

10 Understanding the details: investigating the dynamics of corruption

Bridging the gap between the experience and the perception of corruption

Richard Rose and William Mishler¹

Corruption has material impacts but there are big differences in how corruption is assessed. The media focus on cases of elite corruption involving contracts worth billions of dollars for defence procurement or exploiting natural resources, but these forms of corruption affect few citizens directly. Transparency International's Corruption Perceptions Index draws principally on the opinions of experts focusing on elite corruption. Perception is not the same as experience, however.

Corruption in the everyday delivery of health, education and social services can affect the mass of the population. A nationwide survey can turn attention from the perception of elite corruption to the first-hand experience that citizens have when contacting public officials in their community. This section draws on evidence from the New Russia Barometer (NRB) survey organised by the Centre for the Study of Public Policy (CSPP), University of Aberdeen, and conducted by the Levada Centre, Russia's oldest not-for-profit survey institution. A nationwide random sample of 1,606 adults was interviewed in their homes between 12 and 23 April 2007.²

Public officials are widely perceived as corrupt

When Russians are asked 'How widespread do you think bribe-taking and corruption are?' the results are unambiguous: five-sixths see officials as corrupt. The only difference is between those who see *almost all* public officials as corrupt (35 per cent) and those who see *most* as corrupt (51 per cent). Only 9 per cent see *fewer than a half* as corrupt and just 5 per cent think that *very few* officials are corrupt. The views of NRB respondents are consistent with TI's elite-oriented Corruption Perceptions Index.

1 Richard Rose is a professor at the University of Aberdeen. William Mishler is a professor at the University of Arizona. This section has been prepared with the assistance of a grant from the British Economic and Social Research Council, RES-062-23-0341, and also draws on the experience of working with the Transparency International 2006 Global Corruption Barometer data.

2 See www.abdn.ac.uk/cspp.

When asked about public services with which they are likely to be familiar, two-thirds or more perceive a majority of the police, doctors and hospitals, military service institutions, education, offices issuing permits and tax collectors as corrupt. Even social security, where the qualification for a pension is based on publicly available bureaucratic records, is usually seen as corrupt.

The chief sources of information about corruption are second-hand rather than through direct experience. For 86 per cent of Russians, television and newspapers are the important sources of information about corruption, and talking with friends and neighbours comes second in importance. For the media, instances of gross elite corruption are news, whereas petty corruption is not, and the media can provide the stuff of informal conversations with friends and neighbours.

If people see corruption as widespread this could encourage a 'race to the bottom', in which people accept it as part of their way of life. For example, bribes can be regarded as desirable if they produce what a person wants, such as a free place for a child at a good school or a secure public sector job. All the same, notwithstanding the widespread perception of corruption, 71 per cent of Russians do not think it acceptable to give officials a bribe, even if it is the only way to get something they want.

To determine their experience of corruption, Russians were asked whether anyone in their household had actually paid a bribe to the institutions that are usually perceived as corrupt. The result is strikingly clear-cut. Overwhelming majorities report no experience of bribery for each of seven services. For the median service, getting a permit or registering an activity, only 5 per cent had experienced corruption in the past two years (see figure 12). The gap between experience and perception found in Russia is consistent with findings of the 2006 Global Corruption Barometer published by Transparency International.

The explanation for limited experience is simple: contact with public officials is a necessary condition of paying a bribe, and in a two-year period most households do not use a given public service. For example, education and military service is not continuing but restricted to a particular phase of the life cycle. The one exception is the health service: three-quarters of households have used this service in the past two years.

Calculating the experience of corruption among those dealing with a given public service leads to the same conclusion: big majorities do not have to pay a bribe to use a particular service. More than nine-tenths of encounters with social security offices are honest, and so are three out of four contacts with the health system, education, permit offices and police.

