Inequality & ... Corruption

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Outline

Corruption **leads to inequality**...

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"Bribery accepted is fairness declined"

(Yury Fedotov, United Nations Office on Drugs and Crime 2012)

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"Corruption leads to an unequal distribution of power in society which, in turn, translates into an unequal distribution of wealth and opportunity, feeding the risk of popular discontent"

(Heinrich, Transparency International 2017)

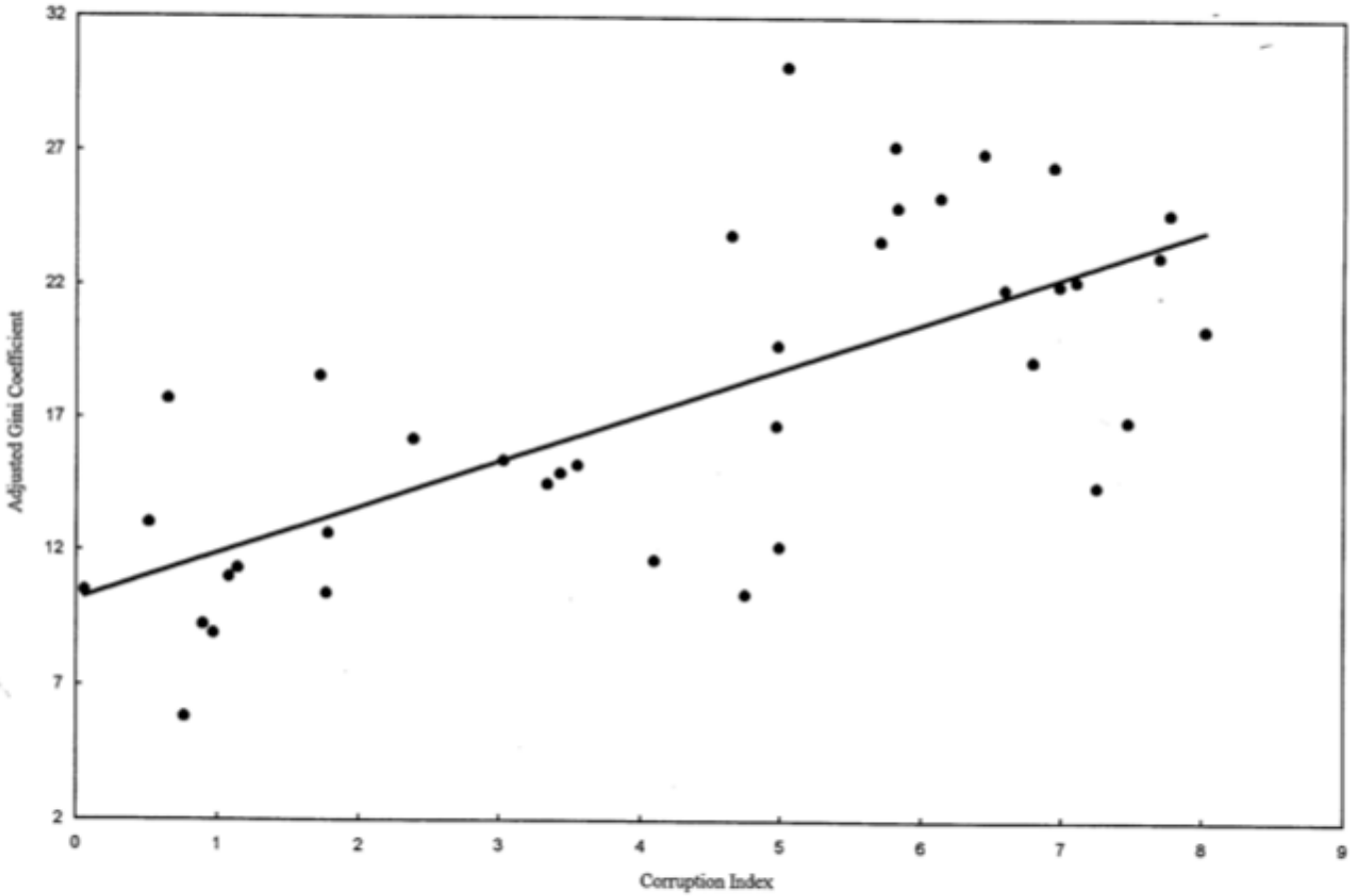
Macro and micro studies

Corruption...

- ...exclude poor from public services and skew growth
  (Gupta et al. 2002, Gyimah-Brempong 2001)

Does corruption affect income inequality and poverty? Gupta, Davoodi, Alonso-Terme (2002)

Figure 1. Corruption and Income Inequality



The Gini coefficient is adjusted using the regression in Table 1, Column 1. A high value of the corruption index means the country has a high level of corruption.

TI perception Index and Gini coefficient

Macro and micro studies

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- ...leads to poor bearing the burden in terms of disutility
  (Hunt & Laszlo 2012)
- ...leads to poor being victims of street-level bureaucrats
  (Justesen & Bjornskov 2014, Fried, Lagunes & Venkataramani 2010)

Justesen & Bjornskov (2014)

Table 1. *Poverty and Bribery in Africa: Estimates from Fixed Effects Regressions*

