

PSC 336

SYRACUSE UNIVERSITY

MONEY AND

POLITICS

BUREAUCRATS AND CITIZENS

PART 1

CLASS JOURNAL

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QUESTIONS IN THIS CLASS

- **What are we talking about?**
- **Who is involved in money and politics, why, and how?**
- **What determines money and politics?**
- **What are the consequences of money in politics?**
- **How can we reduce money in politics? Should we?**

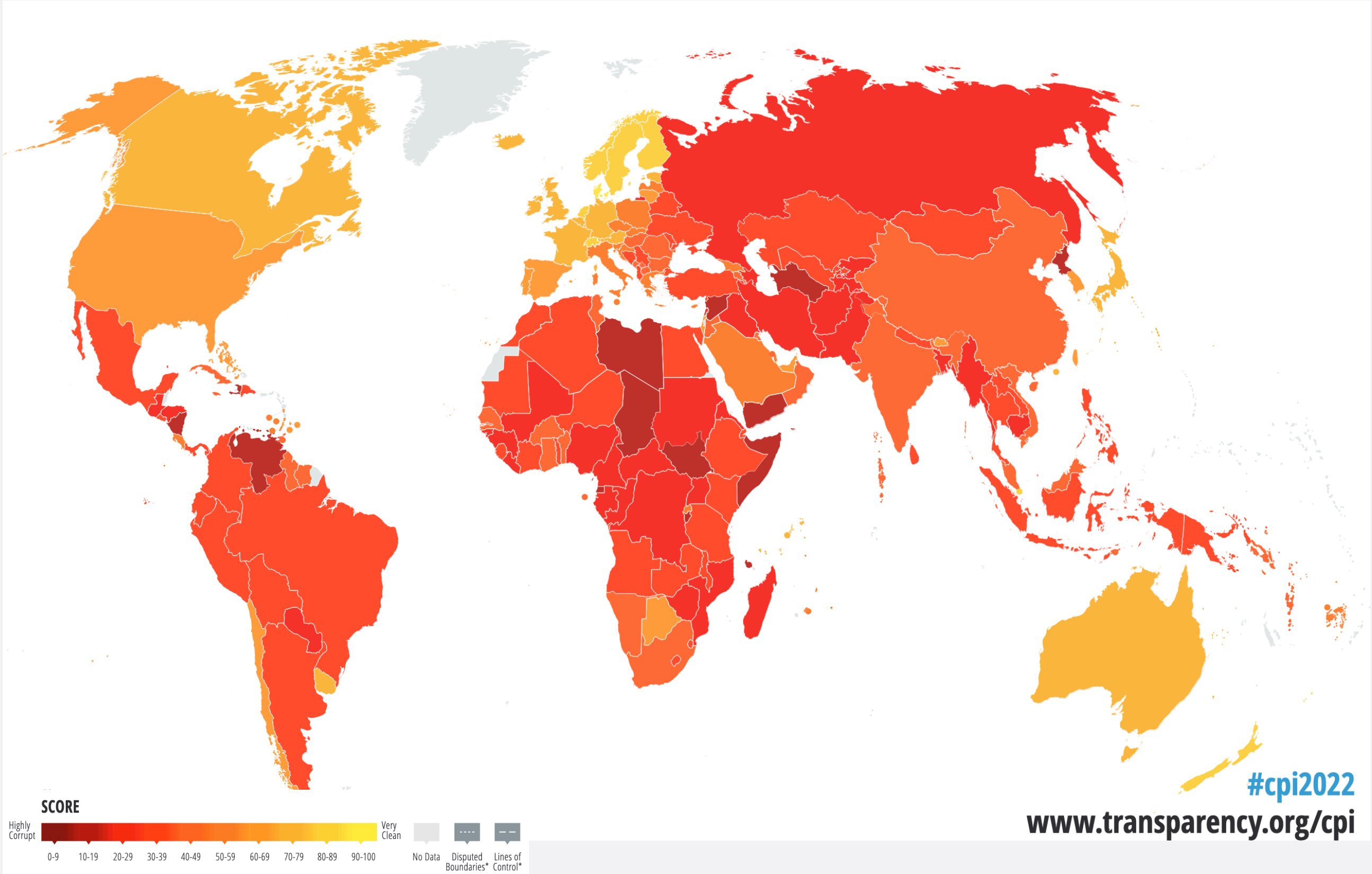
WHAT ARE WE TALKING ABOUT?

- **What is corruption?**
- **How do we measure corruption?**
- **What are basic patterns of corruption around the world?**

WHAT ARE WE TALKING ABOUT?

- **Corruption: difficult to define and measure**

CORRUPTION PERCEPTIONS INDEX



WHAT ARE WE TALKING ABOUT?

- **Difficult to establish causality using this data**
 - **Does corruption lead to poverty?**
 - **Or does poverty lead to corruption?**

WHAT COUNTS AS CORRUPTION?

