

PSC 336

SYRACUSE UNIVERSITY

MONEY AND

POLITICS

BUREAUCRATS AND CITIZENS

PART 2

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?**

BUREAUCRATS AND CITIZENS

- **Why are bureaucrats corrupt?**
- **Why do citizens and corporations participate in corruption?**

BUREAUCRATS AND CITIZENS

- **Why are bureaucrats corrupt?**
- **Why do citizens and corporations participate in corruption?**

CASE STUDY



CASE STUDY

- **What should Sweta Mangal do? Why?**

DECISION MAKING

- **Gather the facts**
- **Define the business issues, and define the ethical issues**
- **Identify the affected parties**
- **Identify the consequences**
- **Identify the obligations**
- **Think creatively about potential actions**

CASE STUDY

- **What should Sweta Mangal do? Why?**
 - **Groups should agree on conclusion about what to do**
 - **If different (initial) positions, collect reasons for them, report how you came to your decision**

WHAT HAPPENED?

- **ZHL did not pay the bribe**
- **12 months later, it was still waiting for full payment of invoice**
 - **after legal action, state government paid 10% of due amount after 6-8 months**
- **ZHL had to bear cost of loan (15%)**

WHAT EXPLAINS CORRUPTION?

- **Cost-benefit analysis**
 - **Short-run: Cheaper/easier to pay the bribe**
 - **Long-run: Bribes add up, companies are better off in non-corrupt environment**



The image shows a screenshot of the BBC News website. At the top, there is a navigation bar with the BBC logo, a 'Sign in' button, and links for News, Sport, Weather, Shop, Earth, and Travel. Below this is a red banner with the word 'NEWS' in white. Underneath the banner is another navigation bar with links for Home, Video, World, US & Canada, UK, Business, Tech, Science, and Stories. The main content area shows the sub-section 'South Asia' and the headline 'Corruption 'threatens India's economic growth''.

The report by consultancy firm KMPG said that the problem had become so endemic that foreign investors were being deterred from the country.

SO WHY DO THEY PAY?

- **Why do corporations not band together and refuse to pay bribes?**

EXAMPLE

- **2 Telecommunications companies (blue and red), a bureaucrat asks bribes before giving them phone spectrum license**
- **Profit from phone market: \$500 million**
- **Bribe asked for: \$100 million**

EXAMPLE

- **Both companies pay bribe**
 - Each gets half of market: \$250
- **No company pays bribe**
 - Official has to give licenses without bribe
 - Each gets half of market: \$250
- **One company pays the bribe**
 - Company that pays bribe gets full market (\$500), other one gets nothing

EXAMPLE

- **Both companies pay bribe**
 - Each gets half of market: \$250
 - Each pays \$100 in bribe
 - Net profit: \$150 each
- **No company pays bribe**
 - Each gets half of market: \$250
 - No bribe
 - Net profit: \$250 each
- **Why not band together and refuse?**

EXAMPLE

| | Pay Bribe | Not Pay Bribe |
|---------------|--|------------------------|
| Pay Bribe | $250 - 100 = 150$ $250 - 100 = 150$ | $500 - 100 = 400$ 0 |
| Not Pay Bribe | 0 $500 - 100 = 400$ | 250 250 |

EXAMPLE

- **Company CEO's thinking:**
 - **If you pay the bribe, you get the license**
 - **If you don't pay, you only get a license if the other company does not pay either**
 - **The other CEO tells you she will not pay the bribe.**
You are not sure if she is lying
 - **What do you do?**

EXAMPLE

- **Suppose the other CEO is telling the truth and is not paying a bribe**

EXAMPLE

| | Pay Bribe | Not Pay Bribe |
|---------------|--|------------------------|
| Pay Bribe | $250 - 100 = 150$ $250 - 100 = 150$ | $500 - 100 = 400$ 0 |
| Not Pay Bribe | 0 $500 - 100 = 400$ | 250 250 |

- What should Red do?

EXAMPLE

- **Suppose the other CEO is telling the truth and not paying**
- **If you pay the bribe, you get the whole market for yourself!**
 - **$\$500 - \$100 = \$400$**
- **If you don't pay, both of you get a license for free and share the market**
 - **$\$250$**
- **So you pay the bribe**

EXAMPLE

- **Suppose the other CEO is lying and pays the bribe**

EXAMPLE

| | Pay Bribe | Not Pay Bribe |
|---------------|--|------------------------|
| Pay Bribe | $250 - 100 = 150$ $250 - 100 = 150$ | $500 - 100 = 400$ 0 |
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- What should Red do?

EXAMPLE

- **Suppose the other CEO is lying and pays the bribe**
- **If you pay the bribe also, you share the market**
 - $\$250 - \$100 = \$150$
- **If you don't pay, you get nothing**
 - $\$0$
- **So you pay the bribe**

SO WHY DO THEY PAY?

- **Whatever the other CEO does, you are better off paying the bribe**
- **Of course, the other CEO makes the same calculation**
- **So you both pay the bribe and end up in the worst possible situation**
- **"Prisoner's Dilemma"**

SO IT'S ALL THE EVIL BUREAUCRATS' FAULT?

- **Bureaucrats extract rents**
 - **Prisoner's dilemma one reason why this practice persists**
- **But is it really that one-sided?**
- **Do certain individuals and companies *initiate* bribes?**

WALMART IN MEXICO

The New York Times

The Bribery Aisle: How Wal-Mart Got Its Way in Mexico

Wal-Mart de Mexico was an aggressive and creative corrupter, offering large payoffs to get what the law otherwise prohibited, an examination by The New York Times found.

WALMART IN MEXICO

SAN JUAN TEOTIHUACÁN, Mexico — [Wal-Mart](#) longed to build in Elda Pineda's alfalfa field. It was an ideal location, just off this town's bustling main entrance and barely a mile from its ancient pyramids, which draw tourists from around the world. With its usual precision, Wal-Mart calculated it would attract 250 customers an hour if only it could put a store in Mrs. Pineda's field.

One major obstacle stood in Wal-Mart's way.

After years of study, the town's elected leaders had just approved a new zoning map. The leaders wanted to limit growth near the pyramids, and they considered the town's main entrance too congested already. As a result, the 2003 zoning map prohibited commercial development on Mrs. Pineda's field, seemingly dooming Wal-Mart's hopes.

WALMART IN MEXICO

But 30 miles away in Mexico City, at the headquarters of Wal-Mart de Mexico, executives were not about to be thwarted by an unfavorable zoning decision. Instead, records and interviews show, they decided to undo the damage with one well-placed \$52,000 bribe.

The plan was simple. The zoning map would not become law until it was published in a government newspaper. So Wal-Mart de Mexico arranged to bribe an official to change the map before it was sent to the newspaper, records and interviews show. Sure enough, when the map was published, the zoning for Mrs. Pineda's field was redrawn to allow Wal-Mart's store.

Problem solved.