The vulnerability of individuals to corruption is increased, however, by the fact that Russians are entitled to multiple services. For example, an individual may claim a social security pension and health care. In the past two years, 84 per cent had a household member contact at least one public service; the median household had dealt with two services; and one in ten had used five or more services. When all of a household's contacts with public services are taken into account, first-hand experience of corruption rises. A total of 23 per cent have paid a bribe for a public service in the past two years; 61 per cent have contacted public services

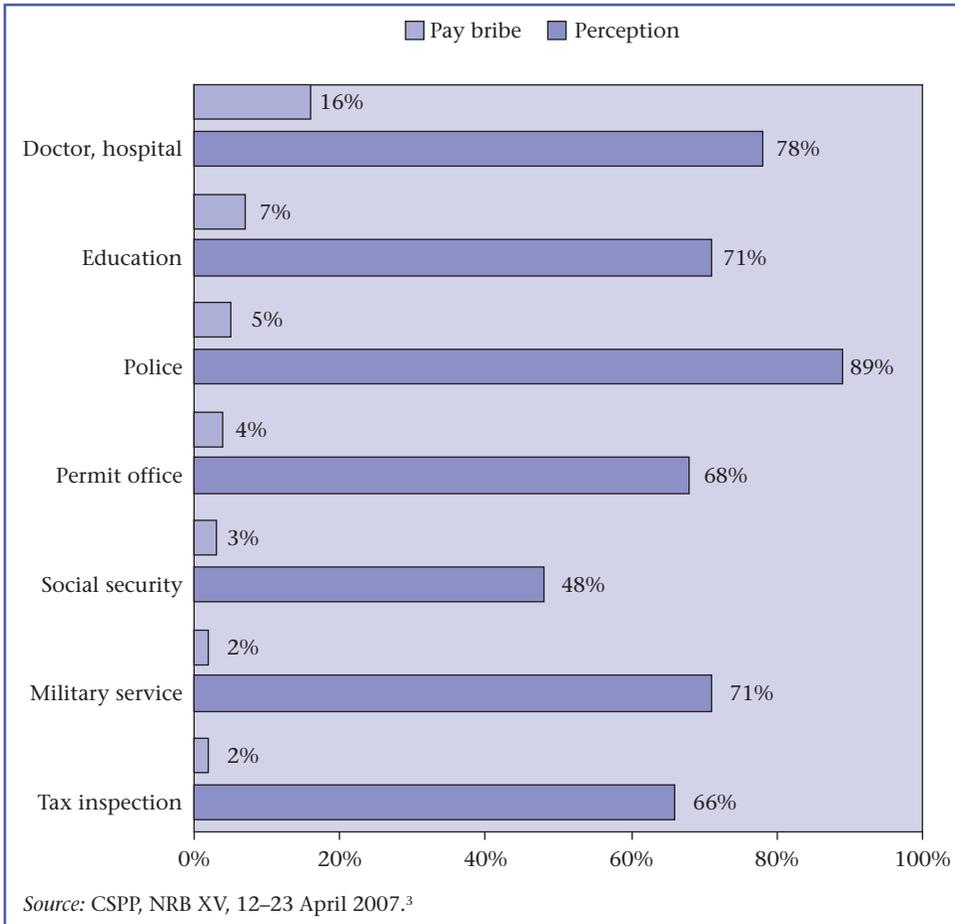


Figure 12 Gap between perception and experience of corruption

without paying a bribe; and 15 per cent have avoided being asked for a bribe by having no contacts with public officials.

In Russia, the evidence clearly shows that, contrary to popular perceptions and anecdotal examples, ‘everybody’ is *not* paying bribes to public officials. The services that offer the best opportunities for collecting bribes are a small fraction of all public services – for example, discretion in the issuance of big procurement contracts for military supplies, roads and civil engineering projects or the privatisation of valuable parts of Russia’s state-owned economy. Services that are closely supervised or involve computers, such as the payment of social

³ The figure is based on two survey questions: ‘To what extent do you think the following institutions are affected by corruption?’ and ‘In dealing with any of these institutions in the past two years, was it necessary for anyone in your household to give a bribe?’. Number of respondents = 1,606.

