

**"Just the Facts Ma'am: A Case Study of the Reversal of Corruption in
the Los Angeles Police Department"**

R. Mark Isaac* and Douglas A. Norton**

*Isaac (corresponding author) is at Florida State University, misaac@fsu.edu

**Norton is at Florida State University, nortonno1@gmail.com

Los Angeles “appears, in the light of recent developments, [to be] one of the most vice infested” cities in the nation ---- Los Angeles civic reformer Clifford Clinton, 1938.

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Philip Marlowe: “They say there’s a gambling house up the line.”

[Los Angeles] Policeman: “They say.”

Philip Marlowe: “You don’t believe them?”

Policeman: “I don’t even try buddy,” he said, and spat past my shoulder.---- Raymond Chandler, *The Little Sister*, 1949

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Sgt. Joe Friday, LAPD Badge 714: “I live in this town. I work here, and I like it. There are 4,000 other men in the city who feel the same way...men who are trying to prove that the law is here to protect people, not cut ‘em down.” ---- “Dragnet”, 1954

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The Los Angeles Police Department “has become a model for police administrators throughout the world....”----O.W. Wilson, Dean of the School of Criminology, University of California Berkeley, 1957.

I. Introduction

Development economics research on corruption has surged in recent years, in part, because there is a growing consensus that the efficacy of foreign aid hinges on the honest management of funds.¹ The overall theme of the literature is the corrosive effect corruption has on enterprise and the political process.² We present here a case study of successful institutional change in the 1950s Los Angeles Police Department in which Police Chief William H. Parker produced a stunning record of effective reforms. Then, we apply this history to modern day development economics.

The study of institutions has recently received pride-of-place in mainstream development economics.³ Institutions are the social and legal rules of the game and they

¹ Evidence about the importance of corruption in developing economies can be seen from the World Bank Anti-Corruption initiative in 1997. All aid strategies are required to assess "corruption risks" (World Bank, 1997). The book *Economic Gangsters* also motivates the importance of studying corruption by linking it to a decline in foreign aid effectiveness (Fisman and Miguel, 2008).

² There are a number of channels through which corruption might increase the costs of doing business. By decreasing the productivity of investment there will also be a decline in the rate of successful enterprise. Following failure would be an increase in the cost of capital. Corruption also has been shown to deteriorate checks and balances at various levels of accountability.

³ Earlier work such as North and Thomas (1973) demonstrated the importance of institutions in economic growth. However, the handbook article presented in Acemoglu, Johnson, and Johnson (2005) argues that

shape the costs and benefits of human action. But, while economists believe institutions matter, we have a thin knowledge about the emergence of institutions and the potentially fragile transitions towards better institutions. A seminal work on institutional formation from Lance E. Davis and Douglass C. North, "Institutional Change and American Economic Growth" puts institutional change squarely in the domain of economic analysis. They write,

"An institutional innovation will be innovated if the expected net gains exceed the expected net costs. Only when this condition is met would we expect to find attempts being made to alter the existing structure of institutions and property rights within a society." (Davis and North, [1971], p. 10)

As will be seen below, the Davis and North paradigm -- that institutions will be changed when there are perceived gains from transformation -- will play an important role in our analysis.

Section II of this paper provides social, economic, and political background for Los Angeles. The stories are rich with Midwestern immigrants, mobsters, corrupt city commissioners, crooked cops, concerned citizens, and the prospect of big military and business dollars.

In Section III we provide our model of equilibrium selection in the context of corruption. We flesh out that model with a review of Police Chief William H. Parker's actual reforms. We tell a human story about the courage and prudence Parker exhibited in the face of a corrupt status quo, but, also present a number of critical pre-existing institutions that were at his disposal. In addition to implementing a portfolio of incentive-related reforms, Parker believed strongly that cops should be honest, paid well and that they should be viewed with esteem in the community. To this end Parker publicly communicated a campaign of restored values. One notable element of this campaign was the television show "Dragnet".

In Section IV we identify some key elements of the LAPD success story that ought to be transcendent with respect to time and location for reversing a culture of

institutions are the fundamental cause of economic development is evidence of how the study of institutions is more mainline in development economics. Moreover, Boettke, Coyne and Leeson (2008) construct an account of the increased focus of development economists on institutions, which they call the "New Development Economics".

corruption: internal contestability of government power, external contestability of one government with another, the freedom of the media, and a memory of morality.

Finally, Section V concludes with a discussion about how the model we present might be applied out of sample to issues in contemporary economic development.

We should say a few words about the research method we employ in this paper. Our research may broadly be called a case study, a methodology which continues to have both supporters and detractors. Broadly speaking, there are two obvious approaches to the question of why Parker was so successful in his reforms. The existing, yet thin, historical literature emphasizes Parker's personal values. On the other hand, a starting point for economists is likely to be an inquiry as to how Parker might have changed incentives (perhaps by changing institutions). Because we will be exploring the LAPD story through each of these two lenses, with specific reference to Davis and North's model of institutional change, we believe that this research can be described as what Bates, et al (1998) have called an "analytic narrative" in which the data from a contextual history interacts with one or more organizing models.

As we mentioned earlier there has been surprisingly little written about the Parker era. To our knowledge, none of that literature approaches the narrative from the point of view an economic analysis of values, institutions, and incentives. Nevertheless four sources have stood out as indispensable to our inquiry: John Buntin's history of mid-century Los Angeles, *L.A. Noir*, which interplays the careers of Parker and gangster Mickey Cohen (Buntin [2009], hereafter "Buntin"); Alisa Sarah Kramer's Ph.D. dissertation (Kramer [2007], hereafter "Kramer"), the archives of the *Los Angeles Times* (hereafter "LAT"), and Parker's own words, "Parker on Police," as collected by Wilson (1957).

Finally, it is important to emphasize at the outset that this is not a paper designed to recommend Parker's reforms *per se* as a model for developing countries. Instead, what we are examining are the conditions and methods that serve to support a reform program of this magnitude and effectiveness.

II. The History of Los Angeles

The importance of reviewing the economic history of L.A. rests in its relationship to the Davis and North story of institutional change driven by perceived benefits and costs. A primary piece to this story of benefits and costs was the rivalry between Los Angeles and San Diego (outlined in sub-section A). We argue that the threat that post-World War II economic development would flow away from corrupt Los Angeles to other locales, likely including San Diego just 100 miles to the south, gave William Parker the support of the city leadership to execute a variety of institutional changes in the LAPD that improved police professionalism.

After the outline of the urban economic rivalry in sub-section A, we will turn attention in sub-section B to a history of the values that typified the population of Los Angeles in the period of the 1920s through the 1950s. We will argue that the moral sensibility of many of the citizens of Los Angeles provided a “memory of morality” that supported Parker’s reforms. In addition, California was a center for Progressive-era institutions such as the initiative process, the recall, an independent grand jury, and strong civil service buffers for civic “experts and professionals” against partisan political influence. We will demonstrate that several of these Progressive institutions provided both the base upon which Parker could come to power and the levers which enabled Parker to stage a massive turn-around.⁴

Finally, in sub-section C, we present a detailed history of municipal and police corruption in Los Angeles over this same period. By demonstrating the depth of corruption we hope to imbue the reader with an appreciation for the magnitude of change in the LAPD.

A. The Economic Conditions: Urban Rivalry

Even within the first decades of California statehood, Los Angeles and San Diego were rivals pitted in a tournament to become the next California metropolis. Though there were divergent sentiments about which city would triumph, early opinion seemed to favor San Diego. With its superlative harbor, many considered San Diego's march to

⁴ The openly and Progressively partisan *California Outlook* published in 1914 a speech by Theodore Roosevelt in which he argued, to a group in New England, that there was no state in which the practical application of Progressive ideals “has been as great as in California.” Bartlett (1907) argued that “while not the first city to declare itself for complete nonpartisanship in city politics [a prominent Progressive goal], the state of the partial victory of the city of Los Angeles may well encourage other cities to enter upon this latest movement in social service and civic betterment... (p. 172).

metropolis a foregone conclusion.⁵ On the other hand, Los Angeles possessed a larger population which included powerful businessmen with money staked in the city.⁶

When Los Angeles became the western terminus for the Southern Pacific Railroad in 1872 doubt was cast upon the future of San Diego. But, after recovering from a series of failed railroad negotiations San Diego rallied in 1886 and secured the terminus for the Santa Fe Railroad. With new transportation, San Diego capitalized on the inadequate and shallow Los Angeles area harbor (Wilmington harbor) which could no longer accommodate increased tonnage from ships. The loss of business to San Diego threatened the aspirations of Los Angeles and prompted the *Los Angeles Herald* to write, "If this is to go on, then indeed we might as well not have a harbor, but become a back-country to San Diego." (Fogelson, [1967] p. 109-110). Los Angeles needed to create a harbor that could allow them to compete with the natural harbor of San Diego.

San Pedro Bay was selected by the Army Corps of Engineers and construction commenced in 1899. Once the engineers converted the modest bay into a functional harbor the City of Los Angeles brokered a deal to consolidate San Pedro and Wilmington into the city limits. The area quickly became a hub for commercial activities, and further improvements to the port (1911-1912) set the stage for Los Angeles to supply petroleum, lumber, citrus, and other products to larger markets. As Starr [1997] has noted, the new harbor was critical in propelling Los Angeles past San Diego.

Nevertheless, as the Los Angeles harbor expanded, San Diego was far from an afterthought. The watershed moment for San Diego arrived with the California-Panama Exhibition in 1915. The event conferred notoriety to a proud city still struggling with its economic identity.⁷ Richard F. Pourade writes about the boost in confidence from the exhibition, "Forgotten for the time were old rivalries that had found San Diego bested at

⁵ For example, some Los Angeles residents are quoted as saying, "We must be content to be the political and social capital of south California; we must be satisfied with our genial climate, fruitful soil, our generous wines, our golden fruit, our productive mines, our cattle upon a thousand hills. . . The great commercial city of south California must be San Diego." (*Los Angeles Star*, August 14, 1869 as quoted in Fogelson).

⁶ Charles Crocker once said, "We would blot San Diego out of existence if we could, but as we can't do that we shall keep it back as long as we can." (1880 letter as cited in Fogelson).

