

words “sumo” and “rigged” in the same sentence can cause a national furor. People tend to get defensive when the integrity of their national sport is impugned.

Still, allegations of match rigging do occasionally find their way into the Japanese media. These occasional media storms offer one more chance to measure possible corruption in sumo. Media scrutiny, after all, creates a powerful incentive: if two sumo wrestlers or their stables have been rigging matches, they might be leery to continue when a swarm of journalists and TV cameras descend upon them.

So what happens in such cases? The data show that in the sumo tournaments held immediately after allegations of match rigging, 7–7 wrestlers win only 50 percent of their final-day matches against 8–6 opponents instead of the typical 80 percent. No matter how the data are sliced, they inevitably suggest one thing: it is hard to argue that sumo wrestling isn't rigged.

Several years ago, two former sumo wrestlers came forward with extensive allegations of match rigging—and more. Aside from the crooked matches, they said, sumo was rife with drug use and sexcapades, bribes and tax evasion, and close ties to the yakuza, the Japanese mafia. The two men began to receive threatening phone calls; one of them told friends he was afraid he would be killed by the yakuza. Still, they went forward with plans to hold a press conference at the Foreign Correspondents' Club in Tokyo. But shortly beforehand, the two men died—hours apart, in the same hospital, of a similar respiratory ailment. The police declared there had been no foul play but did not conduct an investigation. “It seems very strange for these two people to die on the same day at the same hospital,” said Mitsuru Miyake, the editor of a sumo magazine. “But no one has seen them poisoned, so you can't prove the skepticism.”

Whether or not their deaths were intentional, these two men had done what no other sumo insider had previously done: named names. Of the 281 wrestlers covered in the data cited above, they identified 29 crooked wrestlers and 11 who were said to be incorruptible.

What happens when the whistle-blowers' corroborating evidence is factored into the analysis of the match data? In matches between two supposedly corrupt wrestlers, the wrestler who was on the bubble won about 80 percent of the time. In bubble matches against a supposedly clean opponent, meanwhile, the bubble wrestler was no more likely to win than his record would predict. Furthermore, when a supposedly corrupt wrestler faced an opponent whom the whistle-blowers did not name as either corrupt or clean, the results were nearly as skewed as when two corrupt wrestlers met—suggesting that most wrestlers who weren't specifically named were also corrupt.

So if sumo wrestlers, schoolteachers, and day-care parents all cheat, are we to assume that mankind is innately and universally corrupt? And if so, how corrupt?

The answer may lie in...bagels. Consider the true story of a man named Paul Feldman.

Once upon a time, Feldman dreamed big dreams. Trained as an agricultural economist, he wanted to tackle world hunger. Instead, he took a job in Washington, analyzing weapons expenditures for the U.S. Navy. This was in 1962. For the next twenty-odd years, he did more of the same. He held senior-level jobs and earned good money, but he wasn't fully engaged in his work. At the office Christmas party, colleagues would introduce him to their wives not as "the head of the public research group" (which he was) but as "the guy who brings in the bagels."

The bagels had begun as a casual gesture: a boss treating his employees whenever they won a research contract. Then he made it a habit. Every Friday, he would bring in some bagels, a serrated knife, and cream cheese. When employees from neighboring floors heard about the bagels, they wanted some too. Eventually he was bringing in fifteen dozen bagels a week. In order to recoup his costs, he set out a cash basket and a sign with the suggested price. His collection rate was about 95 percent; he attributed the underpayment to oversight, not fraud.

In 1984, when his research institute fell under new management, Feldman took a look at his career and grimaced. He decided to quit his job and sell bagels. His economist friends thought he had lost his mind, but his wife supported him. The last of their three children was finishing college, and they had retired their mortgage.

Driving around the office parks that encircle Washington, he solicited customers with a simple pitch: early in the morning, he would deliver some bagels and a cash basket to a company's snack room; he would return before lunch to pick up the money and the leftovers. It was an honor-system commerce scheme, and it worked. Within a few years, Feldman was delivering 8,400 bagels a week to 140 companies and earning as much as he had ever made as a research analyst. He had thrown off the shackles of cubicle life and made himself happy.