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Method	OLS	OLS	OLS	OLS	NBREG	NBREG	LOGIT	LOGIT
Poverty	0.954***	0.902***	0.832***	0.782***	0.976***	0.944***	0.978***	0.963***
	(6.17)	(5.63)	(6.14)	(5.50)	(17.82)	(16.70)	(10.87)	(10.33)
Public sector user	0.193***	0.183***	0.181***	0.170***	0.183***	0.178***	0.244***	0.239***
	(5.63)	(5.37)	(5.32)	(4.88)	(14.76)	(14.12)	(10.77)	(11.11)
Religious assoc. member	−0.063	−0.081	−0.051	−0.063	0.054*	0.033	0.008	−0.017
	(1.43)	(1.66)	(1.23)	(1.31)	(1.70)	(1.02)	(0.16)	(0.34)
Union member	0.092*	0.043	0.095*	0.054	0.065*	0.022	0.073	0.020
	(1.80)	(0.84)	(2.06)	(1.18)	(1.96)	(0.64)	(1.13)	(0.29)
Business assoc. member	0.363***	0.309***	0.337***	0.286***	0.249***	0.202***	0.306***	0.250***
	(4.60)	(3.98)	(5.92)	(5.07)	(6.75)	(5.40)	(4.26)	(3.21)
Community assoc. member	0.177***	0.114**	0.205***	0.149***	0.231***	0.172***	0.216***	0.151***
	(3.77)	(2.91)	(3.69)	(3.20)	(7.60)	(5.52)	(4.49)	(3.41)
Local councilor contact		0.100***		0.090***		0.120***		0.099***
		(4.42)		(3.83)		(7.66)		(2.89)
MP contact		0.148***		0.133***		0.050**		0.037
		(3.24)		(3.09)		(2.19)		(0.85)
Bureaucracy contact		0.103**		0.093**		0.061***		0.082
		(2.39)		(2.44)		(2.82)		(1.49)
Political party contact		0.094**		0.083*		0.088***		0.176***
		(2.24)		(2.08)		(4.68)		(4.74)
Urban	0.241***	0.246***	0.230***	0.234***	0.190***	0.197***	0.231***	0.236***
	(3.75)	(3.84)	(3.36)	(3.47)	(6.80)	(6.83)	(3.22)	(3.48)
Employment	0.072*	0.051	0.041	0.019	0.186***	0.169***	0.169**	0.154**
	(1.88)	(1.27)	(0.92)	(0.41)	(6.86)	(6.06)	(2.24)	(1.96)
Education	0.051**	0.032	0.052**	0.034	0.051***	0.031***	0.061***	0.038
	(2.64)	(1.64)	(2.39)	(1.59)	(6.66)	(3.90)	(2.79)	(1.64)
Gender	−0.190***	−0.153***	−0.186***	−0.155***	−0.249***	−0.210***	−0.298***	−0.259***
	(4.74)	(4.03)	(5.00)	(4.49)	(9.43)	(7.64)	(6.27)	(5.10)
Age	−0.004*	−0.005**	−0.003	−0.004**	−0.011***	−0.013***	−0.011***	−0.013***
	(1.94)	(2.72)	(1.52)	(2.37)	(10.39)	(11.84)	(5.17)	(5.62)
Constant	−0.361	−0.278	−0.155	−0.024	−2.555***	−2.450***	–	–
	(1.35)	(1.02)	(0.56)	(0.09)	(32.08)	(30.07)		
Country fixed effects	YES	YES	YES	YES	YES	YES	YES	YES
Region fixed effects	NO	NO	YES	YES	NO	NO	NO	NO
R^2	0.05	0.06	0.10	0.11				
Observations	21,901	20,872	21,901	20,872	21,901	20,872	21,901	20,872
Countries	18	17	18	17	18	17	18	17

Dependent variables are respondents experience with paying bribes to government officials to obtain services (permits and documents, school placement, household service, medical services, and avoid problems with police). In models 1–6, the dependent variable is the bribe index (Figure 1a); in models 7–8 the dependent variable is the binary bribe variable (Figure 1b). Models 1–4 show estimates from OLS regressions; models 5–6 show estimates from negative binomial regression (NBREG); models 7–8 show estimates from conditional (fixed effects) logit regressions (LOGIT). All regressions include country fixed effects. Cell entries are regression coefficients for each variable (OLS: unstandardized regression coefficients; NBREG: log(count); LOGIT: log(odds)). Standard errors are robust and clustered by country. Absolute values of z-statistics are shown in parentheses.

*** $p < 0.01$.
** $p < 0.05$.
* $p < 0.1$.

Corruption and inequality at the crossroad
Fried, Lagunes & Venkataramani (2010)