⁷ Pourade [1965], Hennessy [1993], and *San Diego Journal of History* all write about the importance of the California-Panama Exhibition. Specifically, Hennessy argues that, "Growth so dominated politics during this period [1909 – 1919] that voters in a frantic search for prosperity and metro recognition, returned only two mayors to office for a 2nd term."

every turn by the commercial ambitions of its larger neighbor [Los Angeles]” (Pourade [1965], p.199). How the new notoriety should translate to the economic future sparked a political debate in the 1915 mayoral election dubbed “Smokestacks vs. Geraniums”.⁸

The vision for commerce carried the election, but, San Diego did not immediately attract commercial interests. Instead, their California-Panama Exhibition had showcased the scene to important military personnel. With significant lobbying efforts from former Congressman William Kettner and bitter competition from their California rivals (San Francisco and Los Angeles) San Diego prevailed as the home base of the Pacific Fleet in 1919. This military development, which represented \$27.79 million over five years, vaulted San Diego into its modern city model. Once again, San Diegans believed they could assemble a competitive commercial harbor (Hennessey, 1993).

In a short period of time San Diego’s population more than doubled: 74,361 in 1920 to 203,341 in 1940 --- a rate of growth in the 1930s that far outstripped California as a whole (San Diego Historical Society [2010]; Starr). San Diego engaged in a series of civic improvements including a second international exhibition in the 1930s and growing pre-eminence in the field of aviation. Starr has even highlighted the fact that President Franklin Roosevelt was a major booster of San Diego in the 1930s.

But, despite the surge in growth of the neighbor to the south, one might argue that Angelinos did not view San Diego as a major concern in the depths of the Great Depression in the 1930s. Los Angeles already surpassed San Francisco in terms of industry and population, although they lacked the prestige San Francisco had accumulated as California’s financial center.

By the time of the first post-war census (1950) Los Angeles arguably held a position as the premiere city in California with a population of almost 2 million (almost six times larger than San Diego)⁹ and the western regional location of many companies. Yet, Historian Roger W. Lotchin argues that post-World War II California continued to be characterized by competition over government assets (Lotchin [1992] p.172). The

⁸ Despite the success of Los Angeles the "Smokestacks" still envisioned San Diego as a major port with large industries and booming commerce. On the other hand, "Geraniums" preferred a resort town to industrialization. In the end, voters voiced their preference for the smokestack strategy to growth (Ports [1975]).

⁹ www.census.gov

United States Congress had earmarked \$12 billion for military spending in 1947 and each rival city wanted to hoist those prized military contracts. Lotchin writes,

"From the First World War on, both Los Angeles, San Francisco, and San Diego had become increasingly aware of the importance of military spending. The preparations for World War II enhanced this perception greatly and the war did too: The Los Angeles Chamber of Commerce, as we observed, even opened a Washington office devoted to helping local businessmen secure government war contracts." (Lotchin, p. 202)

The pre-existing military infrastructure made San Diego a natural home for further military expenditures. Following the establishment of the headquarters of the Pacific Fleet, San Diego added a host of other military installations, including the Marine Corps Recruiting Depot (1923), the Naval Training Center (1923), and Miramar Naval Air Station (1939) (San Diego Historical Society [2010]). Military operations during World War II expanded the runway at San Diego's municipal airport, Lindbergh Field, to 8,750 feet, making it "jet ready" long before many other municipalities.

But San Diego's heavy footprint in military facilities did not deter Los Angeles from its own pursuit of federal dollars. The City of Angels Chamber of Commerce placed professional lobbyists in Washington, D.C.. Furthermore, California also experienced massive private capital inflow in post World War II. Economic Historian Paul Rhode writes, "The California State Chamber of Commerce, which tracked *new factory start-ups and plant expansions*, estimated that in the four years from 1945 to 1948, \$1,069,000,000 of private capital [approximately \$8.50 billion in today's dollars]¹⁰ was invested in California manufacturing facilities. This was divided fairly evenly between 3,270 new factories (\$487 million was invested) and 3,160 plant expansions (\$582 million invested)." (Rhode [1994], p. 386, emphasis added).

If San Diego had fallen behind Los Angeles around the turn of the 20th century, what was there to indicate that San Diego would be viewed as a rival to Los Angeles for economic development at the end of World War II? There are at least three major factors at work. First, the federal support of San Diego in military development kept San Diego

¹⁰ This is using the 2009 GDP deflator compared to the 1947 deflator at www.gpoaccess.gov/usbudget/fy05/hist.html. The original California Chamber of Commerce data is not online, so it is difficult to calibrate it to federal data series. However, from Rhode [2003] we find that, using 1948 again as the benchmark, California had 8.157% of all business formations in the United States and the Pacific Coast had 20.27% of all urban building construction. California had just over 7% of the U.S. population in the 1950 census, following about 5.6% in the 1940 census. Rhode also makes the point that the Great Depression was still fresh in people's minds, so a billion dollars in new plant was undoubtedly important to people in California regardless of how that squared with what actually occurred in New York or Pennsylvania.

as a relatively prosperous area during the Great Depression. Secondly, San Diego was not standing still in areas in which Los Angeles had gained previous superiority. While Los Angeles had effectively won the railroad wars of the late 19th century, San Diego was aggressively developing a presence in the new field of aviation.¹¹ Likewise, no history of municipal growth in California would be complete without a discussion of water. The history of the Los Angeles Department of Water and Power is legendary and its leadership was prescient. Los Angeles leaders saw that in what was essentially a semi-desert environment water was critical for economic growth. The Santa Barbara area is only about 95 miles *north* of Los Angeles, and had potential as a potential rival home to business and industry. But Santa Barbara had notable constraints on its growth prior to its connection with the California State Water Project in the 1990s (Kuznia [2010]). San Diego, on the other hand, (again spurred by considerations for its military installations) completed its own connection to the Colorado River in 1947 (Sholders [2002]). As Starr has noted the new connection to Colorado River water “made possible the impending expansion of the city. A privileged and protected resort and naval enclave now stood on the verge of metropolitanization.”

Finally, there is ample evidence that even though the city of Los Angeles had openly revolted against the corruption of the 1930s, it remained a dangerous and corrupt city. Starr noted the wave of murders and other violent crimes in Los Angeles, epitomized by the infamous Black Dahlia murder in 1947, and quoted Los Angeles attorney Bernard Potter as defining the L.A. of the 1940s as:

“...the dumping ground for the riff-raff of the world, racketeers of every type, bootleggers, bookmakers, black market operators, thugs, murderers, petty thieves, procurers, rapists, fairies, perverts, reds, confidence men, real estate sharks, political carpetbaggers and opportunists. Ask for any violator of any law and we can promptly fill the order.”

We have found no evidence of any single “smoking gun” document in which Los Angeles leaders spell out their concerns about whether they believed their culture of corruption would deter the private or military investment. However, we have documented a historical tug-of-war between urban rivals since their formative years. Furthermore, we believe that the perceived gains and losses in the competition for post-World War II

¹¹ San Diego was the home of modern passenger aviation (see Starr), the manufacturing location of Charles Lindbergh’s *Spirit of St. Louis* (Ryan Aviation), the home of Consolidated Aircraft, and a constant booster of its civilian aviation facility (later known as Lindbergh Field).

economic development are what Davis and North would view as drivers of institutional change. Specifically, we argue that the fact and perception that its municipal institutions were significantly corrupt and that there existed at least the potential competition from other Western locations, including but likely not limited to San Diego, provided a threat to Los Angeles' continued economic dominance.

B . Social and Political Values in Los Angeles

Walter Neff: "They say that native Californians all come from Iowa."

Double Indemnity (Paramount Pictures, 1944)

The overall social identity of Los Angeles is firmly planted with Christian beliefs and teachings with the establishment of a Catholic Mission at San Gabriel in 1771 and, much later, the infusion of evangelical Midwestern Protestants after construction of the transcontinental railroads through the 1920s. Indeed, Los Angeles sought this infusion of Midwestern immigrants. Initially, they promoted their agricultural environment to Midwestern farmers. Later, Los Angeles promoters modified their strategy when they discovered that Midwesterners did not want to move to the Pacific Coast for farming; rather they sought new, more metropolitan opportunities (Fogelson pp. 67-75).¹² Census data (Fogelson, p. 81) provide a partial snapshot of this phenomenon. Table 1 registers the percentage of the American born population of Los Angeles from the Pacific Region as compared the American Midwest.¹³

	1890	1900	1910	1920	1930
Pacific	32.5%	35.1%	26.4%	27.1%	27.7%
Midwest	34.0%	35.5%	41.2%	40.0%	37.2%

Table 1. Native-Born Americans in Los Angeles by Region

¹² Pasadena, the large Los Angeles suburb just to the northeast, was founded as The Indiana Colony in 1874. The City of Pasadena was incorporated in 1886 in response to the opening of a saloon ("Pasadena History" [2010]). Before the arrival of the first saloon, Farnsworth [1883] wrote that "Pasadena has had a decidedly religious character from the origin. Christian families connected by membership with churches were among the first settlers." Towards the southern, harbor end of Los Angeles, "there were so many Iowans (and other Midwesterners) in Long Beach that the town was dubbed 'Iowa by the Sea.' (History, Los Angeles [2010]).

¹³ "Midwest" is the combination of "East North-central" and "West North-central" in Fogelson.

It is striking that even in terms of immigrants, “North/West Europeans” were the dominant ethnic group until 1930 (Fogelson, p. 76.).

	North/West Europe	South/East Europe	Asia	Other America	Other Regions
1890	7900	816	1881	1963	192
1900	12245	1644	2077	3802	196
1910	32041	13557	5865	14218	452
1920	44391	29556	11028	36177	969
1930	80272	60114	18123	86691	1935

Table 2: Foreign Born Residents of Los Angeles by Region

These data point towards a community with a strong network of people with what can be identified as Midwestern, often Protestant and pious religious values. Other sources corroborate the strength of Evangelical and Pentecostal Protestantism in Los Angeles during this period, the latter movement (the Azusa Street Revival and later Aimee Semple McPherson) including African-Americans and Hispanics as well as white Protestants (Walsh [2003]).¹⁴

Furthermore, there is concurrent evidence from periodicals such as *The California Outlook* and sociological histories such as *The Better City* by Dana W. Bartlett (1907), a pastor and social worker in Los Angeles, that Progressive and Social Gospel movements were strong in Los Angeles. Bartlett expresses the vision for "The Better City", writing, "Los Angeles is a city of churches banded together in their work for humanity's uplift." Bartlett profiled at least nine different civic-betterment and anti-corruption organizations active in Los Angeles in 1907, and devoted an additional chapter to the separate category of civic "Women's Clubs." In keeping with the strong association between Progressive politics and the Social Gospel movement, Bartlett titled one of the chapters of his book "Organized Religion Socialized."

¹⁴ The official Foursquare biography is at http://www.foursquare.org/about/aimee_semple_mcperson/p2.

