

Empirical Approaches to Anticorruption

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- **Defining Corruption – “abuse of public office for private gain”**
 - Monetary and non-monetary favors
 - Bribery and corruption
- **Measuring Corruption**
 - Survey data - Perceptions indices – TI, WB, ICRG
 - Hard data – convictions (U.S.)
 - *Both measures imperfect*
- **Formal Empirical Investigations of Corruption – since late 1980s/1990s**

- **Types of Corruption**

- Petty vs Grand – some countries have one or the other, while others have both types! – (which types drive perceptions more – media vs the public)
- Political vs Bureaucratic
- Demand side (bribe takers) vs Supply side (bribe givers)

- **Scope of Inquiry**

- Single country
- Cross country

- **Economists' Interest in Corruption**

- Understand shadow economy
- Institutional quality/governance
- Corruption in procurement/auctions
- Bargaining in corrupt contracts
- Public Policy
- Economic growth
- Equity-efficiency

- **Approaches by Economists to Study Corruption**
 - Causes vs Effects of Corruption

Determinants of Corruption

- **Economic factors**

- Economic prosperity, Economic freedom, Unemployment, Public sector wages

- *Greater prosperity associated with better checks and balances and it also increases the costs of sitting in jail*
- *Economic freedom associated with fewer bottlenecks, relatively low taxes*
- *Low public sector wages increase temptations to demand bribes*
- *Unemployment increases the impatience of some to jump queues by offering bribes*

- **Political /Government factors**

- Political freedom (press freedom), Democracy, Government size/structure, Bureaucracy

- *A free press deters corruption by increasing risk of exposure*

- *Democracy increases risk of election loss for corrupt officials*

- *Government structure – urban-rural, number of tiers, autonomy of regions*

- *Fragmented government promotes transparency but also facilitates formation of corrupt relations (Goel and Nelson, 2010)*

- **Institutional factors**

- Rule of law, Legal system

- *Rule of law and a consistent legal system “standardize” punishments for law breakers*

- **Social (ethnic, linguistic, religious) factors**

- Fractionalization, Income inequality, Literacy, Gender

- *Linguistic, ethnic diversity might prompt bribe offers to sanction corrupt contacts*
 - *Literate population aware of rights and duties, but also more competent to dodge the system*

- **Historical factors**

- Colonial past, Length of Independence, Coups

- *Long history of independence can leave deeply entrenched corrupt norms.*

- **Geographic factors**

- Urbanization, Distance from capital, Natural resource endowments- “resource curse”

- *Greater urbanization increases risk of exposure*
 - *More contracts/favors near capital cities – “apple falls under the tree”*

- **Proximity/Contagion aspects**

- Clusters of corruption (*“learning from others to be corrupt”*)

Key Findings – Corruption Determinants

- Economic prosperity lowers corruption
- Long tenure of democracy lowers corruption
- Political instability increases corruption
- Large Protestant population might reduce corruption (Serra, 2006)
- Colonial heritage might matter
- Diffusion of newspapers reduces corruption (Pellegrini and Gerlagh, 2008)

Empirical Challenges

- **Simultaneity (“chicken and egg”) issues –**
as corruption is affected by some factors, are these factors also affected by corruption – corruption and government size (Goel and Nelson, 1998)
- **Differences across single country and cross-national findings –**
Is a larger government contributing to corruption by increasing red tape or is it reducing corruption by adding more checks and balances?
- **Nonquantifiable aspects –**
cultural norms (customs of doing business), institutional aspects (hierarchies), bargaining “games” between bribe takers and bribe givers – *corruption contracts*

Effects of Corruption

- Effect on Economic Growth –
Does corruption “sand” or “grease” growth?
- Performance of various sectors/industries –
banking

- Fairness vs Efficiency issues – *corruption lets those with resources to buy their place in a line, but is unfair to those without resources*
 - Income inequality
 - Investment (FDI)
 - Public sector distortions (Lambsdorff, 2006)

Recommendations for Corruption Control

- Corruption tends to go down as nations attain greater economic prosperity
- Promote political stability
- Increase public sector wages
- Promote democracy
- Press freedom – *Effect of the Internet age?*
- Independent judiciary, rule of law
- Existing corruption levels matter

Future Research

- What constitutes a corrupt activity and what is a routine part of doing business?
- Public sector vs private sector corruption
- Petty vs grand corruption
- Individual-level data
- Role of the Internet
- More cross-disciplinary interactions – economists, sociologists, political scientists, psychologists??

Bottom Line

- Corruption is almost impossible to eliminate altogether – it will remain as long as human beings are greedy and selfish.
- In some instances corruption has been institutionalized and been called by other (“legal”) names.
- Transparency and accountability can certainly help, but not likely to eradicate corruption!

Further Readings

- R. Klitgaard, *Controlling Corruption*, 1988.
- Lambsdorff, J.G., *The Institutional Economics of Corruption and Reform*, 2007.
- Pellegrini, L. and R. Gerlagh, “Causes of Corruption”, *Economics of Governance*, 2008.
- Rose-Ackerman, S., *Corruption and Government*, 1999.
- Rose-Ackerman, S. (ed.), *International Handbook on the Economics of Corruption*, 2006.
- Serra, D., “Empirical Determinants of Corruption”, *Public Choice*, 2006.