

-----Posted on Thu, Jun. 03, 2004

Real World Economics: Need, greed defeat good sense

EDWARD LOTTERMAN

Who would ever fall for such a scam? That is my reaction every time I receive an e-mail from someone in Nigeria asking my help in transferring millions in unclaimed funds to the United States.

I have the same reaction to full-page newspaper ads offering pricey seminars guaranteed to teach how to make a killing in real estate or foreign exchange speculation.

Some people apparently take such bait. Else those dangling it would move on to more lucrative activities. The prevalence of e-mails from African countries, despite years of publicity about the scam and organized efforts by the Nigerian government to warn the public, is evidence that it must succeed with some people.

Similarly, no one would buy expensive full-page ads in newspapers and rent hotel ballrooms to present "investment strategy" seminars if there were not people willing to pay hefty fees. The same principal applies to common financial fraud schemes.

Most people who get e-mails asking for their help immediately recognize an attempt to defraud them. But even if one out of 100,000 falls for the con, the rewards for the scam artist can be substantial. Likewise, if a few hundred people actually pony up the fee for a seminar that promises some secret system for foreign trading, the organizer can pay the expenses and still clear a tidy sum.

Believers in human rationality are agog at how anyone could be so stupid and naive as to think that a stranger would pay them millions to move money out of Nigeria or that there are unexploited opportunities in real estate accessible to anybody who sits through a three-hour lecture.

Haven't people heard of the idea of "efficient markets?"

The answer is that humans are not, as economists like to believe, entirely rational in their decision processes. Nor are they well informed about the workings of banking systems or financial markets. Still, many apparently believe that there is money lying all over, just waiting to be picked up by someone who has a "system."

Need, greed or financial desperation contribute to the defeat of good sense and reason. People who are financially stressed are more likely to overlook

warning signs of fraud than those who are not in trouble — much in the same way that people with desperate illnesses are more vulnerable to quacks offering cures.

Shame, another familiar human emotion, protects con artists. People who fall for financial scams realize sooner or later that they have been taken for a ride. Many, however, fail to report their losses to authorities because they are ashamed of their gullibility.

And, those who buy seminars on getting rich may think the "system" is valid but that they are somehow at fault for not making it work. Or they may realize the promoter of the scheme did put enough fine print disclaimers in the materials to prevent criminal charges.

Citizens can fall prey to policy frauds just as they can swallow financial scams.

Argentine President Nestor Kirchner has good approval ratings despite implementing disastrous policies. Battered Argentine voters buy his snake oil message that a nation can stiff its creditors and yet attract bountiful new foreign investment, that it can break contracts with trading partners and not undermine business confidence in the promises of the Argentine government, and that energy companies can be starved of needed revenues and still increase investments in new wells and pipelines.

The Great Depression in the United States gave rise to all sorts of popular policy nostrums disseminated by demagogues such as Huey Long. Reason yields to irrational and unrealistic promises when people are desperate.

There are fewer excuses for self-delusion in our relatively prosperous society today.

Yet, one still can find advocates for rent controls, despite the bleak experiences where they were implemented. Tens of millions are falling for the deluded promise that if we run large enough budget deficits, the economy will somehow react with such vigorous growth that the national debt will not grow in the long run and no one will ever have to bear the cost of our profligacy. That is about as likely as actually getting rich from some lucrative opportunity originating in Nigeria.

In the long run, the damage to society from listening to policy quacks is much greater than that done by scam artists who bilk a few hundred dollars here and a few thousand there. We have only ourselves as a body politic to blame.

St. Paul economist and writer Edward Lotterman can be reached at elotterman@pioneerpress.com.