850–1880		1881–1930		1931–1980		1981–2000	
City	Pop. in 1850 (1000s)	Annual growth (%)	Pop. in 1880 (1000s)	Annual growth (%)	Pop. in 1930 (1000s)	Annual growth (%)	Pop. in 1980 (1000s)	Annual growth (%)
Baltimore	169	2.25	332	1.77	805	–0.05	787	–0.95
Boston	137	3.25	363	1.53	781	–0.66	563	0.23
Buffalo	42	4.33	155	2.61	573	–0.94	358	–1.01
Chicago	30	9.40	503	3.81	3,376	–0.23	3,005	–0.18
Cincinnati	115	2.64	255	1.14	451	–0.31	385	–0.76
Cleveland	17	7.47	160	3.45	900	–0.90	574	–0.91
Detroit	21	5.70	116	5.20	1,569	–0.53	1,203	–1.18
Los Angeles	2	6.46	11	9.41	1,238	1.75	2,967	1.10
Milwaukee	20	5.84	116	3.22	578	0.19	636	–0.32
New Orleans	116	2.06	216	1.51	459	0.39	558	–0.70
New York	516	2.83	1,206	3.50	6,930	0.04	7,072	0.62
Philadelphia	121	6.48	847	1.67	1,951	–0.29	1,688	–0.53
Pittsburgh	47	4.04	156	2.91	670	–0.91	424	–1.18
San Francisco	35	6.36	234	2.00	634	0.14	679	0.67
St. Louis	78	5.01	351	1.70	822	–1.19	453	–1.32
Average	98	4.90	335	3.0	1,449	–0.2	1,423	–0.4
Correlation with corruption	0.59	–0.13	0.61	–0.09	0.28	0.00		0.02

Notes: The population figures are from Gibson (1998). Growth in first three periods is correlated with corruption during the period. Growth in the last period (1981–2000) is correlated with corruption 1931–1980. Population at the beginning of each of the first three periods correlated with corruption during the period.

sometimes negative, sometimes positive, but never far from zero. Yet all fifteen cities were growing between 1850 and 1930, while corruption was rising. Corruption began to fall after 1930, just as growth rates stagnated. The puzzle remains.

Are these rates of corruption high or low? On the one hand, even during the worst years of urban corruption, at most eight of the fifteen cities are reported as corrupt. On the other hand, the *Biographical Dictionary* only reports corruption that occurs at a relatively high level of the administration, so these numbers represent a minimum estimate of the presence of corruption. None of the cities were immune to corruption during the Reform Era. Even Buffalo, the least corrupt of the cities, spent two years under a corrupt administration. However, none of these cities were always corrupt. Even Chicago, the most corrupt, spent twelve years under reportedly honest administrations. In short, the evidence suggests that corruption was common, but so was resistance to corruption. The political histories also show that political competition and regime change were common in American cities. Even during the most corrupt periods, the corrupt mayors and council members operated in a world where they could be voted out of office.

2.2 Growth and Corruption: American Cities Since 1820

In this section I explore the forces that encouraged corruption and those that suppressed it. Economists and political scientists have explored the relationship between corruption, poor government, and growth. Corruption can undermine growth as a tax does, by lowering the returns to economic activity. Corruption also undermines growth because it leads to poor government (Kaufmann 1997; Wei and Shleifer 2000). One explanation for the relative success of American cities is that, despite corruption, they had relatively good government, but this only replaces one puzzle with another. Why, in American cities, did corruption not lead to poor government?

From 1880 to 1930 the dominant economic feature of American cities was growth.[6] Corruption may be bad for growth, but growth attracts corruption, especially the kind of growth enjoyed by American cities. It was the period of the merger movement and the robber baron, a period of growing concentration in industry and of growing monopoly profits. Technological advances also made cities more attractive locations, including improvements in transportation, water, sewers, public health and safety, education, roads and bridges, and professional police and fire departments. The improving city amenities meant cities were creating their own

6. I am equating population growth with economic growth. Although this is not accurate for a country, it is accurate for a city embedded in a large economy with free movement of capital and labor. Cities with high wages and high returns to capital grew in size. Cities with low wages and low returns lagged.

rents. Finally, the growth in city populations and the increasing diversity of city populations strained the old structures of city government and provided opportunities for entrepreneurial politicians to accommodate the diverse interests, for a price.

The strongest force suppressing corruption and encouraging good government was competition between cities. From 1880 to 1930, American cities competed with each other to attract growth. The competition between cities limited urban corruption. The cities were (and are) small open economies. They competed with each other to attract new firms and new business. They depended on local taxes, and when they borrowed money, they did so on their own credit. The local firms depended on markets outside the city. Cities could not control imports and could not manipulate markets outside their borders, nor could they control the passage of capital and labor across their borders.

As Shleifer and Vishny (1993) have explained, competition between governments reduces corruption. If a business faces one corrupt politician, the politician can charge the "monopoly" bribe and extort any economic profits enjoyed by the firm. If the business can deal with any one of a number of politicians to get what it requires, then the competing politicians will bid down the bribe. However, if each business must make deals with many politicians, then the bribes can get quite high. Like up- and downstream monopolists, the politicians will overcharge, driving firms out of business and lowering the overall observed level of bribes but increasing the burden of corruption. This simple model has many applications to American cities. The cities were exquisitely aware that they competed with each other for new businesses and new residents. Voters cared whether their cities prospered, and politicians cared about reelection. Corruption also grew more lucrative as the city grew, so corrupt politicians had even more incentive than honest politicians to encourage city growth (McGuire and Olson 1995; Olson 1991).

The open economy of the city also encouraged local elites to favor good government and pro-growth policies. Open borders limit the favors that a corrupt government can grant to a local industry that depends on markets outside the city. As Krueger (1993) points out in her essay on "vicious and virtuous circles," government officials and businessmen can be allies. She compares growth in developing nations that chose to pursue import substitution policies to growth in nations that chose export-oriented policies. In the import-substituting countries (common in Latin America), local business owners became dependent on the government trade restrictions and lobbied to have them maintained. Over time the economy fell further and further behind, forcing ever more restrictive policies to keep the import-substituting industries alive, a "vicious circle." On the other hand, countries (such as the "Asian tigers") that started with export-oriented policies developed a political elite whose preferred policies were good for growth, a "virtuous circle." Firm owners in Korea and Japan are as involved in politics as those in Argentina or Mexico, but the firms in the "virtuous," export-oriented countries find it in their interest to encourage an efficient economy with good provision of public goods, low tariffs and taxes, and other pro-growth policies. In American cities, the local elites did not stay out of politics, but they were export oriented and they wanted good government and growth (Hays 1964).[7]

Another limit to corruption before the New Deal was the fiscal independence of cities and the resulting municipal dependence on the local tax base and the national bond market. Although legally creatures of the state, cities depended on their own taxes, not on state or federal funds, both for regular expenses and to back loans to build infrastructure. From 1880 to 1930 cities did a lot of building, which was largely funded through the municipal bond market. The municipal bond market was one of the first parts of the financial industry to come under government regulation. During the financial difficulties of the 1870s a number of cities were forced into default. As a result, many state governments passed reforms that limited municipal borrowing (Monkkonen 1996). In a large number of states, the debt was limited to a set proportion of the taxable real estate of the city, generally 5 percent. In other states, the city could not issue bonds without a voter referendum or without establishing a mechanism of guaranteed tax receipts for the repayment of the bond (Nelson 1907). Everywhere the cities were forced to open their books. These rules reassured investors, who were quite willing to buy municipal bonds. Their confidence in the cities was well placed. No city of any significant size defaulted between the 1870s and the Great Depression (Monkkonen 1996).