He had also—quite without meaning to—designed a beautiful economic experiment. From the beginning, Feldman kept rigorous data on his business. So by measuring the money collected against the bagels taken, he found it possible to tell, down to the penny, just how honest his customers were. Did they steal from him? If so, what were the characteristics of a company that stole versus a company that did not? Under what circumstances did people tend to steal more, or less?

As it happens, Feldman's accidental study provides a window onto a form of cheating that has long stymied academics: white-collar crime. (Yes, shorting the bagel man is white-collar crime, writ however small.) It might seem ludicrous to address as large and intractable a problem as white-collar crime through the life of a bagel man. But often a small and simple question can help chisel away at the biggest problems.

Despite all the attention paid to rogue companies like Enron, academics know very little about the practicalities of white-collar crime. The reason? There are no good data. A key fact of white-collar crime is that we hear about only the very slim fraction of people who

are caught cheating. Most embezzlers lead quiet and theoretically happy lives; employees who steal company property are rarely detected.

With street crime, meanwhile, that is not the case. A mugging or a burglary or a murder is usually tallied whether or not the criminal is caught. A street crime has a victim, who typically reports the crime to the police, who generate data, which in turn generate thousands of academic papers by criminologists, sociologists, and economists. But white-collar crime presents no obvious victim. From whom, exactly, did the masters of Enron steal? And how can you measure something if you don't know to whom it happened, or with what frequency, or in what magnitude?

Paul Feldman's bagel business was different. It did present a victim. The victim was Paul Feldman.

When he started his business, he expected a 95 percent payment rate, based on the experience at his own office. But just as crime tends to be low on a street where a police car is parked, the 95 percent rate was artificially high: Feldman's presence had deterred theft. Not only that, but those bagel eaters knew the provider and had feelings (presumably good ones) about him. A broad swath of psychological and economic research has shown that people will pay different amounts for the same item depending on who is providing it. The economist Richard Thaler, in his 1985 "Beer on the Beach" study, showed that a thirsty sunbather would pay \$2.65 for a beer delivered from a resort hotel but only \$1.50 for the same beer if it came from a shabby grocery store.

In the real world, Feldman learned to settle for less than 95 percent. He came to consider a company "honest" if its payment rate was above 90 percent. He considered a rate between 80 and 90 percent "annoying but tolerable." If a company habitually paid below 80 percent, Feldman might post a hectoring note, like this one:

The cost of bagels has gone up dramatically since the beginning of the year. Unfortunately, the number of bagels that disappear without being paid for has also gone up. Don't let that continue. I don't imagine that you would teach your children to cheat, so why do it yourselves?

In the beginning, Feldman left behind an open basket for the cash, but too often the money vanished. Then he tried a coffee can with a money slot in its plastic lid, which also proved too tempting. In the end, he resorted to making small plywood boxes with a slot cut into the top. The wooden box has worked well. Each year he drops off about seven thousand boxes and loses, on average, just one to theft. This is an intriguing statistic: the same people who routinely steal more than 10 percent of his bagels almost never stoop to stealing his money box—a tribute to the nuanced social calculus of theft. From Feldman's perspective, an office worker who eats a bagel without paying is committing a crime; the office worker probably doesn't think so. This distinction probably has less to do with the admittedly small amount of money involved (Feldman's

bagels cost one dollar each, cream cheese included) than with the context of the “crime.” The same office worker who fails to pay for his bagel might also help himself to a long slurp of soda while filling a glass in a self-serve restaurant, but he is very unlikely to leave the restaurant without paying.

So what do the bagel data have to say? In recent years, there have been two noteworthy trends in the overall payment rate. The first was a long, slow decline that began in 1992. By the summer of 2001, the overall rate had slipped to about 87 percent. But immediately after September 11 of that year, the rate spiked a full 2 percent and hasn’t slipped much since. (If a 2 percent gain in payment doesn’t sound like much, think of it this way: the nonpayment rate fell from 13 to 11 percent, which amounts to a 15 percent decline in theft.) Because many of Feldman’s customers are affiliated with national security, there may have been a patriotic element to this 9/11 Effect. Or it may have represented a more general surge in empathy.