Table 10 Experience of contacts and of corruption

	No contact	Contact with no bribe (percentage of respondents)	Contact with bribe
Doctor, hospital	24	60	16
Police	75	20	5
Education	74	19	7
Permit office	78	19	4
Social security	67	30	3
Army recruiting	84	14	2
Tax inspections	87	11	2
Total	(23%)	(54%)	(23%)

Source: CSPP, NRB xv, 12–23 April 2007.⁴

security pensions, offer much less scope for corruption than services by street-level bureaucrats such as the police. Moreover, most public services are delivered by professionals. A requirement for delivering health care or education is that an individual must be a trained doctor, nurse, teacher or specialist, and a part of that training emphasises the ethic of helping people. For such professionals, the object of employment is not to maximise income through collecting bribes but to deliver services in accord with their training.⁵

Corrupt contracts can have a durable and pervasive impact. In the course of time most people will have contacts with most public services. Hence, sooner or later a public official will demand a bribe. Survey evidence indicates that, over half a dozen years, most Russian households will have paid a bribe. Since most Russians think it wrong to pay a bribe, having to do so can have a big impact on how people evaluate government, ‘locking in’ the belief that most officials are corrupt. There is a positive correlation between having paid a bribe and seeing most officials as corrupt.

Experience of corruption is spread throughout all categories of Russian society. Analysis of the New Russia Barometer survey and the Global Corruption Barometer 2006 shows that being prosperous or poor does not protect people from the clutches of extortionate officials. Educated or uneducated, people can be advised to ‘get smart’ and pay off an official if they want a public service. Young and old and men and women are equally at risk of being asked to pay a bribe.

4 The table is based on two survey questions. ‘In the past two years have you or anyone in your household contacted any of the following public institutions?’ and, if the answer is ‘Yes’, ‘In dealing with this institution, was it necessary to give a bribe?’.

5 D. Galbreath and R. Rose, ‘Fair Treatment in a Divided Society: A Bottom Up Assessment of Bureaucratic Encounters in Latvia’, forthcoming in *Governance*, vol. 21 (2008).

Even though the annual incidence of bribery is limited, its pervasiveness means that every Russian household is vulnerable to being asked to pay a bribe. The combination of the public's moral aversion to corruption and vulnerability to being compelled, sooner or later, to pay a bribe creates a popular demand for government to take action to reduce bribery. While corrupt governments tend to be less responsive to citizens than governments high in integrity, they pay a price in diminished political support. The longer the Russian government tolerates corruption among its officials, the more this leads citizens to become dissatisfied with how their country is ruled.⁶

6 R. Rose *et al.*, *Russia Transformed: Developing Popular Support for a New Regime* (New York: Cambridge University Press, 2006).

Corrupt reciprocity

Johann Graf Lambsdorff¹

In addition to being deterred by penalties, corrupt actors are perhaps even more influenced by such other factors as the expected opportunism of their counterparts. This suggests a novel strategy for fighting corruption – the ‘invisible foot’ – whereby the unreliability of corrupt counterparts induces honesty and good governance even in the absence of good intentions.²

To test this proposition, an experimental corruption game was carried out with first-year economics students at the universities of Clausthal and Passau, Germany.³ Students from Clausthal were assigned the role of businesspeople who requested being awarded a contract despite offering low-quality work. In the first round, 180 valid questionnaires were collected from participants containing some personal information. In the second round, 176 students at the University of Passau assumed the role of public servants and chose between whistleblowing, opportunism (refusing to provide the favour in spite of acceptance of a payment) and reciprocity (by awarding the selected contract to the anonymous bribe-payer). In the third round, students from Clausthal (businesspeople) could decide on whether or not to blow the whistle on the behaviour of their counterparts. Participants were presented with the following pay-off matrix:

All the participants in Clausthal and in Passau were shown figure 13. Starting from an endowment of €25, the businessperson gives €20 (as a gift or bribe) to the public servant, resulting in an initial endowment of €5. He or she would win a further €35 as a profit from the contract in case of reciprocity and lose €5 if someone blew the whistle. The public servant obtains a

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2 See J. Lambsdorff, *The Institutional Economics of Corruption and Reform* (Cambridge: Cambridge University Press, 2007).

3 See J. Lambsdorff and B. Frank, ‘Corrupt Reciprocity’, Economics Faculty Discussion Paper no. 51-07 (Passau: University of Passau, 2007).