The border imposed one more limit on urban corruption. The city was a creature of the state, and subject to state law. Both the state and later the federal government could investigate and prosecute city officials. The court system was relatively protected, and the rule of law was generally enforced in American cities.

Considering the limits to corruption, we might wonder that politicians were able to profit from political control. However, some conditions between 1880 and 1930 favored corruption. The ability of firms and residents to leave the city constrained corruption, but the cost of escaping the legal boundaries of the city was higher during the Progressive Era than it was before or after. In many cities, the border followed development out through annexation. Suburban willingness to accept annexation shows that residents and firms located outside city boundaries valued city services more than they feared city corruption. Technology also determined the value firms placed on urban locations. After the 1880s, two developments accel-

7. Reform-Era American businesses did want export-oriented policies from the federal government. Pressure from business kept the U.S. import tariffs high.

erated the concentration of economic activity in cities: the national rail system created a true national market, and the electric streetcar allowed large numbers of workers to live in the suburbs and work in the central cities. City wealth and urban and suburban real estate values grew (Mills and Hamilton 1994; Warner 1978). These developments made it more difficult for large firms to leave the political boundaries of the city and therefore increased the sustainable level of corruption. The growing dependence on large, steam-driven plants also kept firms near the railroads that delivered coal.

By the 1920s the car and the truck began to allow residents and firms to leave central cities for suburban or (later) ex-urban locations. After the 1950s, trucks and the interstate highway system largely replaced rail for lightweight long-distance freight. The auto released workers from the streetcar (Bottles 1987; Garreau 1991; Mills and Hamilton 1994). The new transportation options did not destroy the central cities. The population of most larger, older cities peaked only in 1950 or later, and the population of many large central cities has now stabilized as rising service-sector jobs replace the lost manufacturing jobs. But the internal combustion engine has decreased the level of corruption a central city can support before the firms and wealthier residents leave. The development of the electrical grid and the electric motor released manufacturing plants from coal, and from the railroads that delivered coal.

Before 1930 the higher quantity and quality of government goods and services found in the larger cities also encouraged residents and businesses to stay inside the city borders. After 1930 the central cities began to lost this advantage to the suburbs. During the period from 1880 to 1930 government responsibilities were growing rapidly. In the early part of the period, central cities appear to have had an advantage in producing many of the new public goods and government-provided services. Water and sewer systems were especially costly and difficult for the growing suburbs to build, but even education required significant capital outlays, to build new schools, especially expensive new high schools. Over time the central cities' advantage declined, as suburbs improved the quantity and quality of public goods. In many states, changes at the state level forced cities to share large systems, like water. Suburban municipalities learned how to borrow money and build their own infrastructure. And the populations of the suburbs rose until many were small cities of their own, able to support quality government goods and services.[8] As residents and firms moved to the suburbs, the central cities found themselves with aging infrastructure and relatively larger populations of poor residents, which shifted the advantage in government quality away from the central cities. The level of sustainable corruption dropped.

8. Today it is estimated that the economies of scale in most urban government services are exhausted around 100,000 in population (Mills and Hamilton 1994, p. 335).

Competition constrained corruption but did not eliminate it. Cities were not perfect substitutes for one another. It could cost a firm quite a bit to relocate. The large cities, such as New York, Chicago, and Boston, were the most valuable business locations. They were home to the largest banks, the main wholesale markets, the largest populations, and the most varied and sophisticated labor markets. Many firms needed to be in the biggest cities, giving the politicians in those cities monopoly power. This may explain the observation that the largest cities were the most corrupt.

2.3 Types of Corruption

I now consider how these forces shaped corruption and the quality of government in American cities during the Progressive Era. Contemporary reports and popular histories of American cities have always featured tales of bribery, embezzlement, graft, kickbacks, political influence peddling, insider trading, and criminal cover-ups, collected by enterprising investigative journalists, crusading district attorneys, and ambitious rival politicians. Secondary histories have placed these examples into the historical narrative. One original source is important enough to merit separate discussion: Lincoln Steffens's series of essays for *McClure's* magazine, *The Shame of the Cities* ([1904] 1957). Steffens's essays, written between 1901 and 1903, were intended to show readers where to look for corruption. Steffens was not an unbiased observer. He believed that American businessmen, not poor or ethnic voters, were the source of corruption, and he spent no time looking for political machines. He was suspicious of every government responsibility and every private-sector partner, and his essays paint a detailed and remarkably comprehensive picture of venal corruption in American cities at turn of the twentieth century.

The corruption common in Reform Era cities can be divided into four basic categories: (a) embezzlement, (b) graft on public contracts and franchises, (c) regulatory corruption, including graft on crime, and (d) insider trading.

The most striking aspect of embezzlement is how little occurred during the Progressive Era. Between 1880 and 1930 reports of outright theft are puzzlingly rare. Steffens reports only three examples, and only one is substantiated. In Pittsburgh, $300,000 disappeared from the city attorney's office. Cancelled checks suggested that at least $100,000 of this money went directly to Boss Flinn. Although $100,000 is the equivalent of $2 million in 2004, it is dwarfed by Flinn's building contracts with the city.[9] The

9. All the conversions from period to modern dollar values are computed using the consumer price index (CPI). The conversion rates used are available on the economic history services website, www.eh.net. For discussion of the historical estimation of the CPI, see McCusker (2003).

paving contracts alone were worth $3.5 million, or $70 million in 2004 dollars (Steffens [1904] 1957, pp. 119–21).

Contemporaries noticed the politicians' self-control. It is one of the main points of William Riordan's charming book of interviews with Tammany politician George Washington Plunkitt. "The books are always all right," Plunkitt explains; "the money in the city treasury is all right. Everything is all right. All they [the reformers] can show is that Tammany heads of departments looked after their friends, within the law, and gave them what opportunities they could to make honest graft" (Riordan [1905] 1994, p. 56). Contemporary investors also found that city governments could generally be trusted. City bonds were considered safe and were issued at low interest from the 1880s on.

