Empirical Approaches to Anticorruption

Rajeev K Goel
Illinois State University
• **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