

# Combating Petty Corruption with Positive Feedback?

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The Economics of Corruption, 2012

## Extortive Petty Corruption

- Public official approaches the citizen with a bribe demand for providing a service that the private citizen is legally entitled to.
- Causes limitations in access to basic public service spheres:
  - Health Care
  - Education
  - Police & Jurisprudence
- Common in developing countries, with high perceived corruption levels & general distrust for institutions. [Batory 2012]

### Key Features:

- Difficulties with exogenous monitoring.
- Repeated interaction: PO can intentionally withhold effort to increase the pressure on the citizen to pay a bribe.
- Virtually no anonymity in corruption-entrenched regions.
  - $\leftrightarrow$  Endogenous involvement problematic.

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# Research Question

How about positive feedback and reward structures?

- How might they mitigate extortive petty corruption?
- Not recommend  $\neq$  Report
- Rewards induce socially desirable behavior.
- Monetary incentives might change the actions of the PO.

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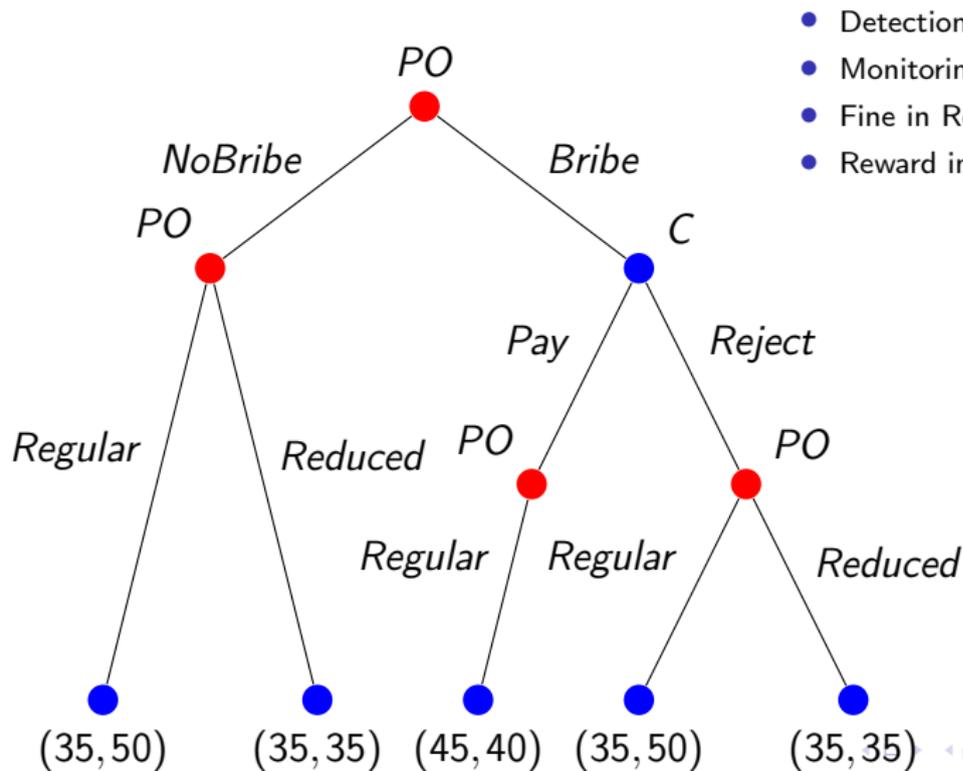
## Experimental Design

- 2 players: 1 Public Official (PO) & 1 Private Citizen (C)
- Sequential move structure, 4 stages:
  1. PO demands a bribe or not
  2. Citizen agrees or rejects to pay
  3. PO decides on quality provision (Regular vs. Reduced)
  4. Citizen engages in costly monitoring
    - Reports / Recommendations depending on the treatment:
      - ↪ In case of Report, with probability  $p$ , PO is fined.
      - ↪ In case of Recommendation, with probability  $p$ , PO is rewarded.
- Treatments:

<i>Characteristics</i>	Report	Recommend
Partner	REP_P	REC_P
[Stranger	REP_S	REC_S]

1 session & 24 subjects per treatment, loaded instructions, ex-post questionnaire, average earnings of 18.70 €.

# Basic Game



- Detection Rate = 10%
- Monitoring Cost = 1 Taler
- Fine in Report = 15 Taler (+ Bribe)
- Reward in Recommend = 15 Taler

## Tentative Findings

1. Corrupt transactions:
  - 1.1 Less bribes demanded in the Report treatment.
  - 1.2 Less bribes paid in the Recommend treatment.
2. Similar quality provision across Report & Recommend treatments.
  - 2.1 Rejected PO-s more likely to provide Reduced quality service.
3. Endogenous monitoring:
  - 3.1 Recommendations more likely than reports.
  - 3.2 Corrupt citizens less likely to report PO's extortive behavior.
4. Inequity-averse PO-s more likely to provide Reduced quality service.
5. Citizens with feeling of entitlement for the Regular service less likely to pay the bribe.
6. Status-concerned citizens more likely to report PO's corrupt behavior.