Open books kept the city administration honest. Opening the books was one of the earliest, least controversial, and most successful reforms of the Reform Era. At first individually, and then by mandate of the federal government, cities opened and published their accounts. In 1902 the Bureau of the Census began publishing an annual series of city expenditures, assembled from the city books by accountants hired and trained by the bureau. Only thirty-one years earlier, the Tweed Ring had been able to keep New York City's accounts secret. It would be another thirty-one years before publicly traded companies would be forced to open their books.

The second form of corruption, graft on contracts and franchises, was more rewarding. Enterprising government officials (elected and appointed) found it easier to skim from the legitimate provision of government goods and services. After 1880, local governments were responsible for providing, or arranging for the provision of, a rising array of goods and services. Sometimes the city government contracted with private firms to provide goods and services, such as street cleaning and medicines for government hospitals. In other cases the government arranged for private firms to provide the services directly to the public, through government departments or municipally owned firms. Embezzlement was rare, but corrupt contracts were not. Even before the Civil War the mayor was expected to deliver the city printing contract to the publisher of the most loyal newspaper.[10] By the early twentieth century, according to Steffens, city money was deposited in favored banks in St. Louis, Philadelphia, and New York. In St. Louis, city hospitals bought drugs and city poorhouses bought groceries from favored suppliers. The St. Louis boss, Colonel Butler, after a career of questionable activity, was finally convicted of paying a $2,500 bribe to members of the Board of Health for a garbage contract (Steffens [1904] 1957, pp. 23–24, 40, 147, 207).

The most lucrative contracts were in construction. Many political bosses

10. This little piece of patronage was so standard that the Biographical Dictionary entry only mentions it if the mayor messed it up.

invested in construction firms. In Pittsburgh, Boss Flinn "went in for public contracts." He built buildings, streets, and bridges for the city (Steffens [1904] 1957, pp. 115–24). In Philadelphia, Boss Martin's business partner, Porter, handled the construction contracts (Steffens [1904] 1956, p. 145). In New York "Tammany has a good system of grafting on public works" (Steffens, p. 210). The early twentieth-century Tammany boss, Charles Francis Murphy, was a silent partner in his brother's construction firm, New York Contracting and Trucking. In 1905, the firm and its subsidiaries received $15 million worth of city contracts (Allen 1993, p. 211).

Reformers attempted to prevent these thefts, but they were less successful than they were against embezzlement. Although laws were passed requiring competitive bidding, Steffens reports for Pittsburgh and Philadelphia that bids were rigged and jobs designed to favor a particular bidder. Bidding was also manipulated by collusion. G. W. Plunkitt reports colluding with fellow bidders on a government surplus auction (Riordan [1905] 1994, p. 55). Rules that required competitive bidding could keep costs down, but they encouraged poor quality. Concerns about quality led reformers to adopt the unusual reform of replacing private producers with city departments or city-owned firms. As an economy measure, substituting private provision with municipal ownership is a questionable tactic, as municipal employees have little incentive to cut costs, but they also have little incentive to cut quality (Glaeser 2001).

Although according to Steffens corrupt contracts both raised costs and lowered quality, Reform Era American cities apparently avoided the most costly problem associated with corrupt contracts—that the opportunity for graft encourages governments to choose the wrong projects. Modern corrupt nations divert resources from projects with high social return but low opportunities for graft to projects with lower returns but better opportunities (Kaufmann 1997, p. 119; Mauro 1995; Shleifer and Vishny 1993). The earliest reformers did complain of excessive building. In New York City, the reform Mayor Havemayer, elected after the Tweed scandals of the early 1870s, thought the Brooklyn Bridge an immense waste of taxpayer money. The voters rewarded his position by returning Tammany Hall to power in the next election. By the turn of the twentieth century the reformers were no longer complaining about excessive construction of infrastructure or provision of services. Neither Steffens nor his contemporaries mentions the problem of too much infrastructure; a number of reformers complained of too little (Hays 1964). Apparently, corrupt politicians found it easiest and safest to steal from projects that the voters and bond buyers thought were worth building.

Cities have been far less careful in the late twentieth century. We can compare the construction of New York City's first subway to the construction of the Los Angeles subway. The New York Interborough Rapid Transit (IRT) line was begun in 1900 and finished four years later, opening

October 27, 1904. The IRT line was 23.5 miles long, with two underwater tunnels, one to the Bronx and one to Brooklyn. The $40 million for the construction was paid by the city, which raised the money through bond issues. The $20 million for equipment was the responsibility of the line operator, the McDonald Company (*New York Subway Souvenir* 1904). Together, the cost was equivalent to about $1.1 billion in 2004 dollars, of which a decent percentage appears to have been corruption (Glaeser 2001). But it was worth building. By December, the system was averaging 300,000 passenger trips per day. Originally planned for a maximum ridership of 600,000 trips per day, ten years later, the system was providing 1.2 million trips per day (Hood 1968). By any measure, the subway was a success.

The Los Angeles subway, on the other hand, has been described as "a fiasco of epic proportions" (Claiborne 1998). In the 1970s the federal government, eager to decrease consumption of gasoline, offered to subsidize subway construction. Los Angeles broke ground in 1986, the first segment of the Red Line opened in 1993, and three more segments followed, in 1996, 1999, and 2000, for a total system length of 17.4 miles (Trinidad 2004). The total cost of the Red Line has been about $5 billion dollars, about half of which has been covered by the federal government (Claiborne 1998; Trinidad 2004). Most of the $5 billion dollars was not corruption, but that did not make it a good investment. The system was planned to handle 300,000 riders per day, but in 2004 the average weekday total was only 102,000 (APTA 2004). The subway does have value, but the $5 billion would probably have been better spent on upgrading and expanding the heavily used Los Angeles metro area bus system.[11]

Construction contracts were lucrative sources of graft, but city franchises could be worth even more. Several important new industries emerged at the end of the nineteenth century, including gas, electricity, and the streetcar. In many European countries these new services were the responsibility of the government, but in the United States they were usually provided by private firms working under franchise to the city government. The gas, electric, and traction firms required franchises to run lines on, under, or over the city streets. Owning a construction firm could make a man rich. Owning a city-franchised utility or streetcar line could elevate a man to the exalted wealth of the Gilded Age elite. Streetcar magnates married Vanderbilts (Whitney) and left their names attached to libraries (Huntington, Widener), museums (Whitney again), and scientific institutions (Yerkes Observatory). As entry into these industries was controlled by the city government, corruption was inevitable.