The existence of these particular moral values is fully displayed in the following exchange recounted by Fogelson (p. 190-191) between a journalist from a sophisticated Eastern magazine and the residents of Los Angeles in 1913:

“William Huntington Wright described Los Angeles as puritanical and ill-governed city destitute of the delights of urbanity. ‘The spirit of genuine gaiety is lacking,’ he wrote. ‘Enjoyment is considered the first step to perdition. Noise is the rumbling of the gates of hell. Music is a sign of immorality, and dancing is indecent.’ For this attitude he blamed the militant moralists of the Midwest. ‘These good people brought with them a complete stock of rural beliefs, pities, superstitions, and habits’ . . . Applying Sunday school precepts to their political decisions, they have transformed a once fascinating and sensible place into a ‘city of little sociability or hospitality, a city devoid of lenience and cosmopolitanism.’ The article outraged the residents of Los Angeles, but far from denying the author’s allegations, they defended the community as he described it.”

Replying to Wright’s article titled “Los Angeles –The Chemically Pure”, one resident, among many others, retorted,

“[Los Angeles] believes in the moralities; she believes in the decencies of life . . . She deliberately chooses to be dubbed ‘Puritan’, ‘Middle-West Farmer’, ‘Provincial’, etc., and glories in the fact that she has been able to sweep away many flaunting indecencies that still disgrace older and more vice-complacent communities.” (p. 191)

In the midst of extolling the morality of Los Angeles citizens a natural question emerges, “How did Los Angeles become corrupt in the first place?” Historians point to crimes related to Prohibition ---illegal sale of liquors and gambling which were prevalent in most major U.S. cities (Douthit 1975; Kramer). Another dent in our case for a "moral" Los Angeles was a slew of sex scandals in the entertainment industry during the 1920s and 1930s. Local citizens attempted to control damaged perceptions of Los Angeles. Pastors such as Dr. J. George Dorn wrote in periodicals like the *Lutheran* to stem the view that Hollywood embodied immorality. Also, many famous actors and actresses spoke against this perception to their denominations (Starr, pp. 274-275). In the case of reducing graft stemming from Prohibition citizens were willing but not successful.¹⁵ Nevertheless, even with the booming entertainment industry, increase in graft, and bad press Los Angeles was still known for its Middle America feel. Frank

¹⁵ Los Angeles citizens were not complacent to accept the increasing graft in “a boss-controlled city administration” and formed The Citizen’s Anti-Crime Commission in 1923 (Peterson, 1953). Immediately the commission sought Berkeley police reformer August Vollmer to, “help in the reorganization of a police department ridden by corruption and ineffectual crime control” (Douthit, 1975). Vollmer’s appointment as police chief lasted only one-and-a-half years. Moreover, many of his reforms did not survive his tenure. Douthit writes, “It was not until the 1950s that the Los Angeles Police Department developed into a professionalized police system under William H. Parker” (ibid).

Lloyd Wright, when asked about the character of Los Angeles for an LA Times article in 1940 said, “[Los Angeles] was as if you tipped the United States up so all the commonplace people slid down here into Southern California.” Wright also added, “Mentally and morally . . . Los Angeles is a glorified Middle-Western town.” (ibid)

From 1940 to 1950 the population of Los Angeles increased 31% to nearly 2 million people. But, this sizable infusion of population following World War II did not overturn the values orientations in Los Angeles. If anything the vitality of the mainline protestant denominations such as Baptists, Episcopalians, Lutherans, Methodists, and Presbyterians was greater after World War II. Scholars of American religion point to the 1950s as the pinnacle in popularity of the mainline church (Noll, 1992).¹⁶ Also, according to the Cornell Values Survey the early 1950s were the high point of conservative and religious values (Hoge, 1974).¹⁷

All of these examples act as signposts towards the existence of stable, pious values that helped generate and support change when reform-minded William H. Parker took office. Also, it is worth noting here that Parker himself was Catholic and a mid-western transplant, moving from South Dakota to Los Angeles in his teenage years. We will return to a discussion of the beliefs of Parker and the citizens when we discuss the reforms aimed at values.

C. Corruption in the Los Angeles Police Department prior to 1950.

Philip Marlowe: “I’ll testify under oath that the book came from Geiger’s store. The blonde, Agnes, will admit what kind of business the store did [pornography]. It’s obvious

¹⁶ In terms of church attendance, Los Angeles shared this trend with other parts of the United States during the 1950s. Clifton L. Holland, a scholar of church trends in the Los Angeles area, writes, “The 1950s in the Los Angeles area were a time of religious revival when most protestant churches were growing and their worship services, Sunday School and youth activities were well attended.” (Holland, 2008) One famous example of religious activity in Los Angeles was the ultra successful Billy Graham led revival campaign in downtown Los Angeles under “the largest revival tent in history” (TIME, 1949).

¹⁷ It is worthy of note that popular sociology in the early 1950s (such as David Riesman’s *The Lonely Crowd* and William H. Whyte’s *The Organization Man*) attempted to paint sweeping change in American values orientation during the period of our study, roughly the 1920s to the 1950s. Nevertheless, there was a sense that these analyses were overextended. Seymour Martin Lipset provided a wealth of historical evidence from early American travelers and from his contemporary historians that built a firm case that values were consistent even though technological and societal changes existed (Lipset, 1961).

to anybody with eyes that the store is just a front for something. But the Hollywood police allowed it to operate, for their own reasons. I dare say that the Grand Jury would like to know what those reasons are.”

Wilde [a Los Angeles policeman] grinned. “Grand Juries do ask those embarrassing questions sometimes --- in a rather vain effort to find out why cities are run as they are run.”

Raymond Chandler, *The Big Sleep*, 1939.

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[Los Angeles County] District Attorney Sewell Endicott: “The citizen is the law. In this country we haven’t gotten around to understanding that. We think of the law as an enemy. We’re a nation of cop-haters.”

Philip Marlowe: “It’ll take a lot to change that,” I said. “On both sides.”
He [Sewell] leaned forward and pressed a buzzer. “Yes,” he said quietly, “It will. But somebody has to make a beginning.”

Raymond Chandler, *The Little Sister*, 1949.

From the 1920s through the 1940s, the City of Los Angeles in general, and the Los Angeles Police Department in particular, were beset with widespread corruption. Prohibition brought some of the same problems that appeared elsewhere in the United States, but corruption in the LAPD went deeper and outlasted the 18th Amendment. In the late 1920s, a scandal revealed that the LAPD could and did exile innocent but troublesome citizens to a local insane asylum (Howella [2008], McNulty [2008]). At about the same time (1927) William Parker joined the LAPD. According to Buntin, Parker “made a startling discovery. In Los Angeles the police didn’t fight organized crime, they managed it.” Buntin’s term for the largely home-grown Los Angeles amalgam of gangsters, racketeers, and corrupt city officials is “The Combination.”

In the 1930s, if anything, The Combination got worse after the repeal of Prohibition. Novelist Raymond Chandler depicted Los Angeles as a community in which gangsters ran prostitution, gambling, and shakedown operations with abandon, using

direct payoffs and political pressure as protection from the police. Boyer [2001] says that the Chandler depictions did not defame Los Angeles. Looking beyond pulp fiction to historical accounts, one finds that a county grand jury in 1934 opened an inquiry into “‘protected gambling’ and the manner under which some clubs are allowed to operate in asserted violation of the law” (LAT [1938]). In that same period, the grand jury indicted Los Angeles County District Attorney Buron Fitts in a bribery and sex crimes scandal, although a jury would later acquit him. The Hollywood *Citizen* estimated graft payments to police, politicians, and journalists at \$400,000 per month, in 1930s dollars (Buntin). *TIME* magazine (1938) quoted journalist Westbrook Pegler as calling Los Angeles “the slobbering civic idiot in the family of American communities.”

A breakpoint in the reaction of the citizens of Los Angeles can be seen in the events of 1938. Local businessman Clifford Clinton began a reform campaign, and managed to convince the circuit judges to appoint him to the county grand jury. In California at the time, a new county grand jury was empanelled each year, and the powers of the county grand jury went beyond the traditional handing out of indictments upon bills of evidence from prosecutors. In California, grand juries were expected to serve as independent watchdogs of local governments, even to the point of being able to employ independent experts (Conrey [1914]). Clinton’s minority grand jury report charged that the LAPD and other law enforcement agencies “work in complete harmony and never interfere with the activities of important figures in the underworld” (Buntin). From the other side of the reform fence, this was almost the identical picture as viewed by Los Angeles mobster Mickey Cohen who said that “[e]verything they did in Jersey, Chicago, and New York was completely run by the cops and stoolpigeons” in Los Angeles (Buntin). Clinton and others initially requested a state special prosecutor (LAT [1938a]). The grand jury eventually uncovered a massive corruption system in which police exam questions and promotions were sold out of the office of Mayor Frank Shaw, through the mayor’s special assistant, his brother John Shaw (Buntin, LAT [1938e, 1938f, 1938g, 1939a], *TIME* [1938]).¹⁸ During the investigation, witnesses were beaten and bombs were planted, with direct ties for these activities established to the District

¹⁸ It should be noted that Shaw came to the mayor’s office by defeating a previous incumbent who was born in Iowa and was a notable pro-Prohibition evangelical Protestant. (Starr [1997]).

Attorney's office and the LAPD (Buntin, TIME [1939]). As Starr asserts about the beating of a grand jury witness: "even Raymond Chandler, soon to make his debut as a crime writer, could not have had the nerve to fabricate such an event."

Businessman Clinton's reform organization, with significant support from the local religious (especially Methodist) community, turned to the goal of recalling Mayor Shaw. The effort was successful, and Shaw is known as the first major big city mayor in the United States to be removed from office through a recall procedure. One notable fact is that the *Los Angeles Times*, often marked as the voice of the Los Angeles business community, opposed Shaw's recall (LAT [1938d]). This is despite the fact that Clinton was a prominent businessman and in a "letter to U.S. Senator Hiram Johnson, Chamber of Commerce director Frank Doherty" described the DA's investigation of the Shaw scandal as follows: "A near-psychotic district attorney is investigating a crooked police department that is trying to dispense of or frighten a former crooked member of their crooked force who was spying on their crooked activities..." (Buntin).

The recall election installed reform-minded judge Fletcher Bowron, who would serve until 1953. The first police chief appointed under his administration¹⁹ ran an aggressive anti-mob campaign and anti-corruption campaign. Many professional mobsters decamped to greener pastures, particularly the up and coming desert gambling city known as Las Vegas. According to Buntin, local racketeer Tony Cornero personally provided Bowron with the names of 26 police officers on the take.