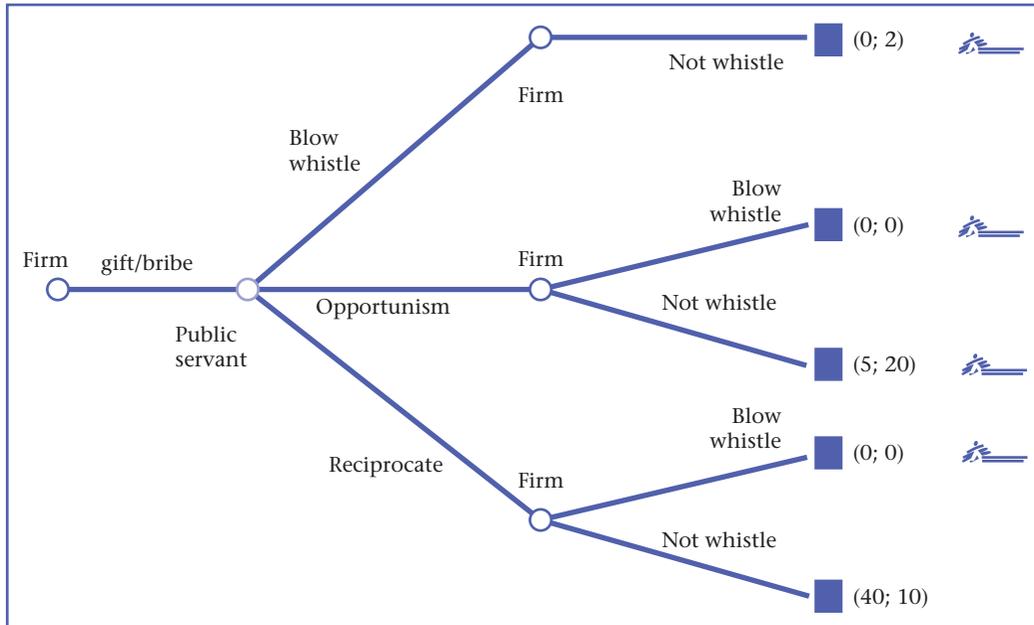


Figure 13 Corrupt reciprocity: the pay-offs to students⁴

pay-off of €20 (gift or bribe) from the businessperson. He or she would have to pass on €10 for arranging the awarding of the contract (reciprocity). Upfront whistleblowing induces confiscation of the gift or bribe but a bonus of €2. If the corrupt transaction were incomplete (either due to opportunism or whistleblowing) no damage would be imposed on society. This was considered in the game by an €8 donation to Médecins sans Frontières.

Forty-nine *public servants* out of 176 in Passau preferred to blow the whistle upfront. As figure 14 shows, a considerable number of public servants reciprocated the bribe, although this goes along with a lower individual pay-off than opportunistic behaviour. The apparent reason is the risk of retaliatory behaviour by *businesspeople* in the final step, who were observed to blow the whistle in twenty-one cases when being confronted with an opportunistic public servant. This behaviour is a departure from income maximisation. It may be motivated by the desire to take revenge for having been cheated by an opportunistic public servant (negative reciprocity). This prospect of retaliation also means that there is a risk for *public servants* to engage in opportunism. Either this risk or positive reciprocity ('Be kind to those who are kind to you') may thus motivate public servants to complete the corrupt transaction, rather than act opportunistically.

The choice of *public servants* was considerably different between male and female participants. Female students were considerably more likely to behave opportunistically and less likely (at a 1 per cent error level) to reciprocate. There is a related finding at the University of

⁴ The numbers in parenthesis indicate pay-offs in euros (businessperson; public servant). The logo of Médecins sans Frontières indicates an €8 donation.