11. In a final twist, the Los Angeles Bus Riders Union successfully sued the Los Angeles Metropolitan Transportation Authority (MTA) for bias, under the Civil Rights Act of 1964. The Los Angeles MTA has signed a consent decree, agreeing to transfer funds from the rail system, with its relatively white and middle-class ridership, to the bus system with its overwhelmingly minority and poor ridership.

Steffens caught the street railway industry in the midst of a period of competition and consolidation. He found city officials taking advantage of their power over the streetcar franchises in five of his six cities: St. Louis, Pittsburgh, Philadelphia, New York, and Chicago. The consolidations had reopened the franchises, and the cities took advantage. Blackmailing a streetcar company by monkeying with the franchise even had a name: it was called a mace (Steffens [1904] 1957, pp. 156–58).

Municipal corruption was only one aspect of traction corruption. The streetcar companies engaged in the same sorts of corporate shenanigans as their bigger cousins, the long distance railroads. The managers, owners, and financiers manipulated the price of the common stock, set up construction firms to build the streetcar rails and overpaid themselves, and speculated in real estate along the streetcar lines (Hendrick 1919; Jackson 1985). In many cities, owners of the streetcar lines could make more money out of real estate speculation than from the line itself. "Borax" Smith in Oakland, Henry Huntington in Los Angeles, and Senator Francis Newland in Maryland built streetcar lines whose purpose was to sell suburban real estate (Jackson 1985, p. 124).

The danger posed by government monopoly is usually that the government will suppress entry and raise prices in order to protect the value of the monopoly. In the developing world this tendency is one of the reasons that corruption appears to suppress economic innovation (Murphy, Shleifer, and Vishny 1993, p. 413). But that does not appear to have been a serious problem for American cities before World War I. Although the system was corrupt, streetcar lines were built quickly and covered many miles. The street railways, powered by horses and cables, began to spread after the Civil War, but the real growth came after Frank Sprague perfected the overhead electric line in 1887. Within fifteen years, all major cities and many relatively minor ones had electric streetcars. In 1901–2 the traction systems in large cities (population above 350,000) provided on average 243 trips per year for every man, woman, and child in the city (Teaford 1984, p. 236). In much of Europe, where owners of streetcar lines were forbidden to speculate in abutting real estate, lines were built more slowly and were not as long (Jackson 1985, p. 124; Teaford 1984, p. 236).

The model of competing corrupt officials proposed by Shleifer and Vishny (1993) may explain why city governments were not able to limit entry. In most cities franchises were distributed by the city council. The owner who sought a franchise did not have to bribe every council member, only a majority, so the politicians were forced to compete with each other for the bribes. In St. Louis, according to Steffens, the president of the Suburban Railway Company, Charles Turner, approached the city boss, Colonel Butler, about expanding the grants to his streetcar line. Turner found Butler's price of $145,000 too steep, and he sought a different political broker. A Mr. Stock agreed to handle the deal for only $135,000, which

Stock would distribute among a sufficient number of councilmen to pass the bill. For Turner this would prove a foolish economy. According to later testimony, the value of the franchise extension was something between $3 and $6 million. Butler was the boss of the St. Louis machine; Stock was a lobbyist for the brewery industry. Stock was not able to prevent a legal setback, a court mandate that held up the new franchise, nor was he able to keep his "ring" of councilmen in line. Somebody leaked the story to the press, although without naming names, in hopes of forcing the final payment. The anonymous leak alerted a politically ambitious state prosecutor, Joseph W. Folk. Folk put pressure on Turner, the president of the streetcar line, and the whole conspiracy quickly unraveled (Steffens [1904] 1957, pp. 28–30).

There is also evidence that voter pressure prevented the governments from limiting entry, even when the bosses controlled the legislature. By 1900 New York City had nearly 1,300 miles of surface and elevated lines, much of it owned by Tammany supporters. In deference to their supporters, the government had blocked the building of a subway for most of the 1890s, but not even Tammany Hall could hold out against the demand for improved mass transit. Public opinion forced the city government to authorize the start of construction on the IRT in 1900 (Katz 1968, p. 10).

Corruption and profits on city franchises rose and fell together; the fall was almost as swift as the rise. By World War I nearly every state regulated franchises, including the streetcars (Hendrick 1919, p. 44; McCormick 1981). The regulators made it more difficult for city governments to play games with franchises, but they also prevented the utilities and traction companies from raising prices. The inflation of World War I, followed by the automobile, hit the streetcar industry hard in the 1920s. The deflation of the Great Depression took some pressure off prices, but ridership fell when one-quarter of the workforce was out of work. Ridership recovered during World War II but fell again in the 1950s. In the decades after World War II most streetcar systems were bought out by city governments and converted to buses. The electric and gas utilities did not go out of business, but they were increasingly regulated; state-appointed commissions policed the firms and their debt and investments, and regulated prices.

The third basic category of corruption regularly practiced by urban politicians was graft from the manipulation of laws and regulations. Regulatory corruption occurs when a private individual bribes a representative of the government to ignore legitimate regulations or when a government official extorts payment by threatening to impose regulation with unusual severity or to withhold approval for an activity.

Among the most lucrative laws were those banning or regulating what the Progressive Era called "vice" and what we call "victimless crime": prostitution, gambling, and the sale of alcohol and drugs. Graft on crime was not invented during the Reform Era, and it has not disappeared. However, between 1880 and 1930 the responsibility for crime graft reached unusually high up the hierarchy of government. Mayors and bosses, not just corrupt police, benefitted. Steffens reports that in "New York and most other cities" police blackmail was the dominant form of graft, and at least a few Tammany leaders were surprised to learn from the Lexow Committee investigations that the police collected $4 to $5 million per year ($80 to $100 million in modern dollars).[12] In Pittsburgh, however, "[vice] is a legitimate business, conducted, not by the police, but in an orderly fashion by syndicates"—that is, by organized crime. Steffens's informant claimed that the annual bribe of $250,000 went directly to the Pittsburgh bosses, Flinn and Magee (Steffens [1904] 1957, pp. 115–16).[13] In Minneapolis, according to Steffens, the government was the syndicate. The boss, "Doc" Ames, did not run a machine, was not planning on reelection, and was simply stealing everything he could lay his hands on through his control of the police department. Ames was caught and convicted fairly swiftly. More successfully, Tom Dennison, a professional gambler and the boss of Omaha, organized the vice trade and ran it like a department of the city government. He remained in power for almost three decades, doing especially well under Prohibition, until he was indicted for murder (Menard 1989).