Experts are asked to assess:

“To what extent are public officeholders prevented from abusing their position for private interests?”

Experts are asked to assess:

Transparency, Accountability and Corruption in the Public Sector.

Experts are asked to assess:

“To what extent are public officeholders who abuse their positions prosecuted or penalized?”

- Is there a professional civil service or are large numbers of officials directly appointed by the government?

- Does the government advertise jobs and contracts?

- Is the government free from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?

WHO IS INVOLVED?

“To what extent do you perceive corruption to be a problem in the following positions?”

- National-level political leaders
- City and other local-level political leaders
- Civil servants at the national level
- Civil servants at the city level

“To what extent do you perceive corruption to be a problem affecting the following institutions?”

- The police department
- The court system
- Customs
- The taxation bureau
- Government licensing bodies
- Inspection bodies
- The military

WHAT ARE WE TALKING ABOUT?

- **These are very different:**
 - **Factors behind decision by President of country whether or not to steal billions**
 - **Factors behind decision whether or not to ask for \$3 bribe by small-town police officer**

WHAT EXPLAINS CORRUPTION?

- **Unpacking “corruption”**
- **Who is involved, why, and how?**

QUESTIONS IN THIS CLASS

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WHAT EXPLAINS CORRUPTION?

- **This week: Bureaucrats and Citizens**
 - Why are bureaucrats corrupt?
 - Why do citizens and corporations participate in corruption?
- **Later:**
 - **Special interests**
 - **Lobbyists**
 - **Politicians and voters**

A SIMPLE THEORY OF CORRUPTION

- **“Law Enforcement, Malfeasance, and Compensation of Enforcers”**
 - **Gary Becker and George Stigler**
 - **Journal of Legal Studies, 1974**

BECKER/STIGLER MODEL

- **Build a theoretical model of bureaucrats' behavior**
- **Very simple representation of behavior of real humans**
 - **Leaves out many details**
 - **Simplification**

BECKER/STIGLER MODEL

- **Idea: Bureaucrat has to decide whether to accept a bribe or not**
- **Weighs costs and benefit of both options, chooses the one with greater benefits**

BECKER/STIGLER MODEL

- **Non-corrupt bureaucrat:**
 - Gets his wage
 - Nothing else

BECKER/STIGLER MODEL

- **Corrupt bureaucrat:**
 - **“Payoffs”/“utility”** depend on whether caught or not

BECKER/STIGLER MODEL

- **If not caught:**
 - Gets wage
 - Gets bribe
 - But: Feels bad for taking bribe and getting away with it: "dishonesty cost"
- **If caught**
 - Gets fired, so no wage
 - Also does not get bribe
 - Has to find alternative job with different (lower) wage

BECKER/STIGLER MODEL

- A corrupt bureaucrat gets caught with probability p
- So her payoff when being corrupt are:
 - With probability p (=caught):
 - Alternative wage
 - With probability $1-p$ (=not caught):
 - Wage + bribe - dishonesty cost
- Putting it together:
 - p (Alternative Wage) + $(1-p)$ (Wage + bribe - dishonesty cost)

A SIMPLE THEORY OF CORRUPTION

- **When is a bureaucrat corrupt?**
- **When payoffs from being corrupt are larger than from not being corrupt**

A SIMPLE THEORY OF CORRUPTION

Taking a bribe

- $p (\text{Alternative Wage}) + (1-p) (\text{Wage} + \text{Bribe} - \text{Dishonesty Cost}) > \text{Wage}$

Not taking a bribe

WHAT REDUCES CORRUPTION?

Make taking a bribe less attractive!

Taking a bribe

- $p (\text{Alternative Wage}) + (1-p) (\text{Wage} + \text{Bribe} - \text{Dishonesty Cost}) > \text{Wage}$

Not taking a bribe

Make not taking a bribe more attractive!

WHAT REDUCES CORRUPTION?

Taking a bribe

- $p (\text{Alternative Wage}) + (1-p) (\text{Wage} + \text{Bribe} - \text{Dishonesty Cost}) > \text{Wage}$

Not taking a bribe

- Make taking a bribe less attractive
 - Make being caught more likely
 - Make people feel worse about taking a bribe

WHAT REDUCES CORRUPTION?