By 1949, TIME magazine, no longer referring to Los Angeles as a "slobbering civic idiot," ran an extensive article on the changes, growth, and reforms in Los Angeles wrought by Bowron and World War II. (Bowron had just been re-elected for a third term, this time with the support of the *Los Angeles Times*, now being run by a younger generation owner, Norman Chandler (Buntin, LAT [1949b])). Unfortunately, the city had lost its reform police chief and under new chief C. B. Horrall the LAPD returned to some of its wild and wicked ways. The very week that the TIME profile article appeared, Los Angeles was rocked by the revelation of a prostitution ring, catering to some of the city's most prominent men and operated with the direct involvement of LAPD officers. Some

¹⁹ Recall that the Los Angeles mayor could not appoint a new chief directly. Bowron's influence came from his appointments to the police commission.

of the details of the prostitution ring bear a striking resemblance to the “Fleur de Lis: Whatever You Desire” prostitution ring depicted in the movie *L.A. Confidential* .

Additional revelations pelted the LAPD. The county Grand Jury investigated “lavish parties...clothing, and other gifts by persons close to Mickey Cohen, gambling kingpin, in an effort to ‘worm their way into the Police Department’” (LAT [1949c]). A key figure in preparing the bribery case for the Grand Jury was none other than Inspector William Parker who “discovered a scheme to place police officers under obligations to these civilians [associates of Mickey Cohen] for favors and personal benefits.” In addition, a bribery scandal involving LAPD officers and a long distance “gambling wire” operation were sent to the Governor’s Crime Commission (LAT 1949e). Buntin describes the gambling wire operations as generating some of the most lucrative money at the very core of organized crime in Los Angeles. Police Chief Horrall resigned and was eventually indicted for perjury, along with an Assistant Chief of Police and three other officers. While all five individuals were eventually acquitted, this was not the kind of news desired by a city and its “reform” mayor, especially when recently honored in America’s most notable and establishment news magazine.

With the resignation of Chief Horrall, an interim, outside chief, former Marine General Arthur Worton was appointed. Worton laid some of the groundwork for reform that would be followed by Parker, but the permanent chief had to be appointed through civil service procedures that Parker himself had help put into place as a leader of the police and fire protective league (the forerunner of the current police union). The decision went down to the wire. Of the five members of the police commission, two favored Parker, and two favored Chief of Detectives Thaddeus Brown. (Buntin claims that even though both men were viewed as reformers, Mickey Cohen would have preferred a LAPD led by the more get –along-and-go-along Thaddeus Brown). The fifth vote, a Parker supporter, was a last minute replacement for a Brown supporter who died of cancer (Buntin and Kramer). So, on August 9, 1949, William H. Parker became the Chief of Police of the Los Angeles Police Department.

III . Corruption Reform, Equilibrium Selection, and the Institutional Entrepreneur

A . Corruption Reform as a Coordination Problem

Davis and North (1971) argued that individuals or groups can make rational decisions to change economic and political institutions, and not simply optimize over choices or policies within those institutions. Davis and North highlight such components of institutional choice as the menu of possible new institutional forms, the gains from each of them, and the costs of obtaining, including the costs of organizing for action, the costs of change itself, and what they called the “stuck” costs of the potential of future disutility of a new institution.

The Davis and North approach is at the heart of our analysis, and can be explained simply. The change from a system that was relatively tolerant of police corruption to William Parker’s combination of “police professionalism” insulated from partisan political control and his personal stark values against corruption was a major institutional change for the City of Los Angeles. We will argue that in the post-World War II era the costs to Los Angeles of reverting to (at that time) their recent reputation as a corrupt, crime-ridden municipality were large, and so the incentives for the Los Angeles civic leadership to support this change were substantial. However, a move away from a system of corruption is qualitatively different from some of the institutional change stories described by Davis and North.

In particular, the Davis and North model is largely decision-theoretic with no strategic or game-theoretic aspects. We argue that a move away from an institutional equilibrium of corruption must consider strategic components, for two reasons. First, if the move to a system without corruption is to be both successful and stable, then the new, non-corrupt outcome must itself be an equilibrium. Thus, we argue that anti-corruption campaigns have the feature of a coordination problem in which a central question is that of which equilibrium will be achieved.

Secondly, if we are looking at a coordination problem, then there are two separate parts of the problem itself. Not only must the nature of the two equilibria be spelled out, but in terms of the kind of questions motivated by Davis and North, the real bite of the model comes in describing the incentives of the individual or group institutional entrepreneur who work outside of the normal form game (or games) to achieve the preferred, non-corruption equilibrium. By using the term “coordination problem” we are

leaving it open as to whether this is a traditional coordination game with multiple equilibria in the same normal form, or whether there are multiple, mutually exclusive games which could be played.

We will now put some more detail on this idea with a highly simplified example of a single game with two players: a citizen and a policeman. First, some notation:

Π_P and Π_C are the baseline returns to a policeman and a citizen, respectively, in a non-corrupt state of the world.

W_P and W_C are the waste to a policeman and a citizen, respectively, in a world with corruption. For example, in Los Angeles during the 1930s there was corruption in the hiring and promotion policies in the police and fire departments. Some qualified job applicants were rationed out of the pool, causing waste on the labor side. And, a citizen had to address the fact that during an emergency there was the possibility that an unqualified policeman or fireman would respond. In a contemporary example, one could consider the Illinois scandal in which bribes for truck licenses led to highway deaths caused by unqualified truck drivers.²⁰ In this example, W_P and W_C are active only when there is a corrupt agreement (that is, only when both the policeman and the citizen choose corruption).

R_P and R_C are the expected retribution costs to the policeman or citizen, respectively, of deviating from a world in which everyone else accepts corruption. In corrupt civic environments, reformers face the possibility of economic harassment, violent attacks, and even death. The same is true for police officers. Indeed, William Parker's reputation as a clean cop seems to have contributed to his career detour into the Traffic division.

S_P and S_C represent the expected value of sanctions to a policeman and a citizen, respectively, of attempting corruption in a world in which everyone else is honest. In the usual manner, S_P and S_C can be thought of as a result of both a probability of being caught and a penalty condition upon detection.

²⁰ <http://www.npr.org/templates/story/story.php?storyId=16051850>

$-V_i$ represents the disutility to anyone of engaging in conduct that they consider to be corrupt. These are reflections of the underlying values of the population. If either a policeman or a citizen has no moral qualms about corrupt activity, then these terms would be zero. The terms are assumed to vary from one person to another, but we maintain the assumption that $V_i \geq 0$ i.e. that no one enjoys being corrupt for its own sake.

Θ_P and Θ_C represent the possible gains to a policeman and a citizen, respectively, of engaging in corrupt activity.

This structure creates a simple normal-form game diagram with one citizen and one policeman (Table 3).²¹

	CITIZEN IS CORRUPT	CITIZEN IS HONEST
POLICEMAN IS CORRUPT	$\Pi_C - W_C + \Theta_C - V_i$ $\Pi_P - W_P + \Theta_P - V_j$	$\Pi_C - R_C$ $\Pi_P - V_j - S_P$
POLICEMAN IS HONEST	$\Pi_C - V_i - S_C$ $\Pi_P - R_p$	Π_C Π_P

TABLE 3

Let us add some assumptions upon the parameters of this model.

- 1) $R_p > W_P - \Theta_P + V_j$
- 2) $R_C > W_C - \Theta_C + V_i$
- 3) $\Theta_C + \Theta_P < W_C + W_P$

²¹ The two-person structure of the model is for exposition. An obvious extension would be to a world of $N > 1$ citizens and $K > 1$ policemen. In such a world, several modifications could be incorporated, such as making the “waste” terms dependent on the extent of corruption, and creating a “tipping point” at which deviations from a norm are either retributions or sanctions. And, of course, one could argue that institutional choice implies choosing from among several games.

If Assumptions 1) and 2) hold, then this is a coordination game with two pure strategy equilibria: a) both the citizen and the policeman are corrupt, and b) both the citizen and the policemen are honest. What are the implications of these assumptions? They imply that the retribution from the corrupt world swamps towards the individually honest person swamps the net costs of living in the corrupt equilibria.

Furthermore, if Assumption 3) also holds, then the honest equilibrium Pareto-dominates the corrupt equilibria. Assumption 3) states that the gains total gains from corruption are less than the total waste; that is, corruption is a socially wasteful activity.

Our argument is that just because we observe corruption does not mean that corruption is the inherent state of the world. There can exist a coordination problem with multiple (corrupt, honest) equilibria. While it may be surprising that an organization such as the LAPD could rapidly move from being one of the most corrupt to one of the least corrupt police forces in the country, it is not out of the bounds of possibility in moving from one equilibrium to another in a coordination problem. In addition, when Assumption 3) holds and payoffs at the honest equilibrium are higher than the payoffs at the corrupt equilibrium, there is exactly the opportunity for gains from institutional innovation that are at the heart of Davis and North, even though we have made their model more complicated. Finally, in a coordination game, the real action is associated with the problem of equilibrium selection, which is to say, “Why is one equilibrium observed rather than another?” Another way of saying this is that the game form itself is a static concept, but the processes that influence equilibrium selection are not static but emphasize change and transition. We will argue that the structure we have just described will provide a useful framework for analyzing the transition of institutions in the LAPD from a corrupt to an honest equilibrium by the institutional entrepreneur, William Parker, with at least the tacit support of enough of the Los Angeles citizenry to make the transition successful.²²

B. The Institutional Entrepreneur and Equilibrium Selection

²² After drafting this section of the paper, we became aware that Acemoglu (2009) also used a multiple equilibria coordination game based on “investment” activity in a developing economy. And, in a later section of the book (p. 122) he argues that “culture may be one of the factors determining whether individuals coordinate on the high- or the low-investment equilibrium.”

There are two reasons that an individual (either a policeman or a citizen) might not wish to play in the Corrupt/Corrupt corner of the game matrix. First, the moral costs of personal participation (V_i) could be great enough that they outweigh the retaliation for being a “lone ranger” in a corrupt world. Such an individual would make a decision not to participate in the corrupt process and would accept the retaliation for this non-conformity because it is outweighed by V_i , the gain in utility from not being personally corrupt. That would change the Nash non-cooperative equilibrium of the game. Alternatively, as an individual with great personal disutility for participating in corruption, he may be motivated not to act like a Nash player but rather a Stackelberg player who wishes to move the society to the Pareto –superior honest equilibrium.

There is a large literature on possible processes by which such equilibrium selection can occur (Schelling [1980]). We wish to posit that this “reforming” individual incurs some personal costs in creating institutional innovations that will lead to the new equilibrium, and hence we call this person an “institutional entrepreneur.” The institutional entrepreneur’s decisions in the context of this equilibrium selection problem are analogous in this model to the decision-theoretic cost/benefit analysis modeled by Davis and North. The institutional entrepreneur (without loss of generality, a policeman) can be seen as choosing from a set of possibility institutional changes where the expected gains from institutional entrepreneurship can be modeled as:

$$\rho_j *(II_P + \gamma_j \Omega) + (1 - \rho_j) *(II_P - Rp) - C_j$$

where

ρ_j = the probability that institutional innovation succeeds

C_j = the direct cost to the institutional entrepreneur of attempting the change (which could be positive, as we would usually consider it, or it could be a negative cost --- a net benefit --- if the individual gained utility from being the honest reformer.