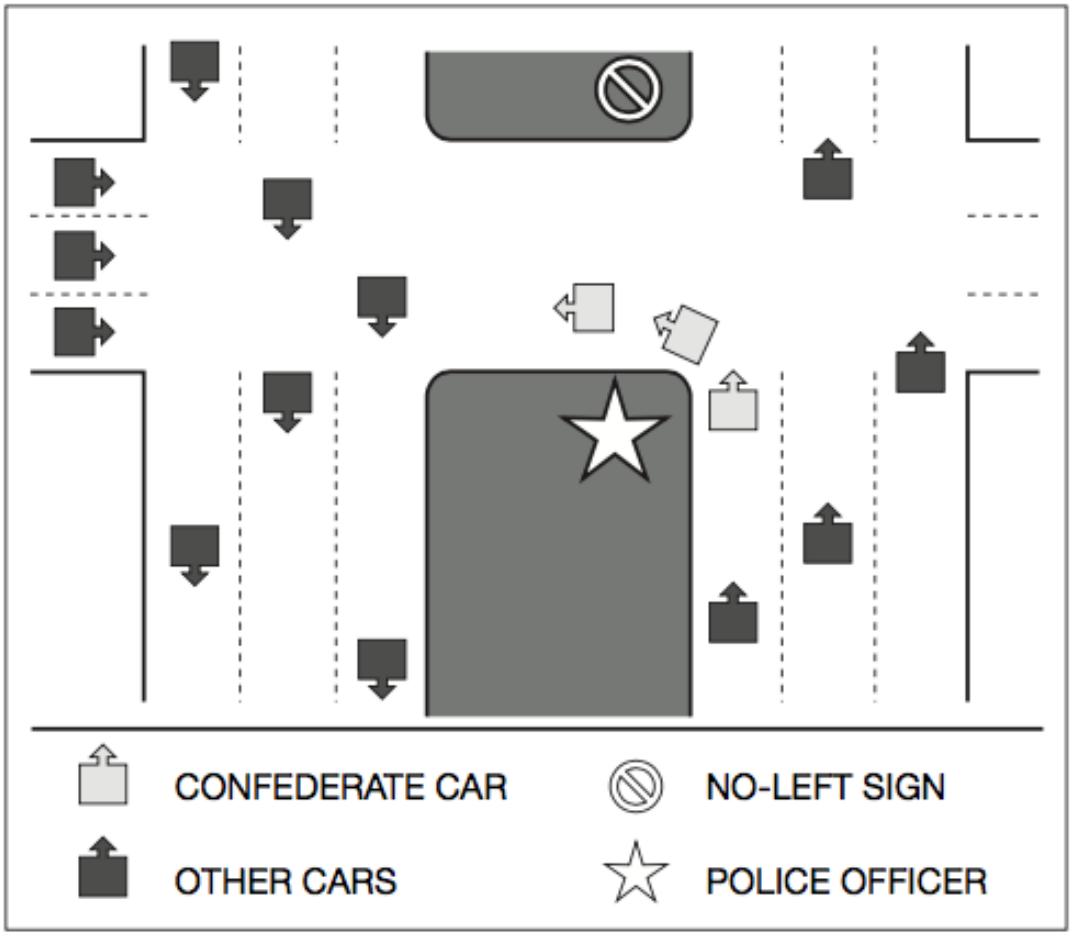


Figure 1 Crossroad Schematic

Note: Authors' illustration; depicts one of the traffic patterns commonly encountered.

Corruption experiments

Corruption experiments

When experimental bribery game is

- one-shot
- anonymous
- no risk of sanction

$\rightarrow$ bribe-taking is high!

88% students (Hohenheim University)

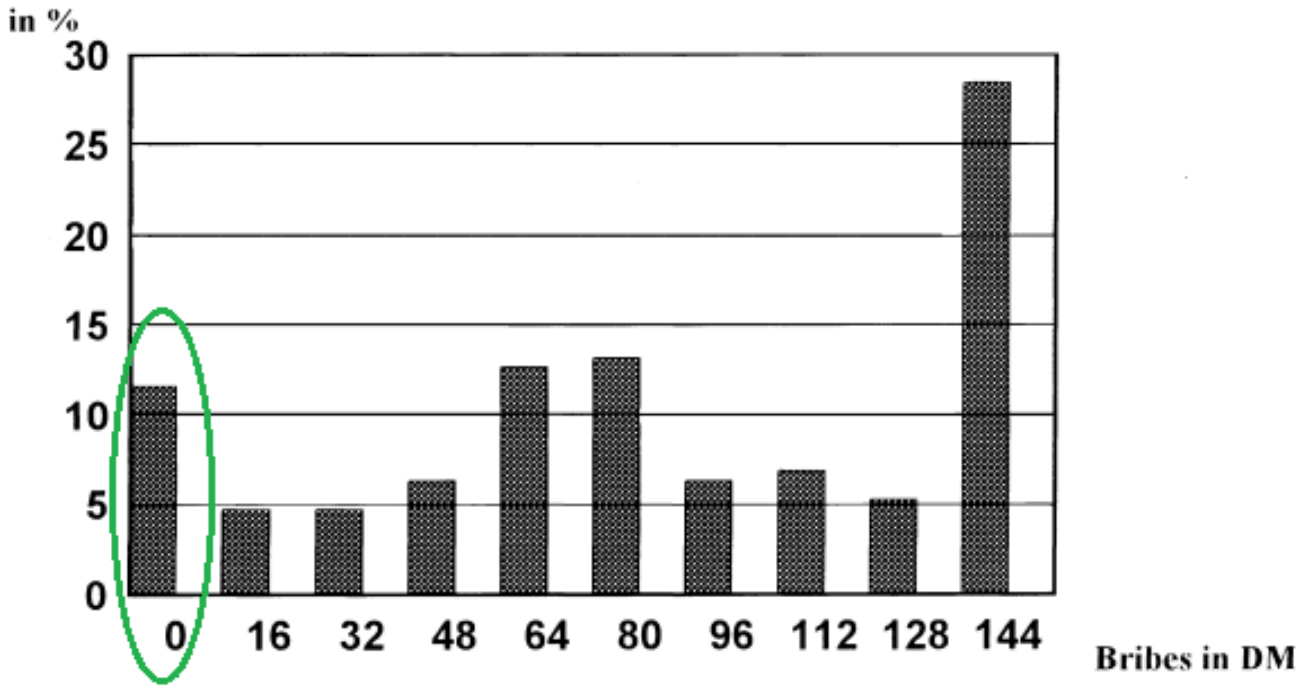
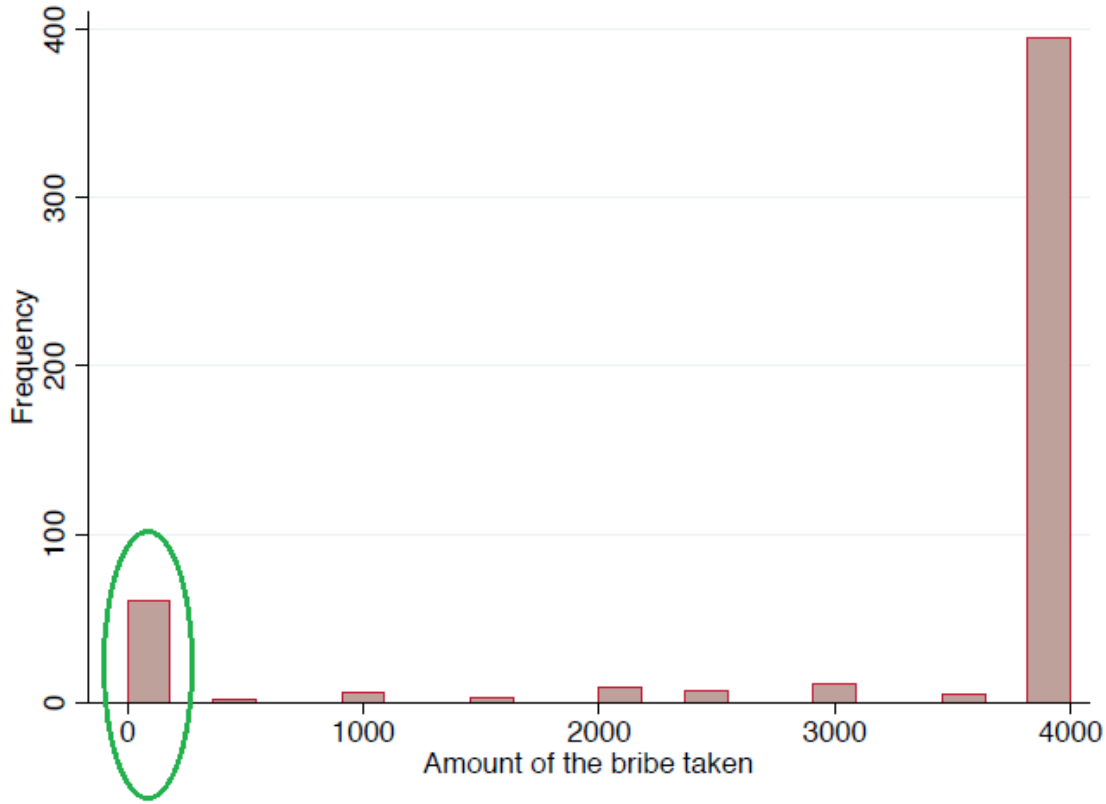