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## Conclusion & Outlook

- Extortion takes place when quality choice is at PO's discretion.
  - PO can pressure private citizens to pay the bribe by threat of providing inferior quality service.
- Agents willing to engage in civil affairs, even if extra costs are present.
  - Positive feedback seems to help in engaging public.
- PO-s do not give positive feedback a chance.
  - Few observations of PO-s abstaining from extortion in Recommend treatment.
- **Outlook:** How combination of both monitoring techniques can tackle extortive petty corruption?
- Endogenous "carrots" and "sticks." [Andreoni et al. 2003]
- Exogenous monitoring of misbehavior & endogenous monitoring of fair-minded and generous behavior. [Rose Ackerman & Truex, 2012]

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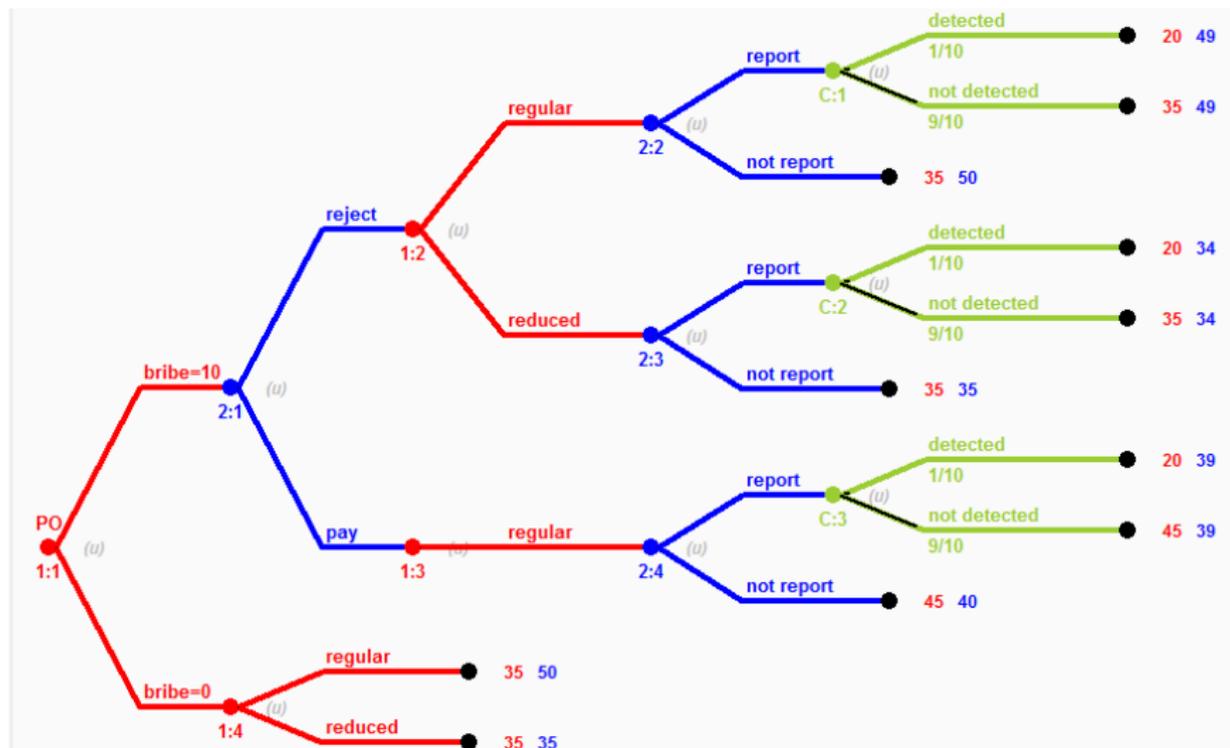


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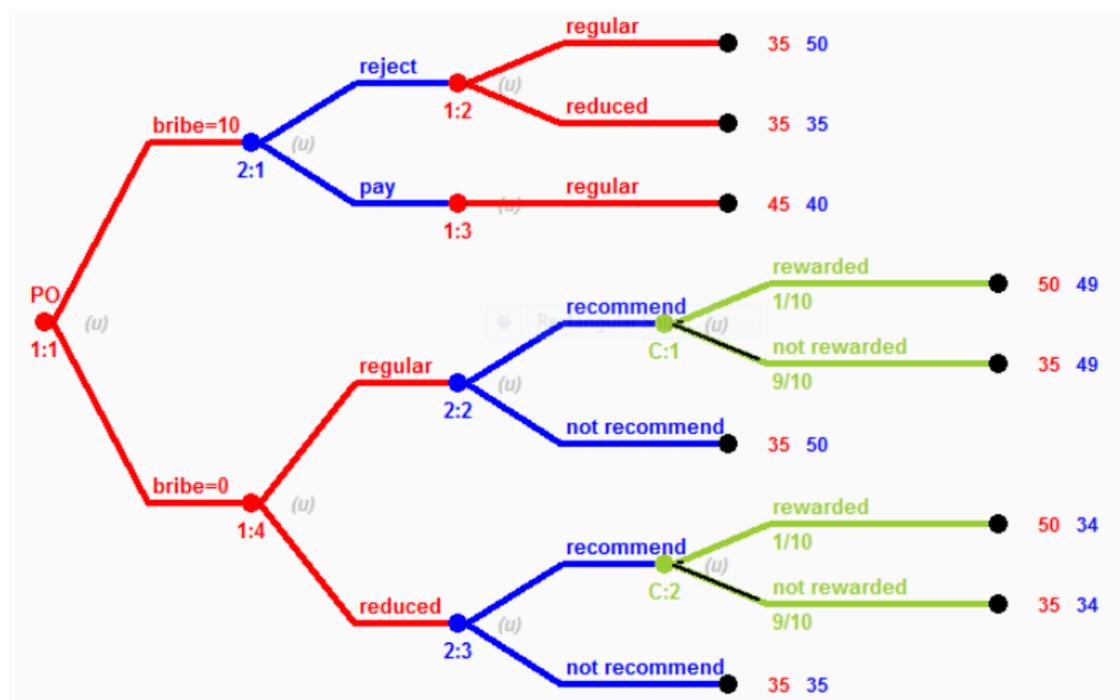
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# Game Tree for Report Treatments



Red = PO; Blue = Citizen; Green = Random Chance.

## Game Tree for Recommend Treatments



Red = PO; Blue = Citizen; Green = Random Chance.