Ω = the total benefits to everyone else of moving to the Pareto-superior equilibrium, and

γ_j = the proportion of the aggregate benefits which accrue to a successful entrepreneur.

The institutional entrepreneur has a variety of tools available including a) creating a critical mass of players who are going to play at the new equilibrium, b) changing the incentives in the game, and c) signaling the Stackelberg-like intent to play

at the new equilibrium. With these types of actions, the larger set of players (other policemen and citizens) will follow naturally to the new equilibrium as a best response.

In terms of part a) above, the entrepreneur may have some control over the selection of individuals who will play the game. In terms of part b) (the institutional entrepreneur changing the incentives) we suggest that prime targets would be R_P and R_C (the retaliations for individual deviations from the corrupt equilibrium) and S_P and S_C (the sanctions for individual deviations from the non-corrupt equilibrium). In terms of part c) (signaling a commitment to play the honest equilibrium) the entrepreneur could invest in signaling his own values and intent to play the honest equilibrium. The channels for such signaling would need to be far reaching. Logical candidates would include social networks and the mass media.

C. Parker's Reforms

It is now received wisdom that good economic and political institutions are associated with superior economic track records (Gwartney [2009]). But the crucial question, of particular import to developing countries, is how economic institutions can be improved. Two of the most popular, and sometimes viewed as antithetical approaches, are 1) a change in economic incentives to produce good institutional outcomes, or 2) a change in the values of the polity. We argue here that not only did William Parker's reforms rely on both incentives and values, but in fact it was imperative for their success that they reinforced one another, and that both incentives and values play a role in the equilibrium selection model we outlined in the previous section. However, for expositional purposes, we will initially address Parker's changes in incentives and values separately. We will conclude this section with some explicit examples of how they worked together.²³

1) Incentive Reforms

Parker wanted a well-trained, well-paid professional police force. The economic model that fits nicely is that of the efficient wage hypothesis, with the concept of

²³ We will not address in detail some of the innovations that Parker introduced in what might be viewed as the technology of policing. Reading through *Parker on Police* one can find extensive descriptions of these types of reforms such as reorganizing districts along census tracts and data-driven deployment of police resources (see, for example p. 83)

“shirking” in the standard models (Akerlof [1982] and Shapiro and Stiglitz [1984]) modified here to represent corrupt behavior.²⁴ The efficiency wage hypothesis adapted for the LAPD problem was that Chief Parker wanted honest cops who would be fired for corrupt activity, and in doing so would lose both future earnings potential and social prestige. However, that simple restatement packs together numerous pieces of a reform agenda which need to be examined separately.

The Efficiency Wage Model as applied to Parker’s reforms: Corrupt behavior would be identified. Corrupt officers would be disciplined, even fired. Corrupt officers, thus fired, would face an outside option of lower utility, both in monetary terms and in terms of social respectability.

First, consider the proposition that corrupt behavior would be identified. William Parker came to the Chief’s job as the head of the new Internal Affairs division under his interim predecessor Arthur W. Worton (Kramer, Buntin). Strengthening the role of Internal Affairs in exposing corruption became a hallmark of Parker’s reforms. In *Parker on Police*²⁵ he wrote:

“Little known is the fact that an entire administrative division of the police department devotes its time exclusively to investigating complaints against policemen.”

Parker also believed that junior supervisors should be rotated through internal discipline as a part of their training.²⁶ Boyer said that “Parker’s first imperative was to create a police force that was impeccably clean. He was compulsive about police honesty; the everyday transgressions winked at in some East Coast police departments were often grounds for instant dismissal in the LAPD. In Los Angeles, police officers even bought their own coffee.”

Parker instituted and defended from public criticism a rule that required officers to submit to the LAPD an accounting of all of their sources of personal income (LAT 1952e , 1952f). This may seem like a small administrative point, but if an investigation

²⁴ Our use of the employees’ return gift as adherence to a norm of non-corruption is certainly consistent with Akerlof’s original formulation. From the beginning of his article, Akerlof develops the gift-exchange in terms of norm-referenced behavior inside the organization.

²⁵ “Progress Report,” pp 207-208.

²⁶ “Police Challenge in Our Great Cities,” p. 196.

showed that an officer lied about any source of income, then that officer faced the possibility of administrative discipline or dismissal even if no underlying criminal corruption case could be successfully prosecuted.

Probably no issue attracted Parker's attention more than his insistence on a "police professionalism" model in which he could discipline his police officers without interference from the elected political hierarchy. Earlier in his career, as an officer active in the police benevolent association, Parker spearheaded an initiative petition that had (at least on paper) enshrined police independence from partisan control. Parker never left this issue. "The most important factor in police progress is the fact that the department has remained consistently free from partisan political control," (Parker quoted in LAT [1953a]). Parker had years of experience in the LAPD in which there was outside protection for corrupt cops (the Philip Marlowe scenario about the LAPD overlooking vice activity is not fiction). For example, the following recollection is from Buntin²⁷:

"One night [Parker] decided to protest the policy of nonenforcement by parking directly across the street from a Hollywood house of ill repute in an effort to scare the johns away.

'Listen, you stupid fuck,' the madam yelled at Parker, 'you're ruining my business by hanging around here.'

'That's the general idea,' he replied.

'What's the next move?' she asked.

'The next move is to put you in jail.'"

In a 1951 ceremony, the Los Angeles Chamber of Commerce honored Parker for his first Year of "outstanding service as head of the department." In accepting an award, Parker reiterated "In Los Angeles, any police officer can do his duty without reprisal." (LAT [1951d]). The two quotes here are only samples of Parker's repeated statements on the importance of the independence of the LAPD from partisan political control. Parker was so convinced of the importance of the police professionalism model that he was willing to make official public comments on future city elections: "Organized underworld gangs are now among us, lining up for the next municipal election to take over and run the city." (LAT [1952f]).

The next link in the chain is that corrupt officers would be disciplined, even fired. Kramer concludes that Parker "would not tolerate graft, acceptance of gratuities, or fixing tickets *which could result in severe punishment or termination*" (emphasis added). In

²⁷ Location 1010-1021.

case this was unclear to his recruits, Parker spoke to a graduating class and said that the following:

“I caution you against temptations to which you have never before been exposed. You must be men of strong moral fiber in order to resist them. If you do not resist them, not only will you be unhappy and mentally disturbed but you will also risk loss of position and possible imprisonment.”²⁸

Parker was apparently not afraid to go to the popular press with news of the discipline or dismissal of officers. In the 1952 *Los Angeles Times* is the headline “5 Officers Suspended by Parker” (for doing unauthorized detective work with a conflict of interest). In 1959 there was, “LAPD Officer Suspended for Misconduct” (for having sex with a prostitute and turning over his gun to her). In 1955, Parker arranged a sting operation for someone attempting to implement a municipal bribe, and he personally testified at the trial (LAT 1955).

The final part of the efficiency wage model is that there should be evidence that dismissal from the LAPD would be costly in terms of utility, both in terms of loss relative to the individual’s opportunity wage but also in terms of the shame or dishonor from firing. Consistent with this conjecture, the historical record is replete with references that Parker preferred a small, well paid and highly trained force. Parker did not exhaust his budget to expand the number of officers but rather he kept the quantity below the authorized level (and well below the per-capita representation in other major cities) while pushing for higher wages.²⁹ Parker spoke passionately about wanting the job of an LAPD officer to be both financially remunerative and socially respectable. In *Parker on Police* he wrote:

“Should policemen have social status? Just how important is it that they be respected, perhaps occasionally honored, as vital to community peace and security?...Take recruiting. We are having a difficult time enlisting qualified candidates into our ranks. Thousands of acceptable young men with no better prospects in sight steadfastly refuse to consider a career of police work. They are not afraid of hard work. What’s the problem? Simply they consider that a police oath would automatically deprive them of the respect and status they want in life.”

Indeed, Parker’s concerns were reinforced by others in Los Angeles. In 1952, Los Angeles City Council member Harold Harby was concerned about the opportunity wages for the police: “They can get more money as a hod carrier or construction helper and have only a five day week with no night work.” (LAT [1952c]) By the sunset of Parker’s

²⁸p. 22, “Crime and Belief,” in *Parker on Police*.

²⁹ For supporting evidence of this proposition, see Kramer, LAT [1950b, 1951c],

tenure, TIME magazine could write “Though it has the highest pay rates of any police force in the U.S., the department is seriously undermanned; it has only 5,018 men to cover 458.2 sq. mi. – ten cops per sq. mi. v. 39 in the average U.S. community.

Nonetheless, Parker has an admirable record of arrests...and has chased the Mafia all the way to Las Vegas.” TIME may have seen this outcome as paradoxical, even undesirable, but the small, well trained, highly paid LAPD was arguably the vision of Parker’s “Thin Blue Line.”³⁰

If Parker succeeded in raising the LAPD wages, what, other than speaking about the issue, did Parker do to improve the perceived social status of an LAPD job? The answer is that Parker’s vision of the role of LAPD officer in society was broadcast to the world weekly in the famous TV show “Dragnet.” Parker was formally recognized as a special advisor to the show and provided many benefits to the production. Consider, from our introduction, the Joe Friday speech about a corrupt cop. Instead of dismissal from the LAPD being an event of no significance, the dirty cop is colorfully depicted as a person of dishonor, a social pariah. (It should be noted that in the episode, the dirty cop was not depicted as an *actual* LAPD officer, but rather as an impostor.)

2) Ethical Reforms or Values

Buntin’s book is as close as we have to a full biography of William Parker. Coming approximately 60 years after Parker’s appointment as chief, there has certainly been time for the usual re-evaluations and revisionisms. Even as Buntin’s book unsurprisingly demonstrates that “no man is a saint” in discussing the stresses in Parker’s personal life³¹, it is striking how much in Buntin’s book supports what has been asserted for years about Parker values as a policeman. William Parker was a deeply religious, honest cop who demanded honesty from his colleagues and subordinates. James Ellroy, the novelist whose *L. A. Confidential* provided thinly disguised versions of some of the LAPD corruption described in this paper, wrote that “Since William Parker took over in

³⁰ See especially Buntin.

³¹ Buntin paints a picture of a man who was usually a model of control but who would have isolated outbursts of severe temper; a man who drank sporadically but tended to overindulge on those occasions. The most remarkable story in this regard in Buntin is when Parker realizes that a member of the mob had witnessed a private occasion of his over-drinking, Parker simply decides to quit. He apparently remained a teetotaler for the remainder of his life.