Fig. 1. Distribution of bribes (%).

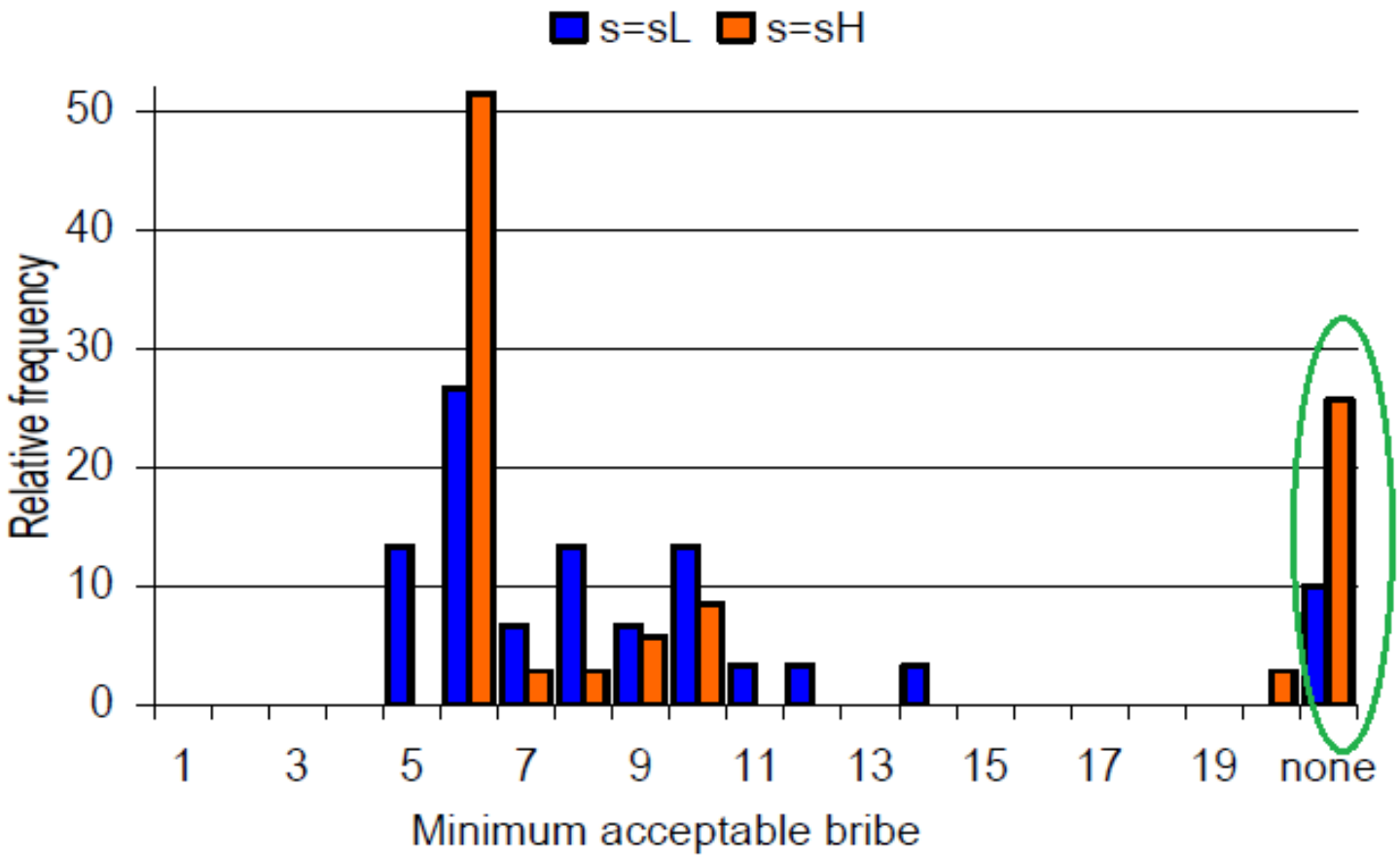
Frank & Schulze (2000). Does economics make citizens corrupt? *Journal of Economic Behavior and Organization*

88% public servants (Burundi)



Falisse & Leszczynska (2015). Professional identity, bribery and public service: a lab-in-the-field experiment in Burundi. *Under review*

75% - 90% students (Oxford University)



Barr & Serra (2009). The effects of externalities and framing on bribery in a petty corruption experiment. *Experimental Economics*