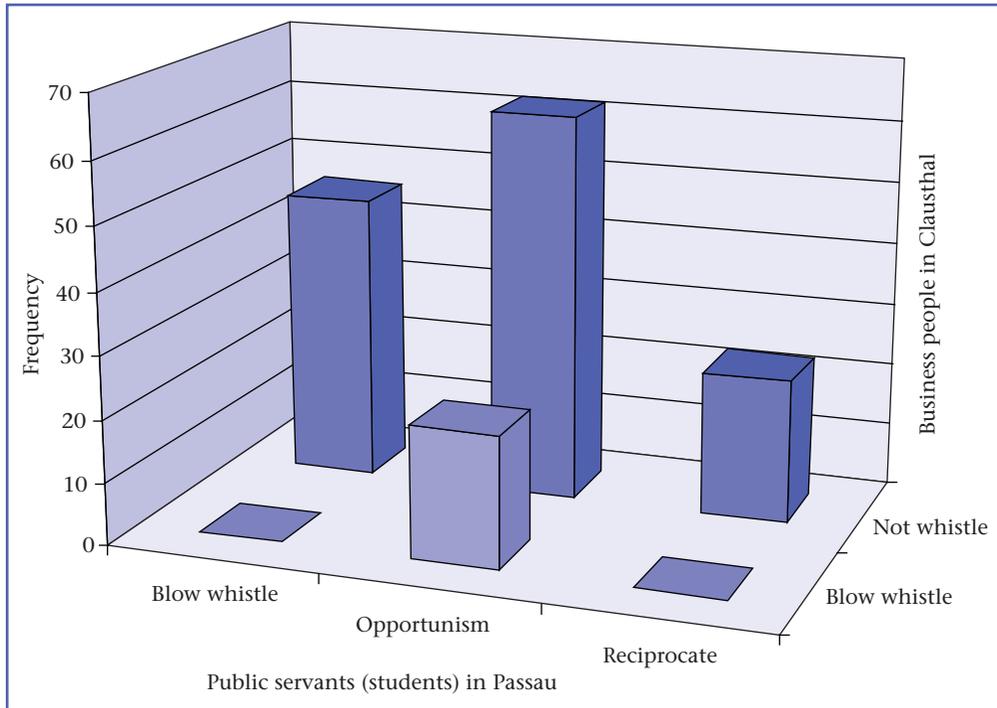


Figure 14 Corrupt reciprocity: students' behaviour

Clausthal, where female students were significantly less likely to blow the whistle – that is, to retaliate after they had been cheated by an opportunistic public servant.

Finally, students in Clausthal were at the outset asked whether they would prefer their payment to be called a 'gift' or a 'bribe': twenty-five questionnaires with a 'gift' wording and twenty-five with a 'bribe' wording were auctioned to students. Those with a lower willingness to pay were assigned a randomly chosen questionnaire. While some preferred the milder 'gift' wording, others expressed (also in written questionnaires) preference for a 'clearer language'. As revealed in figure 16, students who preferred the 'bribe' wording were more willing to retaliate when they were cheated.

We thus observe two different approaches to bribing public servants. While transferring a 'gift' is preferred because it appears less offensive and demanding, a bribe is chosen precisely for the opposite reason: it is more demanding and clearer that reciprocity is expected, including the threat to retaliate in the case of opportunistic behaviour. We found empirical evidence on these differences.

In July 2007 the same game was repeated at a summer school, with forty senior prosecutors and fraud investigators from various continents. The findings were consistent with the ones reported here, making it plausible that they are of general validity beyond the calculus of sophomore students.

