

**Wainwright, Tom – Narconomics: How to Run a Drug Cartel***Public Affairs US, 2016, [Surrounding Knowledge] Grade ★★★*

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In the age of legalization of recreational drugs, what could be more relevant than learning about the South American cartels that completely own this market today? I know, the subject might seem a bit unorthodox for a finance book review, but bear with me.

To say that it's impressive that this book exists is an enormous understatement. The fact that the author survived writing this makes you wonder if it's actually true or a complete work of fiction. Tom Wainwright, the author of *Narconomics: How to Run a Drug Cartel*, has literally risked his life for this research. Wainwright paints a picture that the cartels are not that different from large international companies - with a little bit of torture, murder and what have you thrown into the mix.

From my experience, the world is best understood through the eyes of a textbook on economics, and Tom really proves this to be the case. Levitt and Dubner's classic *Freakonomics* opened my eyes to the power of incentives and economic powers. Wainwright continues along this path and suggests that if we are to understand cartels, we must analyze them like every other structured organization. The cartels suffer the same problems as everyone else with finding recruits, keeping salaries down, keeping competition away and of course keeping prices high. Considering the hard work of finding good employees that are loyal and keep their mouths shut, it becomes increasingly important to treat your employees well. It seems somewhat unlikely that Wal-Mart would force all their employees to have facial tattoos done in order for them to never be able to change employer, but maybe the business world has a thing or two to learn about keeping employees around?

There are quite a few interesting tidbits throughout this book, many of them somewhat controversial, but nonetheless thought provoking. A specific part that stood out for me is that most of the cartels covered in the book are mono-cultural organizations with little to no diversity. According

to a Dutch study on internal gang disputes, 29% of those conflicts when involving people of the same ethnicity were solved with violence, whereby the number is 53% for internal gang conflicts involving people of different ethnic background. There seems to be no studies made in "legit organizations" for this question so it's quite hard to fact check these statements. Regardless how unpopular it would be, it tickles my curiosity to find out how an extremely homogenous organization would fare. Would they all be friends but get nothing done? Would the people eventually clash? Or would it be the most successful organization we've ever seen? I don't think I will ever find the definite answer.

Academic research brought forward by Michael Mauboussin shows that there are different types of diversity; social diversity that reflects to differences in ethnicity, gender and the like, cognitive diversity that includes differences in knowledge, experience etc. and value diversity that captures differences in the perception of the group's task or goal. To foster good decision-making you need a) relevant competences, b) high cognitive diversity to ensure that there are multiple sharp tools in the toolbox to solve problems but also c) low value diversity to make sure that people strive in the same direction. Social diversity is positively correlated to cognitive diversity and so is generally a positive. However, social diversity can also lead to some process losses as the group has more difficulties in interacting and the level of conflict therefore rises.

When peeking through the eyes of an economist, the world makes a lot of sense, and the global drug trade is no different. This might seem surprising to most people, but are we really that surprised that criminals also follow the rules of market economics? I can't say that I am. No one is immune to the forces of the market economy. I picked up this book at the airport, and that's kind of where it fits. It's perfect for vacation reading. Prepare to be baffled and amused, but don't expect to be a better person or investor.

Olle Qvarnström, November 19, 2018