1950 the LAPD's march forward has been almost entirely progressive" (Dunphy [2005]). Boyer wrote that "Parker's first imperative was to create a police force that was impeccably clean." Kramer says that "At an early age, Parker developed a rigorous adherence and respect for the law which guided him throughout his career in the LAPD and set him apart from his peers." And she also reports that Parker "quickly earned a reputation as an honest police officer." But undoubtedly the most striking narrative of Parker's personal standards has been reported by both Buntin and Kramer. A young LAPD officer who had a talent for writing found himself assigned to writing speeches for Chief Parker. Years later, that former officer, Gene Roddenberry, created the iconic television program and entertainment franchise *Star Trek*. According to Buntin and Kramer, Roddenberry modeled the character of Mr. Spock after William Parker.³²

It is one thing for a Chief of Police to be a personally honest man. Going beyond this, an honest chief of police may prefer to surround himself with honest colleagues.³³ We think that the record demonstrates that Parker actively used his position as Chief of Police to shape the value of his officers and of the community with which they interacted. Whether the result was a change in values or whether it was a priming of existing but latent values is something that we will discuss further below. The fact remains that a chief of police has a limited amount of time, attention, and political capital in order to promote whatever reforms he might see as promoting his agenda. The documentary evidence is that Parker used that time, attention, and political capital to promote values of honesty and reforms from corruption. This emphasis on values may seem a diversion from the incentive-based reforms discussed previously, but Chang and Lai (2002) argue that both wage incentives and internal norms can play useful, mutually reinforcing roles in solving the organizational "shirking" problem, which we have reconstituted as an anti-corruption problem.

In January 1951, Parker spoke to the Downtown Los Angeles American Legion (LAT [1951a]). The *Times* headline was "War Against Evils Pledged by Parker." Part of his address emphasized his personal commitment to reform. "With all the fiber of my

³² Buntin, loc 72-80. Kramer p. 78.

³³ Barnard [1938] noted that successful executives often were mindful of choosing subordinates with an eye towards what he called "compatibility" or "fit". While his discussion covered many dimensions, personal values such as honesty would be included. Additional evidence of Parker reorganizing the LAPD with officers of his liking is provided in footnote 37 ff.

being I will see to it that crooked rats who would change to City of the Angeles to the City of Diablos will not do so.” But some of his address spoke to the ethical imperative not simply for the LAPD but also for the entire community.

“We must drive the money changers from the temple of government...and eliminate those parasites with their ill-gotten wealth, and we might as well start this trend in Los Angeles, the City of the Angels....America must necessarily undergo a moral and spiritual revival and the place to start is government....We have in our midst avarice, corruption and greed---the seeds of our own American destruction. We must correct these faults.”

The venue of the American Legion is interesting because the *TIMES* article reports that 3500 of the 4100 LAPD officers at the time were veterans.

Just a few weeks later, Parker spoke at the Downtown Exchange Club (LAT [1951b]). Again, he explicitly used the forum to communicate not simply the values of the LAPD but also his views about the appropriate values of the community. “This country can no longer afford to countenance vice and corruption as typical of the American scene.” When O.W. Wilson compiled *Parker on Police* in 1957, following his own introduction the first collection of Parker’s essays were grouped under the title “Parker’s Philosophy”. The first article was entitled “Crime and Belief,” and was an address before the 59th Annual Conference of the International Association of Chiefs of Police in 1952. The following are some excerpts from that chapter:

“Crime has its birth in this clash between individual and group ethics....Therefore if we are to approach crime at its most vulnerable angle, we must recognize that man is a creature of belief. If anyone doubts the power of belief, let him go to his history book and watch man rise and fall, love and kill, exalt and fear---al on this basis....Hunger, poverty, maladjustment, and other physical problems do not incite crime---they incite beliefs that may produce crime.... “A question immediately arises” Can individual ethical standards be altered? The answer is unreservedly “Yes!”...Ideals, morals, ethics, or by whatever name you call man’s convictions---they are the indispensable tools of life.”

The second essay in this section is entitled “Religion and Morality,” which was a speech delivered to the Holy Name Society in Los Angeles in 1953.

“It is a fact that we have become a confused nation, and the path back is as difficult as the course ahead....This confusion that has engulfed us must be eliminated, and there must be a return to fundamental honesty, morality, and ethics in every facet of our lives. Who will lead the way? Perhaps a clue to the answer to this question is to be found in our theme of today. It is a valid premise that Religion and Morality are indispensable to human welfare, it must be concluded that Religion and Morality are indispensable to each other. Therefore, the leadership we require in this compelling return to fundamental virtues must lie among those men who have been privileged to understand the true relationship between God and man.”

One of the most fascinating vehicles that Parker employed to solidify the perception of the LAPD as an honest and trustworthy police force was the popular radio

and television program “Dragnet.” Parker was not only an advisor to the show but his affiliation as “technical advisor” was listed prominently in the closing credits. There is little doubt that Parker used the affiliation with *Dragnet* to promote a value system regarding the archetypal honest, hard-working LAPD police officer (Sgt. Joe Friday) and that officer’s relationship with the community. As early in his tenure as October 1950 Parker honored the *radio* version of *Dragnet* for “an honest, faithful, and official portrayal of police officers in action” (LAT 1950a). We discussed above a specific example of a narrative in which a (hypothetically) dishonest cop would be treated with scorn. In Parker on Police³⁴ Parker discusses his programs to increase the number of qualified recruits with the comment that “recruiting films starring Jack Webb were prepared for television and motion pictures.” Sgt. Joe Friday was the “anti-focal point” to Raymond Chandler’s lazy, corrupt, spitting oaf of a cop from just a few years before. Within just a few years, there would be no contest: Sgt. Joe Friday would become the face of an LAPD policeman.³⁵

D. Parker’s Reforms and Our Model

Parker’s reforms map in a straightforward way into the two parts of our model of corruption as an equilibrium selection problem. First, the incentive-based reforms are going to change the payoffs for deviation from either of the two equilibria: both the incentives to go “clean” in a corrupt environment and the incentives against rogue corruption in an honest equilibrium. For example, it is easy to see how in a world in which LAPD police officers and Los Angeles Citizens believed that corruption was the norm, Parker’s reforms had the potential for altering R_p and R_c , the retaliation costs associated with defecting towards honesty. By decisions directly under his control that were part of the daily life of running an honest police force, Parker lowered the possibility and/or severity of retaliation against honest cops or against citizens who refused to enable civic corruption. Through his obsession with police professionalism

³⁴ “Practical Aspects of Police Planning,” p.85.

³⁵ By 1968, how many Americans would visualize the corrupt LAPD cops of Raymond Chandler’s Los Angeles instead of Sgt. Joe Friday when Jack Webb and Johnny Carson created the infamous “Copper Clapper Caper”? Thirty-three years after that parody on-line video records appear to have had at least 300,000 viewings so far.

independent of partisan interference, Parker additionally reduced the scope of retaliation against honest cops from outside the force.

For those officers and citizens who viewed the natural equilibrium as one of honesty, Parker's reforms had a similar effect on the incentives for defecting towards corruption. Reforms such as the rotation of officers through different neighborhoods lowered Θ_P , the gains to corrupt activity. And many of Parker's reforms can be expected to increase S_P the expected sanctions for corruption. As an example of the latter, consider the simple change in requiring officers to reveal all sources of their annual income. A corrupt cop may or may not be able to beat a criminal indictment and conviction, but with internal discipline, the very act of hiding income, legal or not, would become grounds for punishment. And, similarly, consider the implications of the efficiency wage model. If a fired LAPD officer could easily find another job with similar pay, then dismissal from the force carried little bite (a point made repeatedly by Buntin). On the other hand, as Parker worked to raise the pay of the LAPD, dismissal could carry a real cost. Parker's parallel campaign to raise the social status of LAPD officers and to portray dirty cops as social pariahs would intensify this effect.³⁶

Parker's reforms had a second component other than changing the individual, non-cooperative incentives for defection. Equally as important are reforms which address the equilibrium selection problem and make the "everyone honest" equilibrium more focal.

One way in which Parker had control over the equilibrium selection process was through the selection function of recruitment. The historical record is unambiguous that Parker insisted on high physical and moral standards in his recruits. Parker was undoubtedly aided by the fact that he took over the LAPD soon after a large wave of returning GIs provided a deep pool of new recruits. The selection of more officers with

³⁶ Kramer points out that Parker's reforms protected officers who faced discipline that was corrective in nature. She says (p. 27) "Parker built a structure for professional review that would protect the officer's position and strengthen the department against accusations of lax discipline and loose management." Of course, our argument is that this system of internal discipline also protected honest cops who might face unfounded, retaliatory charges for not playing ball with corruption.

appropriate personal values aided the equilibrium-selection process by changing the mix of officers likely to stay as honest cops.³⁷

Parker's vocal and repeated discussion of police and community values of honesty and integrity created a focal point for LAPD and community integrity and thus served a crucial coordination function (and we specifically include his expansive use of newly emerging media such as *Dragnet* in this category).

We believe that the speed with which Parker reformed the LAPD and the equally impressive change in public perception of the LAPD are a testimony to the reforms as performing an equilibrium selection function.

IV . ESSENTIAL COMPONENTS OF THE SUCCESS OF PARKER'S REFORMS

Parker needed various levers, authorities, and values in addition to his courage to reverse the culture of corruption pervading his police force. This section will detail the three features that form the basis for his successful reform: contestability, values, and free media. There were other institutions that aided the success of his reforms, but, these represent features that were indispensable to the turnaround.

A . Internal Contestability.

It is difficult to imagine how William Parker would even have been in a position to institute his reforms without two important features of internal contestability (what the Founders might have called "balance of powers") within the rules of California government at the time. The first of these is the initiative/recall system. While a junior police officer and police union representative, Parker and his allies amended the City Charter through the initiative system to put in place the building blocks of police

³⁷ While our text emphasizes the role of new recruits, which is particularly important in the post-war period, there is also the issue of Parker's assignments among veteran officers. This brings our narrative immediately to the infamous "Bloody Christmas" episode of 1951. We have intentionally set aside an in-depth exploration of "Bloody Christmas" (Buntin, Kramer, Escobar [2003]). The broader issue of race relations and the LAPD obviously preceded Parker's tenure (any officer with little more than 2 years service involved in the episode would have been hired before Parker became Chief), overlapped Parker's tenure (consider the scrutiny the department received after the Watts riots in 1965 (Buntin, TIME [1965])), and succeeded Parker for many years. The most relevant aspect for our story is that Parker used the aftermath to shake-up the LAPD personnel structure, what Buntin (p. 150) refers to as a "massive purge" involving 90 officers including "two deputy chiefs, two inspectors, four captains, five lieutenants, and six sergeants."

professionalism that Parker would use so successfully. And, the recall of Mayor Shaw and election of Mayor Bowron was an enormously important step for putting reformers in a position to appoint Parker as Chief of Police.