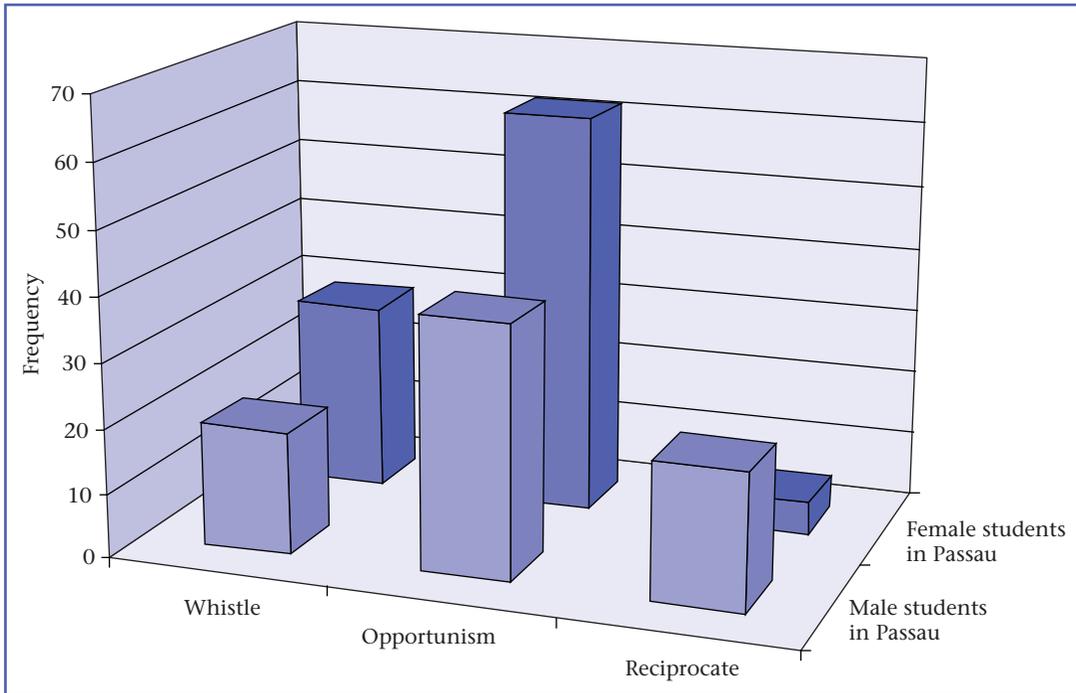


Figure 15 Gender matters: public servants' reaction

Corrupt transactions require trust and cooperation among the criminal partners, because the hidden agreements are not enforceable by courts. Women appear less inclined to engage in this type of trusted corrupt cooperation. This is also corroborated by related empirical evidence, which states that countries with more women in parliament and in the labour force are less affected by corruption.⁵

Corrupt actors must be deterred from their criminal actions. But deterrence involves more than just the threat of suffering from legal sanctions. It also encompasses the risk of being cheated by one's counterpart. There are a number of implications for anti-corruption policies, including:

- strong incentives for the 'good' whistleblowers (those who act upfront or after having completed a corrupt transaction);
- measures to deter 'bad' whistleblowers (those who threaten to retaliate after being cheated, and thus exert pressure on their counterpart to complete the corrupt deal);
- lenience for public servants who report their misconduct (threats of penalties may force them to reciprocate otherwise);

⁵ For a review of the related evidence, see J. Lambsdorff, 2007, pp. 34–5.

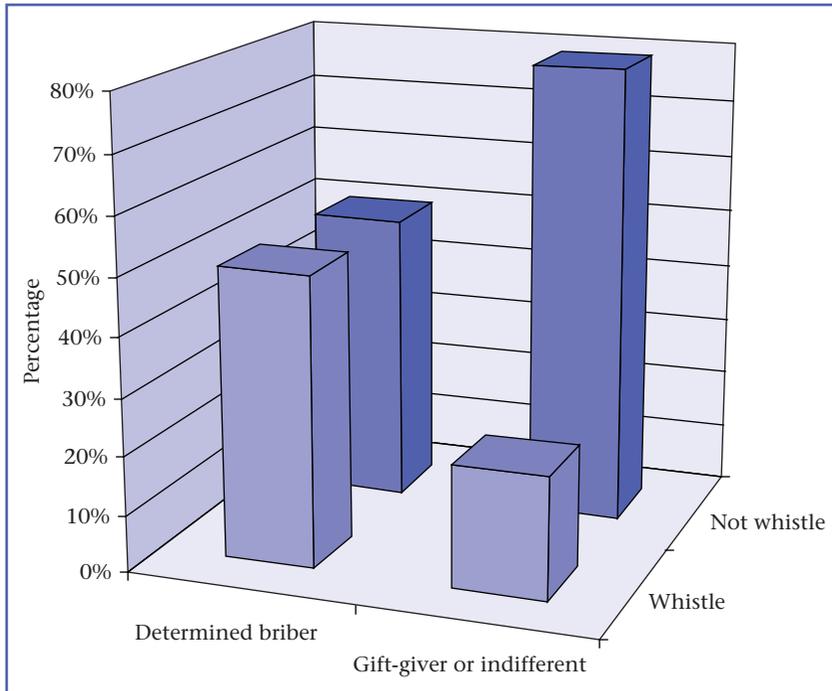


Figure 16 Businesspeople's (students' in Clausthal) reaction to opportunism

- penalties for all businesspeople, and those who were cheated by public servants; and
- the stronger involvement of women in teams, which can be expected to limit the trust in corrupt collusion in male-dominated networks.⁶

The power inherent in economic thinking first became apparent with Adam Smith's notion of the *invisible hand*. Competition substituted for benevolence by guiding self-seeking actors to serve the public. Individual morality lost relevance as a guiding principle for directing behaviour in private markets. May this also be true for politics and administration? Can anti-corruption policies flourish without good intentions? Will anti-corruption policies come to a standstill if they focus on moral sanctions, which may be detrimental to civil liberties? With respect to fighting corruption we may not have a mechanism as powerful as the *invisible hand*.