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- Some are ready to give up money.
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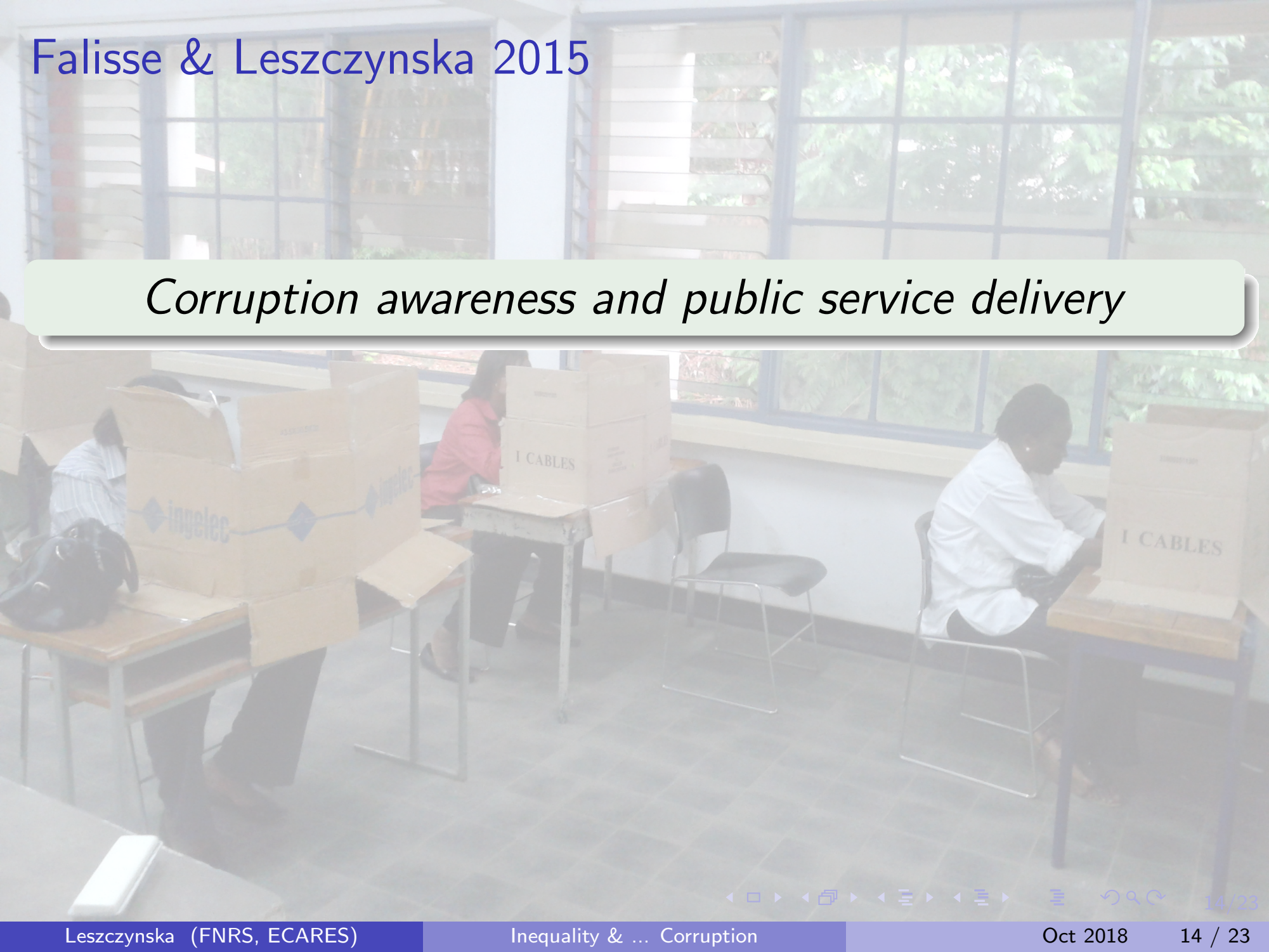
  $\rightarrow$ **Fairness preferences might be used to deter corrupt behavior**