By the 1920s the political bosses were largely replaced by mob bosses, who specialized in crime. The mob paid off the government, but the government no longer controlled the industry. The establishment of formal police departments during the nineteenth century may have initially increased graft on crime, since the police were a natural organization for shaking down gamblers, prostitutes, and saloon keepers, but police corruption was not popular with voters. The police were generally the first department to come under civil service rules, although this did not always end political interference. Police corruption has not disappeared, but it is now rarely organized by the city mayor, boss, or police superintendent. Likewise, Prohibition may also have originally encouraged a closer relationship between the city government and criminals. Unofficial tolerance of vice served to bridge otherwise apparently irreconcilable political conflicts that arose out of the cultural and ethnic diversity of late nineteenth- and early twentieth-century American cities. But in the 1920s national Prohibition increased the returns to scale in crime. National Prohibition was also accompanied by a rise in the level of violence associated with organized crime, perhaps driven by increased profits or by cheaper automatic weapons. The level of violence required to establish and maintain a position in the liquor business during Prohibition was not, apparently, some-

12. The Lexow Committee was one of a series of committees that have investigated corruption in New York City. It was organized in 1894 at the instigation of the Society for the Prevention of Crime, which was established in New York in 1877.

13. Since the population of Pittsburgh was about one-tenth the population of New York, the syndicates were paying about half the per capita rate paid in New York.

thing most city administrations could stomach, with a few notorious exceptions (such as Boss Dennison in Omaha).

The cost of graft on crime is not the graft, and it is generally not limited to the cost of the crime. Rather, graft on crime undermines the police and the rule of law, and fosters violence. Today alcohol is legal, but the trade in illicit drugs is lucrative and violent and is a serious problem in many central cities and in a number of developing countries.

City governments regulated more than crime. The city government, usually the council, controlled an array of grants to use city streets and to access railroad yards and docks (Teaford 1984). According to Steffens, corrupt politicians and appointees were willing to put their regulatory power to lucrative purpose. In St. Louis the legislators in the upper and lower chambers of the city council had a regular schedule of prices for "all possible sorts of grants. . . . There was a price for a grain elevator, a price for a short switch; side tracks were charged for by the linear foot, . . . a street improvement cost so much; wharf space was classified and precisely rated . . . nothing was passed free of charge" (Steffens [1904] 1957, pp. 22–23). In Pittsburgh, with a stronger boss, a businessman went straight to Chris Magee if he wanted one of the "little municipal grants and privileges, such as switches, wharf rights, and street and alley vacations" (Steffens, p. 109).

This graft—the granting of rail and wharf access and the right to build over city streets—gave the city government access to the profits generated by large manufacturing firms and railroads. Steffens was convinced that "Big Business everywhere is the chief source of political corruption" (Steffens [1904] 1957, p. 204). Since Steffens viewed corruption as a moral failing, he held both parties equally responsible. Manufacturing firms, however, did not want to have to pay the city in order to access the railroad or waterfront. Similarly, regulatory corruption is a serious impediment to business in many countries, where a successful firm can expect to pay an endless stream of bribes to secure the necessary permits and licenses and forestall sudden inspections and threats of closure. The graft that Steffens documented, however, was generally a one-time extraction. The business paid to gain access to a city-controlled asset. The legal right to access the asset was granted by a vote of the city council, so a businessman knew that, once the council voted, the right was his.

But the kind of regulations that allow for repeat graft, such as regulations regarding health, employment, construction, and liquor, were among the many reforms passed during the period. The police and the growing army of inspectors hired to enforce the new rules took advantage of their responsibilities. Steffens reports deals with "shopkeepers who don't want to be bothered with strict inspections" in Philadelphia and architects and builders in New York who could buy off the inspectors, "generally . . . on the basis of the [Building] department's estimate of a fair half of the value of the savings in time or bad material" (Steffens [1904] 1957, pp. 148 and

208). The mechanisms limiting this sort of graft are not entirely clear, but it may be that city governments limited this corruption in order to protect growth. However the constraints were imposed, regulatory corruption in the United States does not appear to have been so bad as to either cripple business or undermine the new building and health codes introduced by the reformers. Hurricanes and earthquakes revealed individual failures, but not the systemic failures that such disasters can reveal in the third world today. During the Reform Era, American cities grew steadily larger and more densely populated, and yet healthier and safer (Teaford 1984; Troesken 2004).

The flight of industry to the suburbs has probably decreased the burden of regulatory corruption in cities. Offices are the sector of the economy least susceptible to regulatory shakedown. Steffens noticed that regulatory corruption was limited in New York City because "most of the big businesses represented in New York have no plants there. . . . [T]he biggest and the majority of our financial leaders, bribers though they may be in other cities and even in New York State, are independent of Tammany Hall, and can be honest citizens at home" (Steffens [1904] 1957, p. 204). This suggests that regulatory corruption has been lessened by the movement of manufacturing out of the cities. It is also possible that regulatory corruption has distorted the distribution of economic activity between city and suburb.[14]

The final form of corruption regularly pursued by city politicians was insider trading, which occurs when a party to private information uses the information to make an advantageous purchase or sale. In Philadelphia, according to Steffens, there are "real estate dealers who like to know in advance about public improvements." George Washington Plunkitt enthusiastically engaged in insider trading: "Supposin' it's a new bridge they're goin' to build. I get tipped off and I buy as much property as I can that has to be taken for approaches. I sell at my own price later on. . . . Wouldn't you? It's just like lookin' ahead in Wall Street or in the coffee or cotton market. It's honest graft" (Riordan [1905] 1994, p. 54). In 1900, insider trading was common on Wall Street, and not clearly illegal. Politically, inside tips were a useful and largely untraceable currency: they allowed a politician to make money, to provide a favor or bribe to someone else, or to receive a payoff himself. Insider trading is now illegal, which has decreased the practice but not eliminated it.

Insider trading weakens property rights and may have discouraged investment in urban real estate. On the other hand, it was a mechanism that aligned the interests of politicians with the growth of the city. Politicians who had invested in local real estate or owned stock in local firms had a

14. On the other hand, if other costs are low enough, manufacturing can live with corruption; otherwise, manufacturing would not be moving from the United States to China.

powerful incentive to pursue policies that encouraged growth. There is evidence that this relationship did not disturb voters. Los Angeles was unusually dependent on investment in infrastructure for its growth. The Los Angeles voters regularly elected businessmen and real estate developers they could trust to vote for pro-growth policies. For example, in 1898 the voters elected landowner and developer Frederick Eaton as mayor. He was an early booster of an aqueduct to bring water from the Owens River to the city. No one was disturbed that the water would also increase the value of his large land holdings (Holli and Jones 1980, p. 108).

These were the dominant forms of graft practiced in American cities during the fifty years from 1880 to 1930. I am not arguing from this evidence that graft was good for the American economy, but rather that it was relatively benign, as corruption goes. City politicians would have been perfectly content to steal more, even at the cost of growth, but they were limited by the forces already identified—the open border, the voters, and the bond market. To make this point, let us consider two unusual examples of graft, when politicians escaped some of the usual constraints. Both cases involve attempts to monopolize local markets.