Likewise, the unusually independent anti-corruption powers of the Los Angeles Grand Jury system provided information to the media and the community of both the pervasive municipal corruption under Mayor Shaw and later, under Mayor Bowron, of the Brenda Allen scandal that exposed continuing problems inside the LAPD.

It is critical to emphasize that we are not arguing that an early-20th century Progressive model of politics is a prerequisite for 21st-century anti-corruption activities (indeed the Progressive model generates in own shortcomings in municipal accountability). What we are arguing is that internal contestability against a corrupt government would appear to be extremely useful in order to lay the groundwork for reform. The nature of this contestability may vary from country to country and from one time to another, but we argue that a centralized, unified governmental structure in which an entrenched and corrupt administration controls all of the levers of potential change is not going to be hospitable to structural reform.

B. External Contestability

We previously observed that new military contracts and expanding western markets at the close of World War II generated large financial incentives for Los Angeles to repair their image as a haven for municipal corruption. Moreover, the presence of rival locations for civilian and military business created a competitive environment for economic development. The availability of alternative locations for business relocation and expansion drives the institutional change. Without the constraint of competition from cities such as San Diego, perhaps there would not have been enough leverage to motivate the Los Angeles power structure to install and sustain the reform minded Parker.

After his appointment, Parker continued to drive home Bowron's point that corruption was bad for Los Angeles. The language employed by Parker in various speeches indicates that he views corruption as a financially and morally costly activity. We have previously quoted some of Parker's speeches regarding the elimination of corruption as almost a moral crusade. But he was equally capable of reminding Los

Angeles business leaders that the presence of corruption was, in a practical sense, bad for their business:

“It is always a pleasure to discuss police problems with a group such as this because businessmen are, first are foremost realists....[The business community of Los Angeles] has recognized their proprietary interests in the community police organization and have devoted constructive attention to its continued improvement.”³⁸

We have already mentioned the public appreciation that the Los Angeles Chamber of Commerce paid to Parker after his first year in office. Thus, although we do not have direct smoking-gun evidence that the Los Angeles City leaders voiced publicly a specific fear such as the loss of business to places such as San Diego if corruption continued, there is clear evidence that Parker believed that corruption would be costly to the Los Angeles business community, that he made them well aware of this fact, and they responded in kind.

In addition to the Davis and North story that institutional change occurs when benefits outweigh costs, this argument tracks well with market contestability and Tiebout competition arguments. From the demand side, if consumers (business leaders, skilled workers, and so forth) have a set of choices they will choose the option which most satisfies their preferences.

In addition to a macro view of how contestability shaped the reform process in the LAPD we may also take a micro view of how institutions were able to be changed through the contestability inherent in the efficiency wage model. Even with the high level of recruitment standards to become a police officer (high test scores, certain physical traits, etc.) there were still a number of good candidates. If an LAPD officer failed to act in accordance with Parker's view of a good cop, they would not last on the squad, and someone else would take their place.

C. Values

The contestability arguments are powerful and frequently employed by economists; however, appropriate incentives and costs of change are a necessary but insufficient condition for reform. Because there are many situations characterized by benefits from defection a critical mass of values will be necessary to overcome the

³⁸ *Parker on Police*, “The Businessman and The Police,” p.38.

financial incentives to deviation. Elinor Ostrom and David Schwab describe the Game of Snatch (Plott and Meyer [1975], which is similar but precedes the Trust Game of Berg, Dickhaut, and McCabe [1995]) which places people in such a situation where deviation is profitable. They envision institutions such as reputation, the law merchant, and other knowledge disseminating devices that guard against defection; yet, they conclude with the following statement,

"Finally, it is worth noting that institutions -even well-designed ones- will not lead to beneficial outcomes by themselves. Institutions are inseparable from the people who make use of them, and, as noted above, all rules are subject to manipulation by political actors. Thus, at some point, we must cease to rely upon institutional corrections and place our faith in a citizenry well educated in virtue. Ultimately, *we* must guard the guardians. It is our hope that, by keeping our rules for institutional design in mind, we can guard them well." (Ostrom and Schwab, 2006, 223)

In such situations incentives will only lead to an infinite regress problem. Ultimately, although it may seem to be a *deus ex-machina*, it is necessary to install an economic actor who does not act based on their incentives, but, from their values orientation.

We believe that in the 1930s Los Angeles was characterized by incentives for the citizens to allow rampant corruption in part because the retaliatory costs of rallying against corruption were high. Thus, there were very few people guarding the guardians. One of the “guardians” against public corruption would naturally be thought to be the local district attorney, but from 1928 to 1940 that office was held by Buron Fitts, who, as we mentioned previously, was indicted (then acquitted) for bribery and was called “near psychotic” by one of the reformers. Mayor Bowron was allied with the reformers, but it was a Chief of Police on his watch who resigned amid the chaos surrounding the Brenda Allen LAPD prostitution scandal. Once Parker was installed in office he called on the police and citizens to hold themselves to a higher standard. But Parker clearly saw the values of the LAPD and the community as mutually reinforcing. Again, from *Parker on Police*³⁹, he makes it clear that his reform was not an exogenous imposition of new values from one of the two sides onto the other:

Its members [the officers of the LAPD] are not an alien force, brought from without to do a job. It is made up of citizens who carry *the same strengths and weaknesses as other citizens* [emphasis added]. Law enforcement succeeds in its task only so far as community interest lets it succeed, and it fails when community neglect sows the seeds of failure.”

³⁹ “The Businessman and Police,” p. 36.

Thus, this call to a higher standard was not for some foreign value system, but, instead a reorientation to an existing value system --- a “memory of morality”. We argued in previous sections that these values existed in a Los Angeles of transplanted Mid-Western identities and strong religious backgrounds. If we think of values as “conceptions of the desirable” (Kluckhohn, 1961) the relatively homogenous religious outlook would make their conceptions approximately equal.⁴⁰ Likewise, Parker's comments may have signaled that the cost of holding police to a higher standard were lower than they were under previous regimes.

Overall, the expression of these values was encouraged under the new regime Parker created in the LAPD. The expression of these values may be viewed as fundamentally changing the cost-benefit calculus of the police; but, it may also be seen that when the citizens expressed their values they remind the police of their own values. It is indeed likely that the institutional changes made by Parker were vital in making deviations towards corruption more costly; yet, in a corrupt world deviation may otherwise go unannounced without a citizenry whose values solve Ostrom and Schwab’s infinite regress problem of guarding the guardians.

We thus return to the idea of equilibrium selection. We have argued that the speed with which the reform of the LAPD was not only effected but also recognized externally (as in the case of O.W. Wilson) suggests that there was more going on than simply changes in incentives at the margin ameliorating a dominant strategy for corrupt behavior. Instead, it suggests that reform may be rapid only when there is an underlying, operative equilibrium selection problem; in other words, this type of success requires that there be the potential for an honest equilibrium. While such an equilibrium might, in principle, be supported merely by an incentive structure, it will more likely exist when there is an underlying reinforcing value system for honesty. In fact, it is possible that the value structure itself feeds into the parts of our model which nominally look like incentives. For example, S_p , the sanctions for dishonest behavior in a honest equilibrium, is an expected value term; that is, it comprises both the probability of and the penalties

⁴⁰ Additionally, it is worthy to note that in moral psychology harm and care are frequently identified as the most salient moral foundation (Haidt and Joseph, 2007). Moreover, the language utilized by Parker in many of his speeches about how corruption harms other people can be seen as "priming" this salient moral foundation.

for being discovered to be dishonest. It ought not to be surprising that the probability that a corrupt officer is uncovered and reported to internal affairs is a function of the values for honesty and integrity of other officers who are in a position to do the reporting.

D. Media

Parker utilized the free media extensively in efforts to turnaround the LAPD. We have already seen that he not only used the media effectively, he openly discussed how the media were useful in his reform efforts (the Jack Webb example). What seems apparent is that using the public media is a low cost way of transmitting information about values, expectations, and incentives to all the relevant populations: citizens, police, and criminals.

Parker increased awareness that corrupt actions were morally impermissible through his language in speeches and interviews. Also, when police corruption was uncovered Parker brought the information to the newspaper to air in the public forum. This served at least two purposes. First, his interviews and executive decisions served to highlight a focal point for coordination for citizens and police. Second, because this created common expectations it lowered the cost of coordination.

Another crucial point is the contestability of the press in Los Angeles. Even though the Los Angeles *Times* was periodically sympathetic to “The Combination” the Los Angeles *Examiner*, owned by William Randolph Hearst, provided an alternative. Additionally, the pulp fiction novels of Raymond Chandler also provided an honest glimpse into the dark side of Los Angeles corruption.

The power of media to transmit information that shapes values, instills public confidence, and improves coordination cannot be underestimated in this case study. Citizens, are less capable of acting as agents of accountability (“guarding the guardians”) when they do not have the information available to monitor the actions in question. Ultimately, when citizens have the values, information, and know that they have the support of the some reformers (such as Parker, in this case) they can significantly increase the cost of criminal action.

V. APPLICATION TO ECONOMIC DEVELOPMENT

The case study approach is not frequently employed in economic scholarship because regressions cannot be conducted with a sample size of one. Indeed, our thick description of the transitional period from corruption to police professionalism in the Los Angeles Police Department will not apply to all developing countries struggling to root out corruption. This caveat is important because we do not intend to instruct countries to adopt Progressive Era institutions or implement William Parker's exact cocktail of reforms. Our goal is more modest. We are focused on the meta-rules which allowed for Parker to achieve his reforms. There seem to be three essential features that allowed Parker to reverse the culture of corruption within the Los Angeles Police Department: contestability, values, and free media. Moreover, in this abbreviated application we will argue that Charter Cities could capture all of these essential features.

A. Contestability

Contestability is rooted in actual or anticipated consequences. In markets, thick with choices, good actions are rewarded by positive consequences and bad actions are punished by negative consequences ---this guides how people make decisions. With developing economies external contestability can occur with competition between countries in so-called "race to the bottom" agendas or when aid is provided following reform (rather than the way foreign aid has typically been provided before reform). This striving towards better institutions in order to secure private investment or foreign aid is analogous to the competition between Los Angeles and San Diego to secure private investment and government contracts. Meanwhile, in our story we also found that "internal contestability" or the checks and balances on political decision-making were important. Parker was able to implement reforms without much interference. Other institutions of this ilk would be the independent grand jury which was allowed to pursue indictments against corruption. Many countries are developing anti-corruption commissions that are supposed to act in a similar fashion to the grand jury. More broadly, Weingast (1995) has made the case for federalism as an example of what we call here contestability as an underpinning of economic growth, in part because mobility issues for labor and capital (that we have discussed here) limit the ability of governments to engage in market-destroying and institution-destroying corrupt activity.

