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.
  - 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.

$\Rightarrow$ Controlled lab experiment: *Pilot study*
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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:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Report</th>
<th>Recommend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>REP_P</td>
<td>REC_P</td>
</tr>
<tr>
<td>[Stranger]</td>
<td>REP_S</td>
<td>REC_S</td>
</tr>
</tbody>
</table>

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

Pay

Reject

PO

NoBribe

Bribe

PO

C

Regular

Reduced

Regular

(35, 50)

(35, 35)

(45, 40)

(35, 50)

(35, 35)
Tentative Findings

1. Corrupt transactions:
   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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Game Tree for Report Treatments

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