Border corruption is the manipulation for private benefit of trade in goods, capital, or labor across the border. It is the one important category of graft that was largely unavailable to city government. In general city governments, unlike national governments, could not pursue import substitution as a policy; they could not favor inefficient local firms over efficient foreign firms or manipulate the currency. This limitation prevented some of the most harmful forms of corruption observed today in the developing world (Krueger 1993). However, because four of the five boroughs of the city are on islands, New York City wielded an unusual amount of control over its own border—at least over waterborne trade. In 1899 the boss of Tammany Hall, Richard Croker, and a number of his lieutenants decided to use this control to monopolize the ice trade. At the time, ice was harvested in the winter in New England and upstate New York. It was stored in sawdust or straw and brought to New York City by boat as needed, with demand peaking in the summer. Croker and his conspirators arranged for the American Ice Company to purchase every ice company of any consequence in New York City. In early 1900 the *New York World* revealed that a large number of Tammany politicians owned stock in the American Ice Company. Mayor Van Wyck held about $678,000 worth; Croker's deputy, John F. Carroll, owned about $500,000 worth; and Croker and his wife about $250,000, along with a number of other politicians, including (future Tammany boss) Charles F. Murphy and Murphy's real estate partner, Peter F. Meyer. These last two controlled the key asset in the scheme—the New York docks. Murphy and Meyer closed the docks to the few firms that had not signed up with the American. On April 4, 1900, the

World broke the news that the Ice Trust would double the price of ice, from thirty cents to sixty cents per hundredweight.

But the Ice Trust quickly unraveled, revealing the limits on even the most powerful political machines. In 1900 ice was an urban necessity, not a luxury. The high price was especially hard on the poor—Tammany Hall's most ardent supporters. The *World* forced Mayor Van Wyck and the dock commissioners to appear in court (a power that the *World* had thanks to a reform law written into the city charter after the scandals of the Tweed ring). The individuals admitted they owned stock, although they denied they had been given the stock in exchange for political favors, but shortly afterward the American Ice Company announced it was reducing the price of ice to forty cents per hundredweight. However, the political damage could not be entirely undone. Tammany's most loyal supporters felt betrayed, and Tammany lost the 1901 mayoral election to the Republican reform candidate, Seth Low (Allen 1993, pp. 199–205).

The second example goes better for the monopolists, although it is not clear that any actual corruption was involved. In general, American politicians were in favor of new business and innovation. However, innovation was understood to involve a technological improvement made by a large firm, or by a small inventor who then created a large firm. Few in the cities recognized the "jitney" as a potentially valuable innovation.[15]

In 1914 the streetcar companies faced their first serious competition for urban commuters. By the beginning of World War I the franchise wars that Steffens had observed were largely over. In most cities the streetcars were a regulated monopoly or duopoly. The five-cent flat fare was nearly universal, generally written into the franchise contract. The five-cent fare entailed cross-subsidization; the streetcar companies made money on the short trips in downtown but lost money on the commuters they carried out to the distant suburbs, but the five-cent fare was extremely popular with voters. Then, in Los Angeles, a few out-of-work laborers who owned secondhand cars began to shadow the streetcars in downtown, offering to carry commuters for the same price the streetcar charged, five cents. The jitney craze was born. Within a year the innovation had spread to most of the larger cities in America. The jitneys, usually secondhand Ford touring cars, could carry half a dozen to a dozen riders. Driving a jitney was a marginal employment. Drivers were willing to work for low returns. Some drivers, often construction workers, switched to operating a jitney when they were unemployed. Other drivers picked up riders only on their morning and evening commutes. The streetcar companies could buy omnibuses and

15. The history of the jitneys is derived from three sources: a contemporary analysis of the economics of jitneys by F. W. Doolittle (1915) and two more recent analyses (Eckert and Hilton 1972; Schwantes 1985).

compete with hired drivers, but not at five cents a ride. On the other hand, the jitneys could only compete on the short, heavily traveled inner city routes. The outer suburbs still depended entirely on the streetcars.

The results were disastrous for the streetcar companies. For example, by 1915 the two Seattle traction firms reported heavy losses. The Seattle Electric Company estimated it was losing $2,450 per day to the jitneys, while the Puget Sound Traction Light & Power Company estimated it would lose nearly 21 million fares in 1915 to the jitneys. The losses cut severely into profits, since the streetcar companies could not cut back on service without putting themselves at an even greater disadvantage vis-à-vis the jitneys. The simplest solution to the jitney challenge would have been to change the flat fare. But voters liked the flat fare. Instead, in city after city, regulations were enacted that eliminated the jitneys. On the face of it, regulation was not unreasonable. The jitney industry was plagued by high accident rates and, very occasionally, criminal behavior on the part of jitney drivers. Even the jitney drivers themselves, through their new industry associations such as the International Jitney Association (there were chapters in Canada) supported reasonable requirements for inspection and insurance and driver licenses. However, it was easy to impose regulations that put the jitneys out of business. By the end of 1915, only eighteen months after the first jitneys had appeared in Los Angeles, anti-jitney legislation had been passed in 125 out of 175 cities with important jitney industries. By October of 1918, the jitney cars had declined to 10 percent of their peak numbers, and by the 1920s they had disappeared entirely in nearly every city.[16]

What can we learn about corruption, rent seeking, and innovation from the jitney experience? First, the beneficiaries of an innovation may not recognize the innovation, especially if it is invented by unemployed laborers. The voters did not recognize that the regulatory response was protecting the streetcar companies at the expense of city residents. Second, the rules represented only a brief reprieve for the streetcar companies. Although most systems resisted municipal ownership until after World War II, the industry would never again enjoy the profits of the pre-automobile era. Third, the regulation created one of Krueger's "vicious circles." The jitney episode stopped the development of a small-scale commercial transport industry. The swift suppression of the jitneys was assisted by the regulatory framework that had so recently been established to protect the city residents from franchise corruption. The new rules created constituents—taxi drivers and employees of the municipal transit systems—who benefit from the restrictions imposed by anti-jitney legislation. Long after the streetcar rails have been ripped up or paved over, entry into the taxi industry is still

16. Saginaw, Michigan continued to tolerate the jitneys. By 1921 the jitneys, consolidated into something like a modern bus company, had driven the streetcar out of business. Of course, the dominant employer in Saginaw was General Motors.

strictly regulated. It is illegal, in most cities, for an independent owner to operate a small bus that picks up passengers on the street. Likewise, it is illegal to charge your neighbors to join your car pool. Today the highways are clogged with commuters, each driving to work alone. Few commuters have any idea that there was, briefly, a small-scale commercial alternative to either owning a car or taking a city bus.