The experiment reveals a substitute, however. Corrupt actors cannot credibly promise reciprocity. The sphere of illegality may act as a powerful deterrent to engage in corrupt activities in the first place. The risk of betrayal may operate like an *invisible foot*, making life hard for

⁶ A formal treatment of the game and resulting policy recommendations can be found in J. Lambsdorff and M. Nell, 'Fighting Corruption with Asymmetric Penalties and Leniency', CeGE Discussion Paper no. 59 (Göttingen: University of Göttingen, 2007).

those who fail to adhere to honesty. The intention to cheat the public is kept in check by the fear of being cheated by the partner in the corrupt transaction, presenting honesty as a viable strategy for the self-interested individual.

The simple economics of extortion: evidence from trucking in Aceh

Benjamin A. Olken and Patrick Barron¹

Can the behaviour of market participants and their pricing strategies under different market conditions also shed light on the strategies of corrupt officials for extorting bribes? A unique empirical study of bribery along trucking routes in Indonesia offers fascinating evidence on how insights from industrial organisation theory can help explain corrupt exchanges, with important implications for the design of anti-corruption policies.²

Research design

The study focused on two major long-distance transport routes in Aceh, Indonesia: the Meulaboh road and the Banda Aceh road. From November 2005 to July 2006 surveyors accompanied truck drivers on 304 trips on these two routes to and from Aceh and recorded the frequency, amount and type of corrupt exchanges that took place along the way. As indicators of bargaining power, the surveyors also recorded whether corrupt officials were equipped with guns or could have drawn on support from colleagues in their vicinity in case trouble arose.

During the course of the survey, the Indonesian government withdrew over 30,000 police and military personnel from Aceh. The removal of these officials led to a reduction of over a half in the number of checkpoints along one road, creating an exogenous change in the 'market structure' for illegal payments in the affected area and making it possible to study the effect on bribery prices.

Research findings

The researchers identified three forms of illegal payments along the routes: payments at checkpoints operated by police and military officials; payments to avoid a fine for carrying excess cargo; and protection payments made to criminal organisations to avoid trucks being hijacked

¹ Benjamin A. Olken is a fellow at Harvard University. Patrick Barron works with the World Bank in Indonesia.

² For the full study, see B. Olken and P. Barron, 'The Simple Economics of Extortion: Evidence From Trucking in Aceh', Working Paper no. 13145 (Cambridge, MA: National Bureau of Economic Research, 2007).

or having cargo stolen, or to lower the costs of bribes paid to avoid fines for carrying excess cargo. The surveyors recorded over 6,000 of such illegal payments. On average twenty illegal payments were recorded per trip, amounting to 13 per cent of the costs for the trip and exceeding the combined wages of the truck driver and his assistant. These findings underscore the fact that corruption is rampant in trucking goods throughout this part of Indonesia, adding a significant premium to transportation costs.

The study also reveals that the corrupt behaviour of officials along the way is not only the product of individual incentives and sanctions, but responds to overall changes in market structures (e.g. the number of bribe-takers along the way) in accordance with what industrial organisation theory would predict. From the latter perspective, the sequence of checkpoints along the way can be viewed as a chain of vertical monopolies. All these monopolies are the sole suppliers of different inputs (free passage at all checkpoints) that are indispensable for producing a specific economic value (shipping cargo from A to B).

With over a half of the checkpoints closed on one part of the road, the average price of bribes for the remainder of the road was found to increase. In total it did not reach the previous overall price tag, however. These results are consistent with pricing behaviour in a chain of decentralised monopolies whose total number drops. Distance to destination also mattered, consistent with the theory of hold-up. The closer the checkpoint to the destination and therefore the higher the potential loss from not being able to complete the journey, the higher the price of the bribe was found to climb.