  WHERE? reduce bribe-taking in street-level bureaucracies

  HOW? consequences of corrupt decisions made salient to decision-maker

Falisse & Leszczynska 2015

Corruption awareness and public service delivery

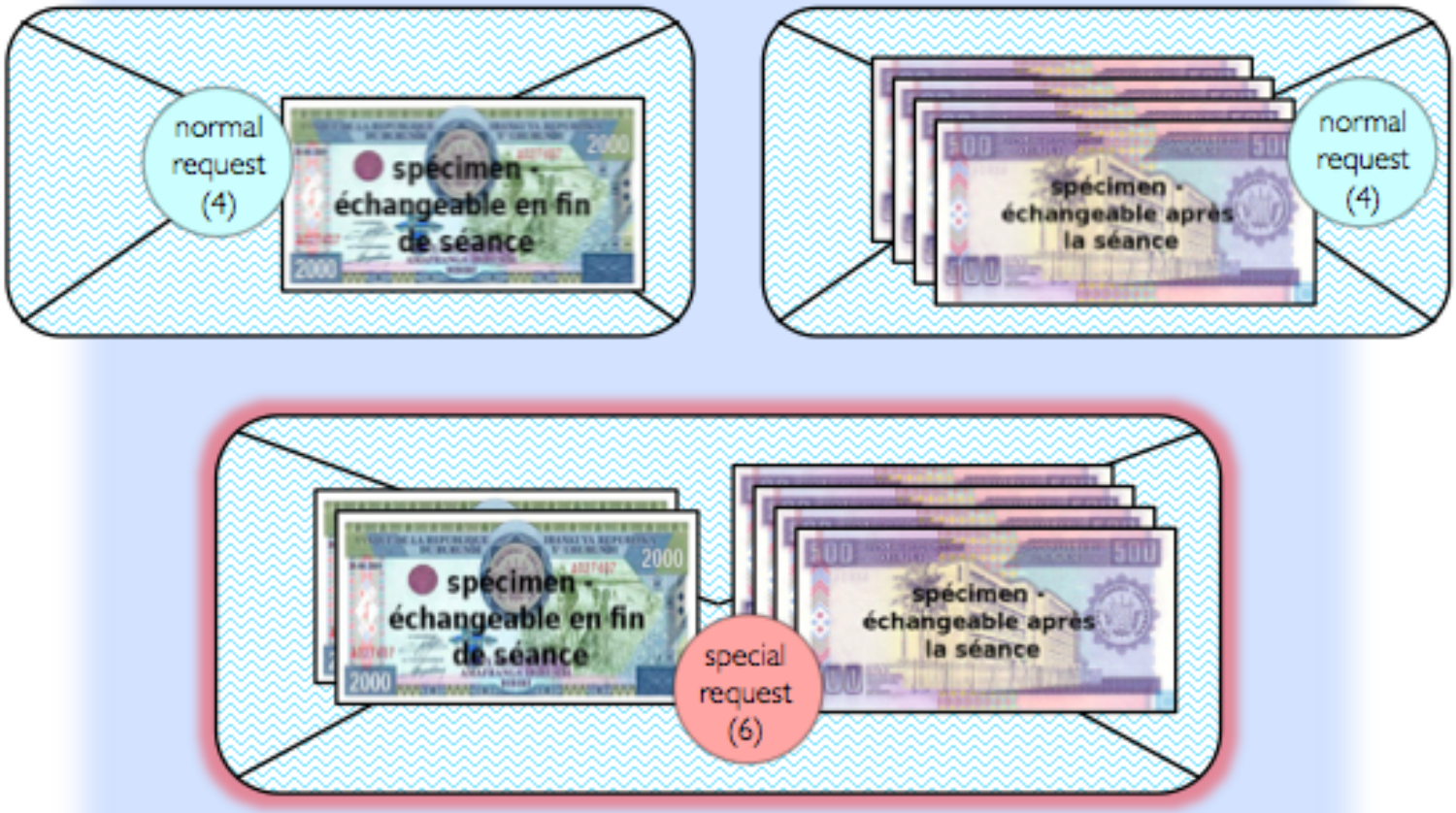


Falisse & Leszczynska 2015

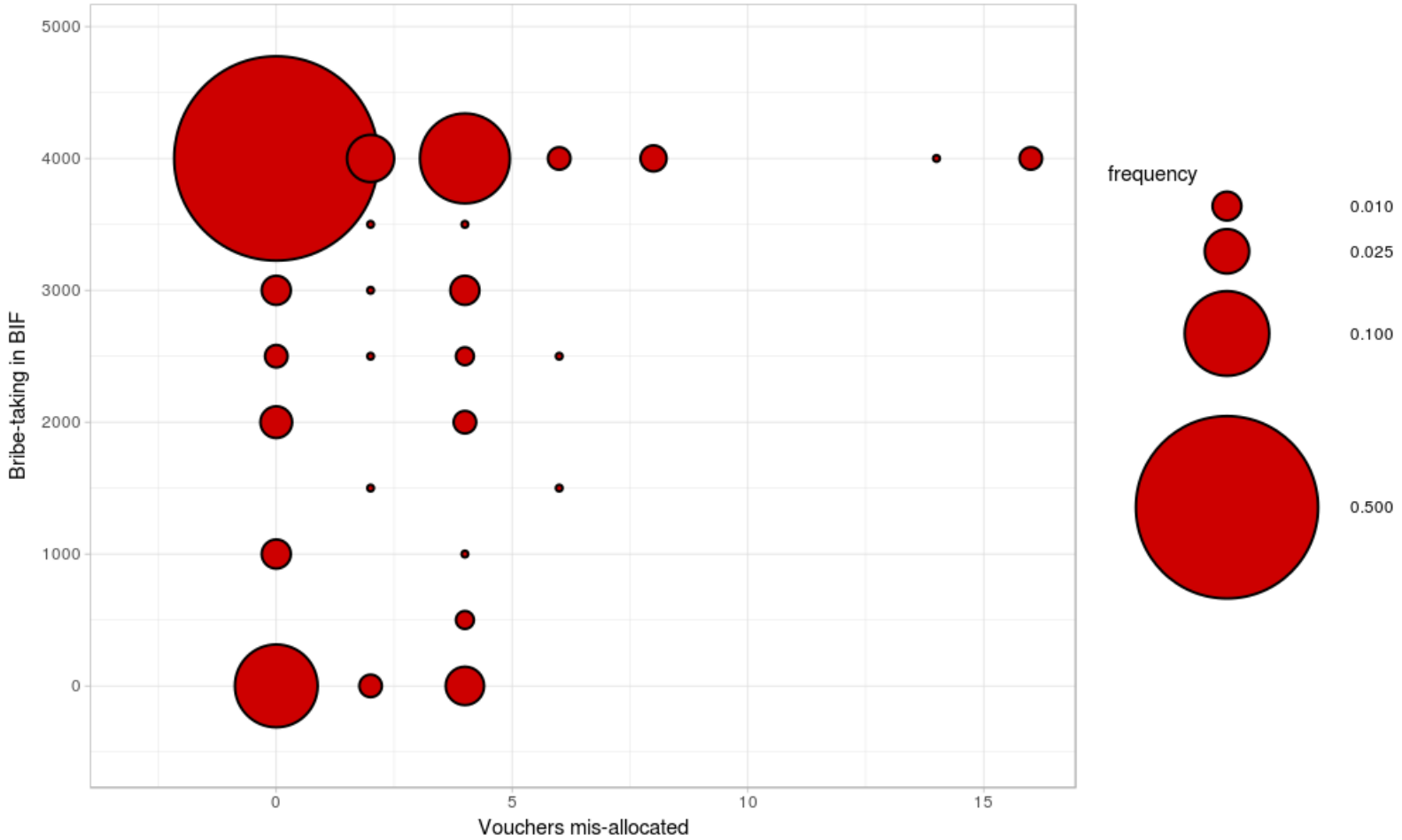
Corruption awareness and public service delivery

- lab-in-the-field experiment with public servants
- objective:
  1. increasing moral costs with anti-corruption messages
  2. **observing behavior of bribe-taking and fairness in public service delivery**

Falisse & Leszczynska 2015



Falisse & Leszczynska 2015



Bribe taking vs. inequality in voucher allocation by number of participants

Falisse & Leszczynska 2015

To sum up:

- Most participants take the maximum bribe amount

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- Most participants take the maximum bribe amount
- BUT most of them treat citizens equally
  $\rightarrow$ fairness preferences do exist...
  ... but easy when they are not costly

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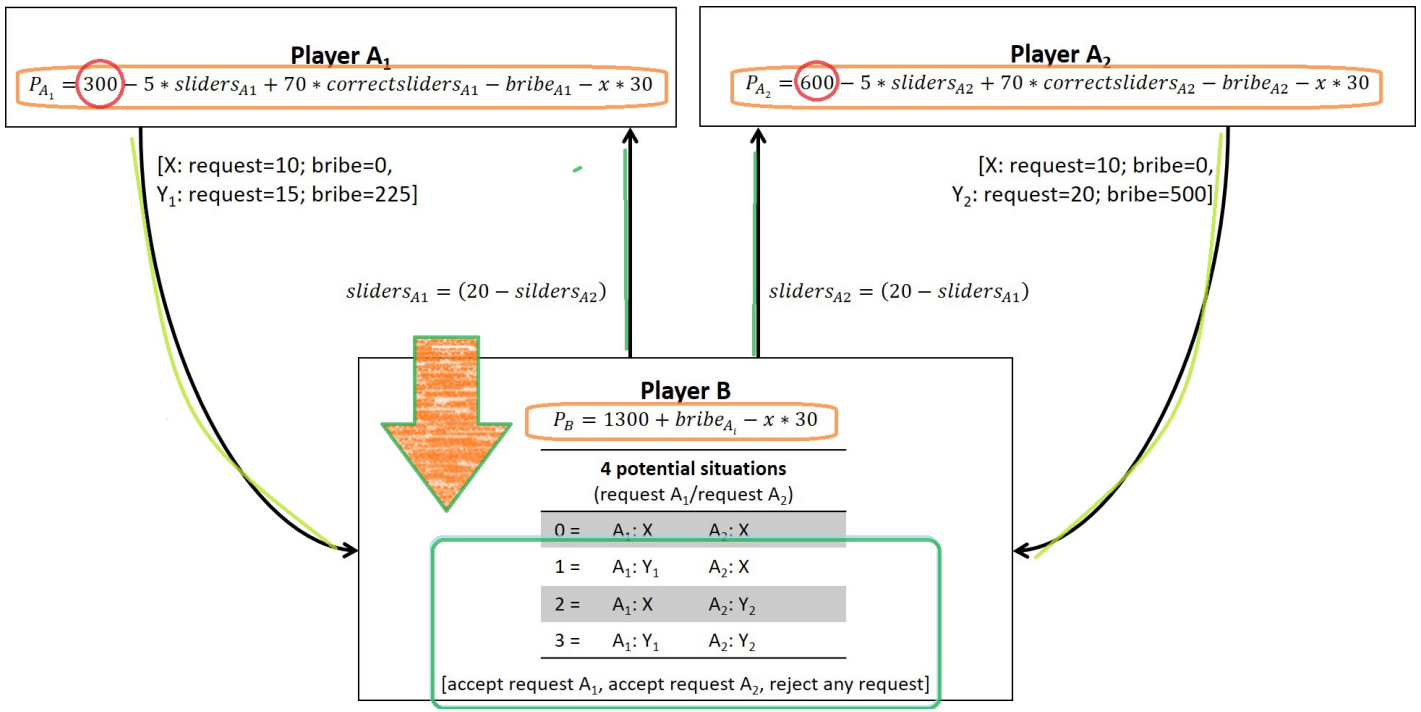
Now, would they hold if they were costly?

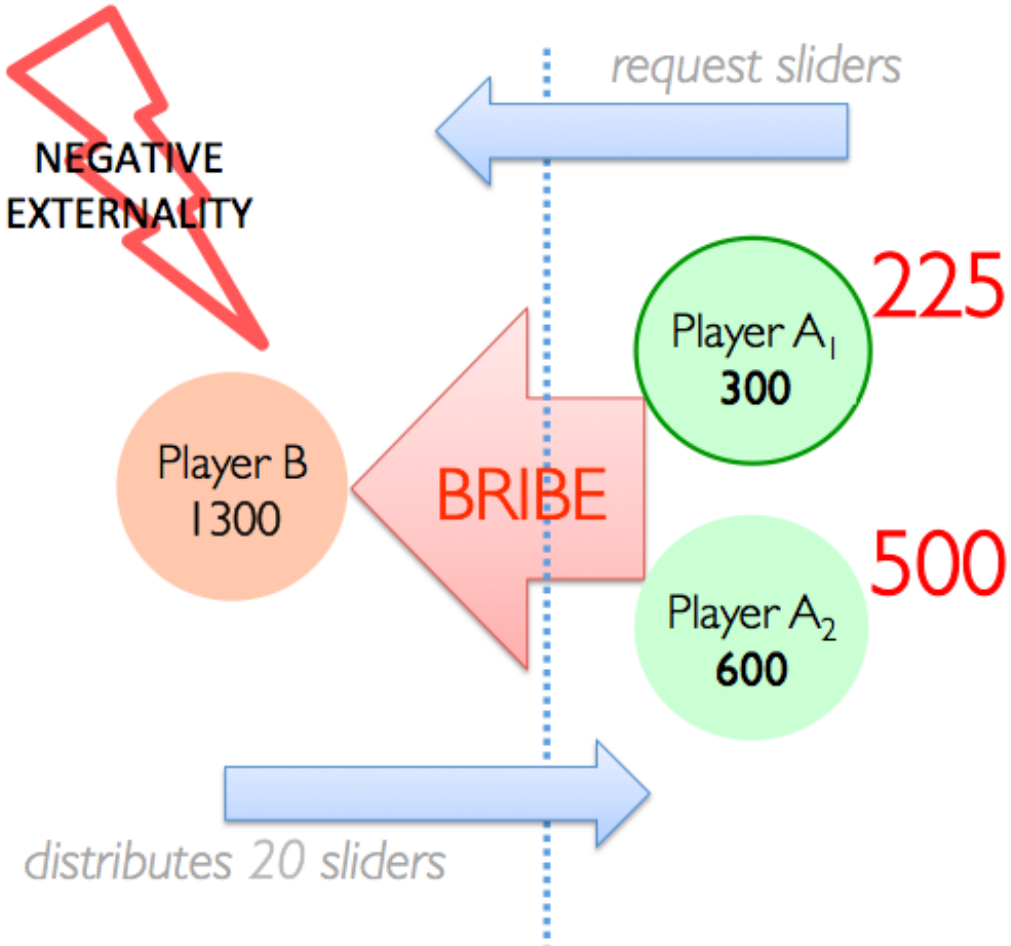
Epp & Leszczynska 2017

Does caring about fairness impact corrupt decisions?