B. Values

The literature on values and development economics has indirectly grown in recent years due to an interest in “culture” which can be thought of as shared values (which fits well with our earlier definition of values as “conceptions of the desirable”). This literature on culture has started utilizing religious values and other slow-moving elements of culture because they can act as instrumental variables on economic outcomes. Overall, the scholarship has been fruitful with scholars finding that values are significant determinants of economic outcomes such as savings and trade (Guiso, Sapienza, and Zingales, 2006). Moreover, proxies for values such as language have been found to be significant explanations for governance quality (Tabellini, 2008) and at least one natural experiment has shed light on the importance of values with respect to corruption (Fisman and Miguel, 2007).

In our case study of Los Angeles we focused on two sources of values that helped reverse a culture of corruption. We noted that many Los Angeles residents hailed from pious Midwestern backgrounds. Then, we posited that these values contributed to the ease in which a tipping point was reached in our equilibrium selection model. Secondly, and at least as important, William Parker maintained high professional standards for integrity that manifest themselves in institutional reforms as well as his personal life. His reputation as someone beyond reproach made him a good “institutional entrepreneur”. We will now discuss these values for the population and leadership in turn and draw some applications for development economics from these points.

While the research on generalized values is somewhat recent in economics there has been a longer tradition of studying religious values. There is a bevy of evidence about differences in outcomes between the religious and non-religious in a variety of contexts (summarized in Johnson, Hopkins, and Webb 2002). Moreover, these outcomes can be more than individual level outcomes. Religious organizations are credited with enhancing social capital within communities (Putnam, 2000) and have been shown to affect civic outcomes such as voting (Gerber, Gruber, and Hungerman, 2010). The relationship

between corruption and religious or cultural values is not conclusive; however, there is an increasingly robust link between certain religious backgrounds and lower corruption.⁴¹

The fact that empirical evidence for values reducing corruption is unclear does not weaken our argument that values are central to institutional change. In fact, this may serve to strengthen the argument about the need for excellent leadership. Our claim has been that values increase the ease at which a tipping point is reached. Some governments and non-governmental organizations are attempting to show leadership through education.⁴² But, citizens may also need more than an advertising campaign ---countries may need good leaders to exhibit these values in order to trigger change.⁴³

To this point, the rhetoric of a recent speech by former Malaysian Prime Minister Mahatir Bin Mohamad is strikingly similar to William H. Parker's understanding about the importance of integrity. Mahatir emphasizes that to overcome corruption that people must have good leaders that are beyond reproach,

“When people have no sense of shame and their greed overcomes their better judgment, corruption just cannot be stopped. No amount of explanation about the destructive effect of corruption would be of any use . . . a leader will show he means business with fighting corruption by disciplining himself into rejecting his greed for wanting what does not legitimately belong to him. He must set this example. He more than anyone else must not be corrupt.”

Put another way, the anti-corruption advertisements simply will not work if the leadership does not live the same values dispensed in the commercials. Moreover, if you have leadership with high values you do not have the Ostrom and Schwab (2008)

⁴¹ Danila Serra (2006) summarizes numerous empirical studies on corruption. Many of those studies cite the percentage of the population Protestant as a significant explanatory variable in reducing corruption. In performing her sensitivity analysis she concludes that, “Protestant religion is indeed a robust determinant of corruption; all the 299 regressions run result significant at the 0.05 confidence level. The always negative sign suggests a negative impact on corruption . . . This is one of the most interesting results of this paper . . . different religions may have substantially diverse effects on corruption.”

⁴² Corruption has been labeled a, “disease [that] robs children of their future”. Moreover, other advertisements point out that corruption promotes, “poverty, underdevelopment, [and] human suffering” (Transparency International 2008; United Nations Office on Drugs and Crime 2006). These commercials are similar to the manner in which psychologists “prime” participants in an experiment to focus their attention upon a particular aspect of the decision. According to moral psychologists “not harming others” is universal as a moral foundation and a robust rationale for decision-making (Haidt and Bjorklund, 2006). Thus, it makes sense that these anti-corruption commercials are attempting to “prime” these sentiments in the public.

⁴³ We outline the role of the “institutional entrepreneur” in the context of our equilibrium selection model. The decision to act as the institutional entrepreneur may contain similar aspects to a public goods game. In experimental public goods games participants are more likely to contribute when they have a high MPCR (Isaac and Walker, 1986). Essentially in this context those people like Parker who value honesty and integrity are likely to be high contributors or “institutional entrepreneurs”.

problem of “who guards the guardians?”⁴⁴ Thus, leadership is important because leaders can communicate the values and help to people to coordinate on a common equilibrium.

C. Media

There are numerous case studies which detail government capture of the free media for sycophantic purposes (Coyne and Leeson, 2009). Empirical studies on media freedom also suggest that media does not become government run due to financing advantages; rather, media becomes government run because it is beneficial for the government to control the flow of information (Djankov et al, 2003; Lederman et al 2005). Research from McMillan and Zoidos provides researchers with the rare opportunity to peer into the thoughts of a corrupt politician by documenting information on bribes paid to various agents of accountability. The broadcast and print media were the highest paid agents (McMillan and Zoidos, 2004). This collection of research suggests media plays a crucial role in accountability.⁴⁵

There is also a vibrant literature which outlines causal, and where endogeneity is a concern at least correlational, evidence that media freedom curtails corruption (Norris and Zinnbauer, 2002; Besley and Burgess, 2002; Brunetti and Weder, 2003; Reinikka and Svensson 2004). There is no literature known to the authors which suggests that media freedom increases corruption.

Media was extremely important in terms of uncovering scandal in Los Angeles. When the Los Angeles Times was editorially supporting the corrupt Shaw regime the Los Angeles Examiner was actively engaged in sleuthing stories.⁴⁶ Moreover, media was an essential tool used by William Parker to transmit information about his intolerance for corruption in the police department. Parker believed the capability to send this signals

⁴⁴ The selection process for “good leadership” can be precarious. Some elected leaders are believed to be men and women of integrity; however, their tenure tells a different story. For example, Jean-Bertrand Aristide was elected in 1990 with overwhelming support. Haitians believed the former Catholic Priest, Aristide represented a higher-calling and would usher in a different kind of government ---they were wrong (Dupuy, 2007). In other countries democratic elections frequently trade one unscrupulous leader for another. The identification of good leadership is a difficult exercise but that does not diminish its importance.

⁴⁵ The struggle to preserve media freedom persists in many countries. Citizens in both Cote d’Ivoire And South Africa have worried that their government will attempt to snare control of the media (Southall, 2010).

⁴⁶ The Los Angeles *Examiner* was part of the Hearst chain.

was of the highest value. He signaled the type of behavior tolerated by the LAPD through the newspapers but also utilized *Dragnet* to portray a new image of Los Angeles police.

The increased recognition of corruption and straightforwardness of media freedom as a facilitator of accountability craves answers for why media freedom has not been featured more prominently in aid conditionality. Media can influence both external and internal contestability. There are numerous case studies that report media as the scourge of corrupt governments. By raising public awareness of corrupt activity, media alters the cost-benefit calculus of crooked regimes. The ability for media to transmit values has also recently gained notoriety in economics with soap operas being linked to the reduction of fertility rates in Brazil (La Ferrara et al 2010) and the belief that television shows altered the perception of women in India (Jensen and Oster, 2010).

Ultimately media represents an incredible tool for coordination. First, media illuminates a focal point by showing what kinds of policies and values are desirable. Once these focal points are identified the mass communication generates a situation of common knowledge which makes coordination easier.

Finally, we highlight that the discussion cannot end simply with the concept of a “free” media. It’s obviously possible that a “free” newspaper or television station may have reasons to miss or ignore corruption. The case of Los Angeles with the competition among newspapers highlights the need for the media to be free but also contestable.

D. Charter Cities

Charter Cities propose a radically different approach to development economics. The intellectual child of Paul Romer, this approach claims to need only three ingredients: land, charter, and enforcement. If a country possesses a large and uninhabited parcel of land they can volunteer that land to be established as a “special zone”. Then, a charter which is, “a foundational legal document, not an exhaustive city plan” would specify the, “process by which rules and regulations will be established in the city” (Romer, 2009). People would be free to reside and conduct business in this Charter City and free to move in-and-out of the city. Finally, a “guarantor” would ensure that the charter is respected.

A motivating example for the Charter City movement is that of Hong Kong. Although the origins of the special status of Hong Kong are quite different from that

anticipated in the charter cities program, its special status has been accommodated by the Chinese government since the return from British rule. And, pertinent to our present research, Hong Kong has a track record of dealing with corruption over a time period that spanned the return to Chinese sovereignty. The vehicle for combating corruption, initiated in 1974 and continued through today, is the ICAC (Independent Commission Against Corruption). In documents describing the work at ICAC, it is notable that they incorporate contestability, values, and the media⁴⁷. For example, officers of ICAC have independent power to make arrests. They have several programs to promote anti-corruption values among young people. They state that “media reports are important. . . . They provide useful information so that members of the committee can ensure that the work of ICAC meets its mission and is supported by the Hong Kong Community at large.” And, in a case of media history repeating itself, they collaborated with a television drama “ICAC Investigator 2009” based on true case stories. (The ICAC narrative does not indicate whether the names were changed to protect the innocent). There are numerous questions that have been raised about Charter Cities; however the heart beat of this approach to development is the notion that institutions are important. The institutional approach to development economics has become increasingly popular (see Acemoglu, 2009). Our LAPD narrative discussed crucial institutions such as contestability and the media. In this case values are provided by the people selecting into the system. Each of these so-called essential features is unlikely to be independently significant but will have joint significance. For example, media freedom can influence values and act as an internal check and balance on corruption; however, without integrity we once again have the question of “Who guards the guardians?” Likewise, values are important; but, will values generate widespread support without external motivation?

This case study, from a city that knows a few things about story-telling, provides some hope that corruption can be curtailed. While we are not suggesting the exact recipe for reform it is clear that good institutions and values are necessary for reform, getting there is the hard part. That’s a wrap.

⁴⁷ “Hong Kong: The Facts” and “Is the Independent Commission Against Corruption (ICAC) Really Doing Its Job?” accessed at www.icac.org.hk on April 5, 2011.

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