The data also show that smaller offices are more honest than big ones. An office with a few dozen employees generally outpays by 3 to 5 percent an office with a few hundred employees. This may seem counterintuitive. In a bigger office, a bigger crowd is bound to convene around the bagel table, providing more witnesses to make sure you drop your money in the box. But in the big-office/small-office comparison, bagel crime seems to mirror street crime. There is far less street crime per capita in rural areas than in cities, in large part because a rural criminal is more likely to be known (and therefore caught). Also, a smaller community tends to exert greater social incentives against crime, the main one being shame.

The bagel data also reflect how much personal mood seems to affect honesty. Weather, for instance, is a major factor. Unseasonably pleasant weather inspires people to pay at a higher rate. Unseasonably cold weather, meanwhile, makes people cheat prolifically; so do heavy rain and wind. Worst are the holidays. The week of Christmas produces a 2 percent drop in payment rates—again, a 15 percent increase in theft, an effect on the same magnitude, in reverse, as that of 9/11. Thanksgiving is nearly as bad; the week of Valentine’s Day is also lousy, as is the week straddling April 15. There are, however, a few good holidays: the weeks that include the Fourth of July, Labor Day, and Columbus Day. The difference in the two sets of holidays? The low-cheating holidays represent little more than an extra day off from work. The high-cheating holidays are fraught with miscellaneous anxieties and the high expectations of loved ones.

Feldman has also reached some of his own conclusions about honesty, based more on his experience than the data. He has come to believe that morale is a big factor—that an office is more honest when the employees like their boss and their work. He also believes that employees further up the corporate ladder cheat more than those down below. He got this idea after delivering for years to one company spread out over three floors—an executive floor on top and two lower floors with sales, service, and administrative employees. (Feldman wondered if perhaps the executives cheated out of an overdeveloped sense of entitlement. What he didn’t consider is that perhaps cheating was how they got to be executives.)

If morality represents the way we would like the world to work and economics represents how it actually does work, then the story of Feldman's bagel business lies at the very intersection of morality and economics. Yes, a lot of people steal from him, but the vast majority, even though no one is watching over them, do not. This outcome may surprise some people—including Feldman's economist friends, who counseled him twenty years ago that his honor-system scheme would never work. But it would not have surprised Adam Smith. In fact, the theme of Smith's first book, *The Theory of Moral Sentiments*, was the innate honesty of mankind. "How selfish soever man may be supposed," Smith wrote, "there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it."

There is a tale, "The Ring of Gyges," that Feldman sometimes tells his economist friends. It comes from Plato's *Republic*. A student named Glaucon offered the story in response to a lesson by Socrates—who, like Adam Smith, argued that people are generally good even without enforcement. Glaucon, like Feldman's economist friends, disagreed. He told of a shepherd named Gyges who stumbled upon a secret cavern with a corpse inside that wore a ring. When Gyges put on the ring, he found that it made him invisible. With no one able to monitor his behavior, Gyges proceeded to do woeful things—seduce the queen, murder the king, and so on. Glaucon's story posed a moral question: could any man resist the temptation of evil if he knew his acts could not be witnessed? Glaucon seemed to think the answer was no. But Paul Feldman sides with Socrates and Adam Smith—for he knows that the answer, at least 87 percent of the time, is yes.

Levitt is the first to say that some of his topics—a study of discrimination on *The Weakest Link?*—border on the trivial. But he has shown other economists just how well their tools can make sense of the real world. "Levitt is considered a demigod, one of the most creative people in economics and maybe in all social science," says Colin F. Camerer, an economist at the California Institute of Technology. "He represents something that everyone thinks they will be when they go to grad school in econ but usually they have the creative spark bored out of them by endless math—namely, a kind of intellectual detective trying to figure stuff out."

—THE NEW YORK TIMES MAGAZINE, AUGUST 3, 2003

2 How Is the Ku Klux Klan Like a Group of Real-Estate Agents?

As institutions go, the Ku Klux Klan has had a markedly up-and-down history. It was founded in the immediate aftermath of the Civil War by six former Confederate soldiers in Pulaski, Tennessee. The six young men, four of whom were budding lawyers, saw themselves as merely a circle of like-minded friends—thus the name they chose,