



Fraud, Markets and Institutions

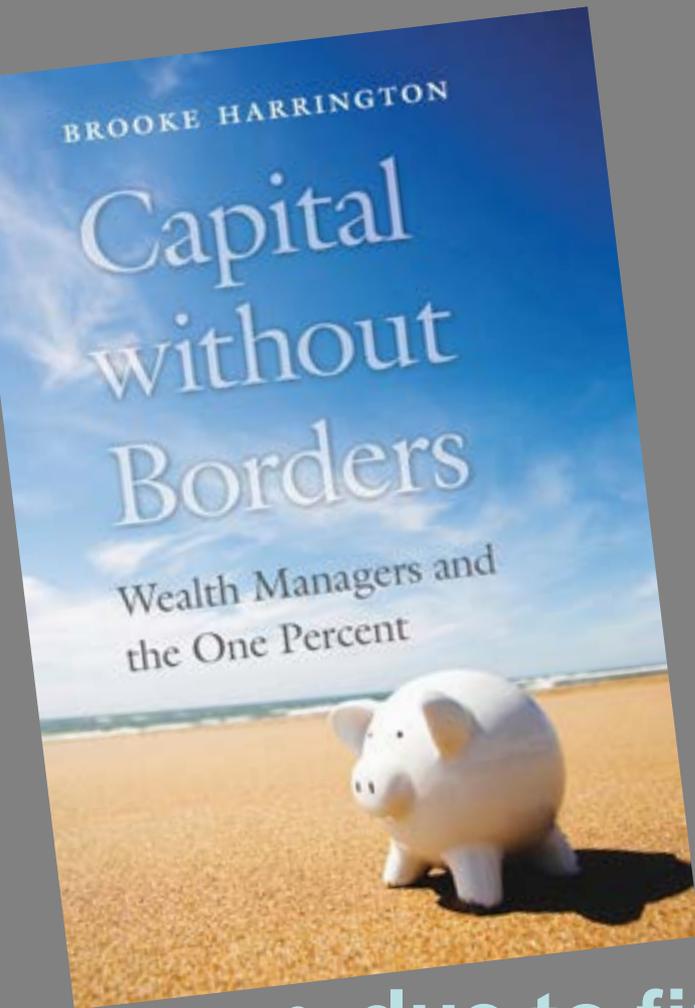
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Puzzles of financial fraud

1. why do similar types of fraud keep recurring over centuries?
2. why aren't punishments and regulatory change more effective in stopping fraud?
3. why do individuals participate in systems they know or suspect to be fraudulent?

the short answer: social structure & power

Example: offshore tax fraud



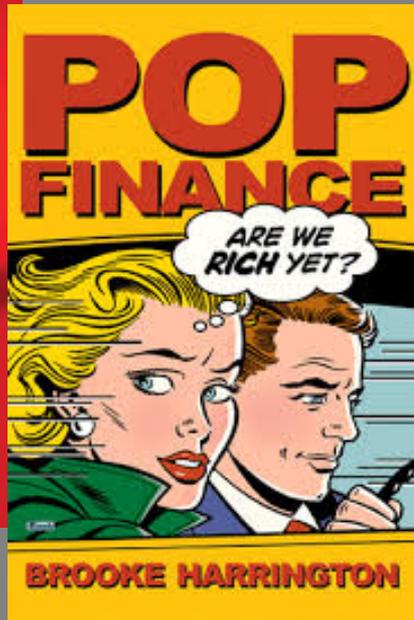
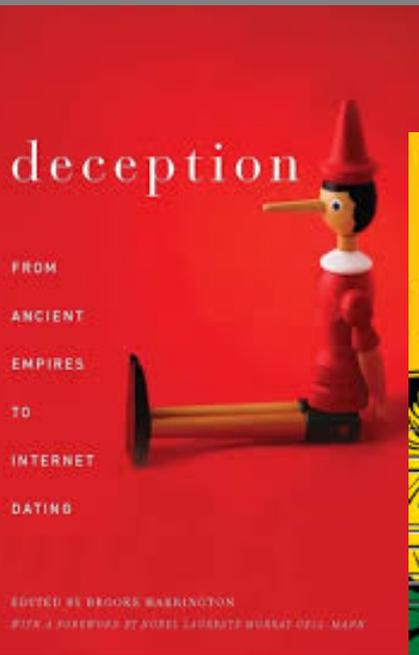
not a new thing

- as old as international trade
 - the “thick scum of fraud and intrigue” (Braudel, 1992) extends back centuries

but getting worse

- due to financialization of the economy
- e.g., structural change in law & technology