2.4 Democracy, Machine Politics, and Reform

In this section I trace the evolution of two related democratic institutions: the rise and fall of the political machine and the slow but fundamental changes in the structure of city government achieved by the reform movement. A political machine relaxed, but did not eliminate, the power of voters to punish corrupt politicians. A political machine did not relax the constraints imposed by the border and the bond market. Before World War I the Reform movement did not do much to suppress machine politics or (apparently) corruption. Before 1900 the reformers did not have a viable alternative to offer the voters. After 1900 reform began to reshape urban government but appears to have had little immediate impact on corruption. Over the decades, however, reform evolved from the simple attempt to prevent corruption into a complete theory of how a city government should work. In the end, the reformers created modern metropolitan government—both of the modern central city and of the modern suburb.

A political machine is an institution designed to win democratic elections by distributing patronage (city jobs and government favors) to supporters in exchange for votes. Political machines are the equilibrium outcome in many democracies. They have developed all over the world, from Mexico's Institutional Revolutionary Party (PRI) to Japan's Liberal Democratic Party (LDP). Political machines were common in the United States between the 1880s and the 1930s. Of the fifteen cities in the *Biographical Dictionary,* eleven had one or more periods of machine domination between 1880 and 1930.[17] In my own research, I have found that between 1900 and 1920 machines dominated, at a minimum, one-quarter of the cities with populations greater than 50,000 (Menes 1997). Political machines were most common in the largest cities. They were found in every region of the country, although they were least common in the West. However, elections remained competitive, even in cities like Chicago, Boston, and New York with large and influential machines. Political bosses were regularly defeated, sometimes by reformers, more commonly by rival machines. The truly dominant machines, political organizations that ruled for decades without facing significant opposition, such as the Daley machine

17. The four nonmachine cities were Buffalo, Detroit, Los Angeles, and Milwaukee. All four of these cities did have periods of significant political corruption.

in Chicago, largely developed after World War I or later. During the Progressive Era, competitive elections forced even machine politicians to pay attention to the quality of government.

William M. Tweed created the first urban machine. He turned a popular and politically influential social club, Tammany Hall, into a patronage organization that distributed favors to voters. The institution spread in the 1880s, remained common for about fifty years, and then began to decline after 1930. Some machines lived on for decades, but few new machines were organized after the Great Depression (Reid and Kurth 1992).[18]

What constrained the machine-dominated city governments, if it was not the reformers? In previous work I have modeled the behavior of political machines (Menes 1997). Buying votes allows a politician to steal and still win at the polls, but it does not remove all limits on corruption. The higher the theft, the more it costs to buy the election, so there is an equilibrium level of theft under a machine. The economic and geographic limits to corruption also constrained the machine-dominated city governments; the border and the bond market did not respond to patronage payoffs. My work suggests that these constraints forced even a machine-dominated government to produce the desired quantity and quality of goods and services (Menes 1999). The structure of the machine also provided a mechanism for limiting the freelance corruption of lesser politicians and bureaucrats. The machine provided a structure that allowed complaints to flow up the organization from the precinct and ward captains to the boss and control to flow down the city government from boss to politicians and city employees.[19]

Political machines did not have a monopoly on corruption. There were many dishonest politicians who operated without machines. "Doc" Ames of Minneapolis, Michael Curley of Boston, and Boss Ruef of San Francisco all ran corrupt administrations but failed to assemble Chicago-style precinct-level organizations (Bean 1968; Steffens [1904] 1957; Holli and Jones 1980). There were also many personally honest machine politicians. Mayor Daley, boss of Chicago, the Tammany-ite New York State governor Al Smith, and President Truman, loyal member of the hopelessly corrupt Pendergast machine in Kansas City, were all personally honest. However, political competition between machines forced even honest machine bosses to tolerate corruption within their organizations. A machine boss who limited his organization put himself at a disadvantage against other bosses who allowed more corruption. Charles F. Murphy, boss of Tam-

18. The Democratic machine in Pittsburgh is probably the most effective machine organized after 1930. The Pittsburgh Democrats used New Deal work relief to build a patronage organization strong enough to defeat the previously dominant Republicans (Stave 1970).

19. This is one of the "latent functions" identified by Robert Merton ([1957] 1972). Jane Addams (1898) describes voters who tolerate corruption because they know they have a "friend" in city hall.

many Hall after the defeat of Croker in 1901, disliked vice and strongly discouraged Tammany's connections to crime, but Murphy could not afford to alienate every ward boss who benefitted from crime graft. He eliminated Croker's corrupt police chief, Bill Devery, and Martin Engel, whose district contained an unusually large number of brothels. However, he left gambling alone. It was a specialty of his friend, close ally, and potential rival, "Big Tim" Sullivan (Allen 1993, pp. 186 and 212–13).

The trade-off between maximizing wealth and maximizing power was the central trade-off for most political machines. The rapid rise and fall of the Tweed Ring in New York City shows that it was technically possible to steal more than was politically sustainable.[20] Between 1867 and 1871, Boss Tweed and his associates stole an astonishing amount from the city budget, something between $40 million and $100 million (Mandelbaum 1965, p. 86). In modern terms, this is something between $800 million and $2 billion. This estimate does not include what the conspirators earned from trading in city real estate or what they received in bribes from franchise, railroad, and construction firms grateful for regulatory favors. But Tweed's theft depended on secrecy; he was stealing more than the voters or the bond market would sustain. In 1871 a rival politician was able to steal the city books and pass them on to the *New York Times,* which gleefully published evidence of Tweed's thievery. The city's access to credit evaporated, and Tweed's ring fell in a matter of months. Tweed died in jail seven years later.

The recovery of Tammany Hall under the leadership of "Honest" John Kelly illustrates the possibilities open to a machine politician who understood the limits that politics, economics, and finance placed upon corruption. In 1873, only two years after the fall of Tweed, Kelly defeated the reform administration of Mayor Havemayer and returned control of the city to Tammany Hall. Kelly realized there was plenty to be earned in patronage, moderately inflated contracts, and insider deals without threatening to bankrupt the city. He reorganized Tammany Hall, centralizing control of the machine and imposing fiscal discipline on both the machine and the city. In recognition of his ability, and his honesty, in 1876 Kelly was the bipartisan choice for city comptroller; for five years he carried out his duties with strictest honesty.

