

# The Many Faces of Corruption: Which One(s) to Target?

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The abuse of public office/role takes various forms:

Politicians or government officials granting favors/contracts in exchange for bribes

Demand for bribes to provide public services

Suppression or manipulation of information in exchange for a bribe

Passing biased judgement in exchange for bribes

Siphoning off of public funds

- But do they matter for anti-corruption policies?

Economy wide strategies (right to information, competition, transparency)

But there are example of targeting also:

- 1 Differential treatment of bribery and embezzlement (Fan, Lin, Treisman, 2010) in China: bribery is treated seriously but more tolerant of embezzlement. For example it is treated as a soft crime (misappropriation of funds is not illegal if funds are returned within 3 months!)
- 2 KPK in Indonesia was designed to investigate and prosecute high level cases, to set examples and discourage others
- 3 Leniency towards bribe-givers is meant to target harassment but not other forms of bribes

Approach the question indirectly by asking what shouldn't be ignored/forgotten in designing anti-corruption strategies

A common face: petty corruption

Where citizens have to pay bribes in a variety of settings to receive goods and services

Where compliant individuals have to pay extortion bribes to avoid being treated as non-compliant

- Though bribe amounts are small and (possibly) less distortionary, this common face should never be ignored

Based on two observations:

- 1 Petty corruption is largely extortionary (where the innocent or law abiding pays bribe to avoid being treated otherwise) and extortion is never optimal. (theoretical exercises due to Khalil, Lawarree and Yun, 2010; Mishra and Mookherjee, 2014)
- 2 It affects a large section of the society and bribe experience changes perception of corruption and bribery. It makes corruption more "acceptable" and makes anti-corruption strategies ineffective . (An experimental study by Mishra and Tsutsui, 2017)

# Collusion and Extortion

Citizens/firms choose action  $e \in \{0, 1\}$ ,  $e = 1$  refers to the illegal act (tax evasion, pollution),  $e = 0$  is compliance, private benefit from  $e = 1$  equals  $T$  ( $e = 0$  leads to 0)

Suppose we wish to implement  $e = 0$

A typical mechanism consists of (i) inspection/audit at some rate  $\theta$ , (ii) based on the inspection which yields evidence of the true action with probability  $\delta \leq 1$ , a system of penalties associated the action. Absence of evidence is denoted by  $\phi$

A corrupt inspector can falsify the report in exchange for a bribe.

Collusion means 1 (or  $\phi$ ) can be reported as 0, extortion means threat to over-report 0 as 1

Now, citizens anticipate this and consider *effective penalties* associated with  $e$

$e = 0$  can be implemented if

$$\theta [\text{effective penalty (1)} - \text{effective penalty (0)}] \geq T$$

# Collusion and Extortion

Extortion is unlikely to be optimal: why?

Collusion dilutes effective penalty associated with 1, but extortion raises penalty associated with compliance

This makes enforcement costly as  $\theta$  needs to be raised.

They enter in a symmetric fashion, but it turns out the extortion is (in most cases) dominated by a situation outcome without extortion (Khalil, Lawarree, Yun (2010))

Mishra and Mookherjee consider various alternative scenarios, extortion can be tolerated in very special cases.

Consider a scenario where individuals in a society are faced with both roles of (potential) bribe-giver and bribe-receiver

Does one's experience of bribery affect consequent attitude towards bribery and corruption?

Example in other contexts: Mocan (2013) report that desired punishment for burglary goes up if the individual has been a victim in the recent past

We ask a similar question: how do victims of bribery behave when they have a chance to victimize?



# Participant types

Two types of participant (roles): Citizen and Officials

Repeated (twice) game between citizen and official

Fixed Role Treatment (F): participants are randomly assigned to either of the roles at the beginning of Round 1 and this role assignment is unchanged

Re-assigned Role (R) Treatment: Participants are randomly assigned to either of the roles at the beginning of each round

Absolute Stranger Matching: Participants are randomly paired and never meet twice

Each round consists of two stages

- 1 Stage 1- Citizen performs a real effort (simple encryption) task involving encoding a maximum of 10 words, each worth 2 points
- 2 Stage 2- Citizen gets the credit (for stage 1 task) only if the official approves and the official can ask for a bribe. Both citizen and official bargain using an unstructured bargaining protocol and deal can be made within 300 seconds.

Payoffs: If a bribe is agreed,  $0 < b \leq 20$ , citizen's payoff in this round equals  $2(\text{No of words}) - b + 10$ , official gets  $b + 10$

If no agreement, both get 10 points

Participants are paid on the basis of their payoffs in both rounds. Each point is worth Rs 20.

All sessions were conducted in Ashoka University, India

Each session lasted (on average) 60 minutes

Average payment was Rs 711.6 (about £8.50)

172 students participated

The experimental software relied on zTree (Fischbacher, 2007)

The bargaining protocol used was based on Camerer et al. (2015)

In the second round, bribe amount is higher if the official was a citizen in the first round

Tobit regressions on agreed second round bribe show that the amount of bribe increases by 4 points if the government official was a citizen in round 1.

Table: Tobit Regression on agreed bribe amounts in Round 2

<i>Regression Variables</i>	<i>b</i>
<i>Time spent on task</i>	0.0232* (0.0119)
<i>R treatment</i>	-0.0582 (0.928)
<i>Official has changed role</i>	4.12** (2.104)
<i>Citizen has changed role</i>	-0.812 (3.723)
<i>(Official kept same role)</i> <i>X((official's R1 payoff)</i>	0.144** (0.0635)
<i>(Official changed role)</i> <i>X(Official's R1 payoff)</i>	-0.183 (0.120)
<i>Constant</i>	7.5** (2.87)
<i>Observations</i>	62