structure - UNFAIR treatment

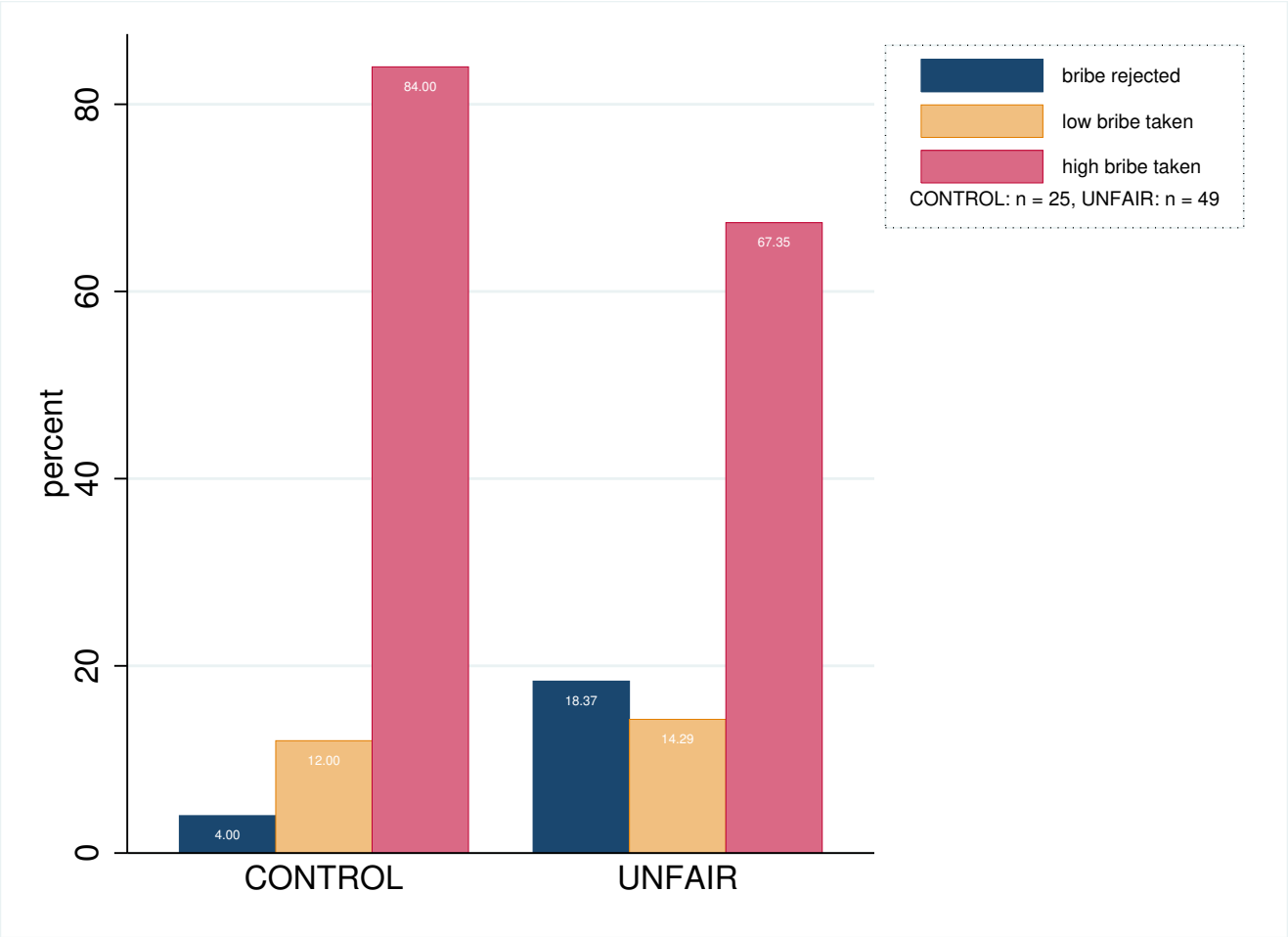
Epp & Leszczynska 2017



scenario with bribery - UNFAIR treatment

Epp & Leszczynska 2017

CONTROL: equal wealth, UNFAIR: poor vs. rich



Average bribe rejection rate by player B

Epp & Leszczynska 2017

To sum up:

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Epp & Leszczynska 2017

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- with two simultaneous bribes:
  $\rightarrow$ rich briber is accepted less
  BUT poor briber is *not* more accepted

Epp & Leszczynska 2017

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- bribes rejected more when rich vs. poor
- with two simultaneous bribes:
  $\rightarrow$ rich briber is accepted less
  BUT poor briber is *not* more accepted
- more complex than plain fairness?
  e.g.: rank preserving preferences

Taking stock...

- The **positive correlation between corruption and inequality** is widely established.
- **Fairness preferences might play a role** in corrupt decision-making.
- However, **crucial elements** interacting with fairness preferences must be taken into consideration and further investigated:
  - professional identity
    (Falisse & Leszczynska 2015)
  - rank reversal aversion
    (Xie, Ho, Meier & Zhou 2017)
  - "fairness-loyalty" tradeoff
    (Waytz, Dungan & Young 2013)
  - ...

Thank you for your attention!