Taking a bribe

- $p (\text{Alternative Wage}) + (1-p) (\text{Wage} + \text{Bribe} - \text{Dishonesty Cost}) > \text{Wage}$

Not taking a bribe

- **Make not taking a bribe more attractive**
 - **Increase the wage**

FROM THEORY TO EVIDENCE

- **Does corruption actually respond to these factors?**
 - **Does stricter enforcement lower corruption?**
 - **Do higher wages lower corruption?**
 - **Can we staff the bureaucracy with more honest people?**

FROM THEORY TO EVIDENCE

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ENFORCEMENT/MONITORING

THE ROLE OF WAGES AND AUDITING DURING A CRACKDOWN ON CORRUPTION IN THE CITY OF BUENOS AIRES*

RAFAEL DI TELLA
Harvard University

and

ERNESTO SCHARGRODSKY
Universidad Torcuato Di Tella

- Crackdown on corruption by new administration: increased monitoring/auditing
- Setting: Hospitals in Buenos Aires
 - How much do they pay for basic medical supplies?
- 3 Phases
 - 1. Collection of information on prices paid
 - 2. Monitoring starts, very intense
 - 3. Monitoring continues, but less stringent

ENFORCEMENT/MONITORING

- **Why do prices paid for medical supplies tell us something about corruption?**
 - **All hospitals buy the same medical supplies**
 - **So they should be paying the same price**
 - **If a hospital pays more, likely that procurement officer is corrupt and skims money off**

ENFORCEMENT/MONITORING

- **What is the effect of increased monitoring on prices paid?**
 - **Prices in period 2 (intense monitoring) decrease by 14.6% compared to period 1**
 - **Prices in period 3 (monitoring, but less intense) 9.7% lower than in period 1**

ENFORCEMENT/MONITORING

Monitoring Corruption: Evidence from a Field Experiment in Indonesia

Benjamin A. Olken

Harvard University and National Bureau of Economic Research

- **608 road construction projects in Indonesia**
- **Experiment**
 - Normally, chance of government audit is about 4%
 - For some (randomly chosen) villages, government audit would happen for sure (so 100%)
- **Corruption measure**
 - Compare “expected expenditure” with actual expenditure

ENFORCEMENT/MONITORING

- **Missing funds in treatment villages (100% audit) are 8.5% lower than in control villages (4% audit)**

FROM THEORY TO EVIDENCE

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WAGES

- Do higher wages lower corruption?

**THE ROLE OF WAGES AND AUDITING DURING A
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CITY OF BUENOS AIRES***

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- Procurement officers in different hospitals have different wages
 - Are those with lower wages more corrupt?

WAGES

- **Period 1 (no monitoring):** Wage of procurement officer has *no effect* on how corrupt they are
- **Period 2 (intense monitoring):** Wage of procurement officer has *no effect* on how corrupt they are
- **Period 3 (monitoring, but less intense):** Those with higher wages are less corrupt

WAGES

- **Why do wages only have an effect when medium-level monitoring, but not when high-level monitoring or no monitoring?**

WHAT REDUCES CORRUPTION?

Taking a bribe

- $p (\text{Alternative Wage}) + (1-p) (\text{Wage} + \text{Bribe} - \text{Dishonesty Cost}) > \text{Wage}$

Not taking a bribe

- If $p=0$ (no monitoring)
 - You never get caught, so you never get fired and never lose your wage
 - You get the wage whether you are corrupt or not
 - So decision only depends on bribe and dishonesty cost, but not on your wage

WHAT REDUCES CORRUPTION?

Taking a bribe

- p (Alternative Wage) + $(1-p)$ (Wage + Bribe - Dishonesty Cost) $>$ Wage

Not taking a bribe

- If $p=1$ (perfect monitoring)
 - You always get caught and are fired
 - So no gain to taking a bribe, no matter how little you earn

FROM THEORY TO EVIDENCE

- **Does corruption actually respond to these factors?**
 - **Does stricter enforcement lower corruption?**
 - **Do higher wages lower corruption?**
 - **Can we staff the bureaucracy with more honest people?**

DISHONESTY

- **How can we change how honest/unscrupulous bureaucrats are?**

DISHONESTY

- **How can we change how honest/unscrupulous bureaucrats are?**
 - **Education (try to change how honest existing bureaucrats are)**
 - **Selection (when hiring bureaucrats, try to hire honest one's)**

DISHONESTY

- **Not much evidence whether education campaigns work**
- **But: Evidence that selection is a problem**

**Dishonesty and Selection into Public Service:
Evidence from India[†]**

By **REMA HANNA AND SHING-YI WANG***

DISHONESTY

- **Laboratory experiment with 669 students in their final year of college at 7 Indian universities**
- **Game: Roll die 42 times, report the number of each roll**
 - **Payment higher when higher numbers**
- **How can this game tell us something about cheating?**

DISHONESTY

- **All students also answer a survey**
- **One question: What kind of job do they want when they graduate?**
 - **Government job yes or no**

DISHONESTY

- **Rank all students by number of points reported**
 - **Upper 50%: Likely that they cheated**
 - **Lower 50%: Unlikely that they cheated**
- **Students in the upper 50% are 6.2% more likely to want a government job**

WHAT EXPLAINS CORRUPTION?

- **Why do citizens and corporations participate in corruption?**

NEXT TIME