Political corruption created a demand for political reform. I am not going to attempt even a brief intellectual history of American progressivism. There are a few points, however, that are relevant to our discussion of corruption and growth. First, reform was a slow business. Nearly half a century was required after urban corruption began to rise in the 1850s before reform matured from the simple idea of "cut the budget and throw the ras-

20. The three main sources used for the history of Tweed and Tammany Hall are Mandelbaum (1965), Allen (1993), and a nearly contemporary history by Maurice Werner (1928).

cals out" to a set of policies designed to rebuild city government into a structure that would be both resistant to corruption and able to meet the rising demands on urban government. The early reforms adopted in New York City are typical: the reformers generally tried to take power away from whatever body of politicians had proven corrupt. In 1857, reformers stripped the corrupt Assembly of much of its power, handing the Assembly's fiscal responsibilities to a smaller, bipartisan board of supervisors. But the supervisors could also be bought, as Tweed proved. In 1872, after Tweed, the reformers tried again to create a corruption-proof administration; they weakened the mayor and divided decision making among three overlapping interdepartmental boards and the comptroller. The result was a government that was resistant to corruption because it could not, on its own, get much done. This charter almost required an outside centralizing and decision-making body, like Tammany Hall.

There were a few successful early reforms passed between the fall of Tweed and the rise of the muckrakers thirty years later, largely changes that constrained the behavior of individuals. After the financial problems of the 1870s, many states had imposed limits on municipal borrowing. The secret ballot and open government accounts were standard by 1900. These reforms reinforced the mechanisms by which economic, geographic, and democratic constraints acted on individual politicians and voters.

The development of structural reform, the rearrangement of the internal structures of government, and the expansion of government responsibilities required the development of a theory of government. They also required the development of a number of other institutions, including civic associations and lobbying groups and, most important, an independent and nonpartisan press, in which new ideas could be invented, refined, and spread. The new professional organizations and nonpartisan press began to emerge in the 1890s. The "muckrakers," crusading journalists who exposed corruption, dominated popular journalism during the first five years of the twentieth century. This set off the first wave of important structural reforms, which peaked between 1904 and 1908 and continued through the 1910s (McCormick 1981).

Very broadly, the new reforms can be divided into four categories: structural reforms intended to remake the internal arrangements of government, regulatory reforms intended to remake the relationship between government and business, electoral reforms intended to eliminate patronage and fraud from elections, and social reforms intended to improve the lives of Americans. Reformers had great faith in experts and in the model of large bureaucratic business applied to government. They modeled a good deal of structural reform on large corporations. They favored the executive branch over the legislative and favored organizing the city government into functional divisions—departments, semi-independent boards and authorities, regulatory commissions, and municipally owned industries. They tried to insulate city employees from political pressure through civil service rules, trusting that if the right people were hired they would naturally want to do the best possible work.

It is difficult to ascertain the impact of reform before 1930. First, the reforms were endogenous. Each city selected which reforms it chose to adopt. Second, it is difficult to know what effects to look for, since many Progressive reforms were changes that we would expect to increase corruption, such as municipal ownership of utility and transit firms and increases in the regulation of business. Today most economists and political scientists recommend limiting temptation by privatizing government-owned firms and limiting government regulation of firms (Kaufmann 1997). It is possible that American reformers did not have as sophisticated an understanding of corruption as we have today; however, decades of political thought had gone into the American reforms. More likely is the interpretation offered by Glaeser (2001). The reformers were as interested in creating a government that could get things done as they were in preventing corruption. Previous attempts to police city contracts and franchises had proven it was easier to cut costs then to maintain quality. City employees, on the other hand, had less incentive to cut costs and more incentive to increase production as well as employment. Suppressing corruption was only one of the many goals of the Progressive Era reforms that were passed during the first two decades of the twentieth century.

A slightly different picture of reform emerges if we lift our eyes from the older central cities to the suburbs and the younger cities of the South and West. These municipalities adopted a very different set of reforms than were adopted in large northern and midwestern cities like Chicago and New York. Many suburbs and southern and western cities abolished their mayor-council governments and adopted the "business-like" commission or city manager forms. They did not expand regulation to the same extent, and they largely eschewed municipal ownership. Entirely private provision of local public goods, rather than either city contracts or municipal provision, spread in the suburbs. Today in many communities, homeowners' associations hire and supervise such services as garbage collection and maintenance of common space. These reforms might be expected to lower corruption, and today corruption is generally considered to be lower in suburbs and in Sun Belt cities than it is in the older central cities of the North and Midwest, despite the higher wealth and economic growth of the suburbs and sun belt (Bridges 1997).

2.5 Conclusion

The experience of American cities shows that the quality of government matters as much as the simple presence or absence of corruption. The challenge for modern policymakers is determining how to build good government. Some of the economic, geographic, and political conditions that protected American city governments—the open borders, free elections, and fiscal independence of the cities—can be adopted as policy choices in modern nations. But the American experience also shows that strong democratic and civil institutions, and especially a strong and independent press, suppress corruption and improve government performance. Building these institutions is a more complex, and longer-term, project. Finally, the American experience shows the importance of aligning the interests of local elites and politicians with the interests of the majority of the population. In America real estate investments tied together the fortunes of the politicians, the wealthy, and the relatively ordinary city residents. In modern nations, the rule of law—especially reformed land ownership laws, providing secure title to land not only for the elite but also for the middle class and the poor—might encourage better government.

The policy lessons for structural reform of government are less clear. In the United States reform of city government may have contributed to the better provision of public goods and even to the suppression of corruption, but it did not guarantee future economic growth. Detroit, Cleveland, and Buffalo were national leaders in urban reform, electing long-lasting reform administrations and adopting important structural reforms.[21] During the Progressive Era the three cities also enjoyed relatively honest government. But honest government did not guarantee future success. Between 1930 and 2000 the population of fifteen cities in the *Biographical Dictionary* shrank an average of 7 percent. Over the same period, Detroit, Cleveland, and Buffalo shrank by 39 percent, 47 percent, and 49 percent, respectively.[22] I am not suggesting that reform caused the population collapse in these cities, but honest government was not enough to guarantee growth.

Corruption is an opportunistic infection. It is a problem where civil and political institutions are weak. The experience of American cities, corrupt and growing, reveals the importance of local institutions—of democracy; free trade; unfettered financial, labor, and product markets; secure property rights; the rule of law; free press; and a politically active citizenry organized into a plethora of groups and associations—in constraining corruption and encouraging corrupt governments to govern well. Whether this is a reason for optimism or pessimism is not clear. On the one hand, these results suggest that we do not need to eliminate corruption, and we can focus instead on building strong institutions to constrain it. On the

21. All three of these cities elected mayors who became national leaders of reform: Grover Cleveland was elected mayor of Buffalo in 1882, Hazen Pingree was elected mayor of Detroit in 1890, and Tom Johnson was elected mayor of Cleveland in 1901.

22. Only two other cities lost as high a proportion of their population: By 2000 Pittsburgh had lost 50 percent of the 1930 population and St. Louis had lost 59 percent of the 1930 population. Population figures are from Gibson (1998).

other hand, strengthening weak institutions in a poor and poorly governed city or nation is not a simple task.

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