Example: investing in fraud



economic constraints

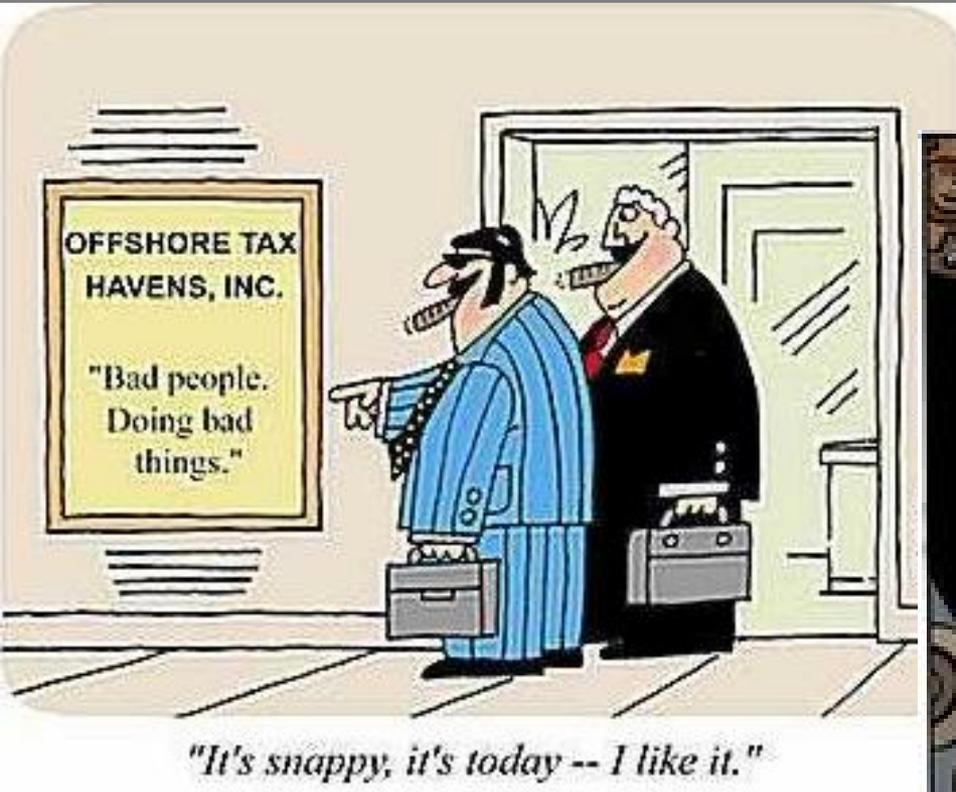
- what's the alternative?
- risk of \$ loss by refusing

social constraints

- loss of allies, career opportunities
- affects professionals as well as amateurs
- biggest frauds often supported from the top (from "après nous le déluge" to IBGYBG)

Implication: focus on structure

people like individual-level explanations...



but the real problems are usually systemic

What is “structure?”

- it's the set of opportunities and constraints for action, which are created by...
 - law
 - culture and behavioral norms
 - technology
 - organizations (ranging from firms to families)
- individuals still have free will and agency
 - but they act within frameworks of opportunity and constraint that they did not create and which are largely beyond their control

Leads to a distinctive analysis

- other disciplines might ask...
 - “How can we identify fraudsters?” (psychology)
 - “What do actors gain from fraud?” (economics)
 - “Which methods do fraudsters use?” (accting)
- but sociology asks
 - “What features of the current opportunity structure facilitate fraud?”
 - “Which groups or institutions created those structures, and why?”

Explaining the puzzles

3. people get trapped in fraudulent systems
 - those systems may not be of their creation, and are likely to be beyond their individual control
 - whistleblower problem, rules vs. reality
2. power: the few who set regulations and punishments may be implicated in the fraud
 - they can structure the system to protect them
 - from "apres nous le deluge" to IBGYBG, TARP
1. in consequence, fraudulent systems tend to reproduce themselves
 - making them highly resistant to formal changes

Benefits of this perspective

- **focus on more knowable/predictable issues**
 - shifting attention from motives and strategies of individuals to external properties of the opportunity structures in which they operate
- **new questions, new solutions**
 - target sources of power and systemic leverage, rather than targeting individual actors or rules

Future challenges

- **how to approach “criminogenic” systems more effectively**
 - example: legal loopholes and short-term pressures (Katz/Woodcock/Oransky)
 - these don’t change with new anti-fraud rules or deterrents; are alternatives politically feasible?
 - offshore “cat-and-mouse” and reporting norms
- **creative deterrence**
 - example: France versus Israel on tax fraud
 - fines-and-jail versus targeting elite networks and professional facilitators of fraud

Your questions?

A research agenda

- **systemic study of successful fraud deterrence**
 - comparative case study method
 - cross-disciplinary in terms of analysis
 - also cross-field in terms of occupations (sports to accounting to academic medicine)
 - cross-national to account for cultural difference
- **practical issues**
 - who would fund such research?
 - who has time for a project that ambitious?