In line with standard market behaviour, corrupt officials were also found to adjust the price of the bribes according to their perceived bargaining power. If the officer had a gun visibly displayed, payments increased by 17 per cent on average, while each additional officer present at the checkpoint drove bribes up by 5 per cent. These factors also increased the likelihood of active price negotiation rather than a hand-off of a bribe without discussion. In addition, the estimated willingness of truck drivers to pay also influenced the bribe discrimination. Drivers of trucks older than twelve years or carrying cargo of lower value paid lower bribes than those of newer trucks or trucks with more precious freight.

Bribe-taking that follows all these principles of market-pricing behaviour has important implications for anti-corruption policies. First, where bribes are decentralised, reducing the number of corrupt officials may be an effective way to reduce the overall price for bribes. This is not obvious, given the possibility that the remaining corrupt agents could simply increase their prices and extract the same overall corruption charge. Second, stamping out a centralised system of corruption without ensuring that corruption does not reappear in a decentralised manner may make matters even worse than before, since agents that cannot coordinate their activities may end up producing a higher bribery burden than if they could coordinate their behaviour. Increased attention to the context or 'market structures' of corruption can therefore offer valuable guidance for those attempting to dismantle such market places of corruption.

Corruption, norms and legal enforcement: evidence from diplomatic parking tickets

Ray Fisman and Edward Miguel¹

Is corruption mainly a matter of weak legal enforcement or one of social norms? Since many societies that collectively place less importance on rooting out corruption will have both weak anti-corruption social norms and also less effective legal enforcement, it is difficult to disentangle the relative effects of law versus norms of behaviour. But understanding the relative importance of these potential causes of corruption is of central importance in reforming public institutions to improve governance: if corruption is predominantly controlled through social norms, interventions that focus exclusively on boosting legal enforcement may not be sufficient. At the same time, the effectiveness of legal enforcement in rooting out corruption bears on current debates in foreign aid policy for development economics, including the recent World Bank focus on legal measures to improve governance.

Diplomats and parking as a natural experiment²

From November 1997 to the end of 2002 diplomats stationed at the United Nations in New York City accumulated over 150,000 unpaid parking tickets – more than US\$18 million in outstanding fines. The unruly parking behaviour of diplomats (including the remarkable performance of one Kuwaiti diplomat, who garnered over 1,000 tickets during that period) is a clear example of abuse of public office.

But this natural experiment is also an ideal setting to disentangle the roles of legal enforcement and cultural norms in controlling corruption. Diplomatic immunity, originally intended to protect diplomats and their families from mistreatment abroad, is now more commonly viewed as the ‘best free parking pass in town’. Thus one immediate implication of diplomatic immunity – not just in New York, but also in national capitals worldwide – has been that it allows diplomats to park illegally but never suffer any threat of legal punishment, leaving a ‘paper trail’ of illegal acts with no hard consequences (see table 11).

We use this paper trail to evaluate the importance of norms in a country’s government bureaucracy in explaining corruption. In the absence of any legal enforcement, the decision to obey the law and park legally is left to the conscience of each diplomat, which in turn may be directly affected by the norms of the diplomat’s home country. But, if cultural norms do not

¹ Ray Fisman is Professor of Economics and Finance at Columbia University, New York. Edward Miguel is Professor of Economics at the University of California, Berkeley.

² For more details, see R. Fisman and E. Miguel, ‘Corruption, Norms and Legal Enforcement: Evidence from Diplomatic Parking Tickets’, Working Paper no. 12312 (Cambridge, MA: National Bureau of Economic Research, 2006).

Table 11 Average unpaid annual New York City parking violations per diplomat for selected countries, November 1997 – November 2005

Parking violations rank	Country	Violations per diplomat, pre-enforcement (11/1997–11/2002)	Violations per diplomat, post-enforcement (11/2002–11/2005)	TI Corruption Perceptions Index 2006
1	Kuwait	246.2	0.15	4.8
2	Egypt	139.6	0.33	3.3
3	Chad	124.3	0	2.0
4	Sudan	119.1	0.38	2.0
5	Bulgaria	117.5	1.67	4.0
10	Pakistan	69.4	1.23	2.2
24	Indonesia	36.1	0.75	2.4
27	South Africa	34	0.51	4.6
28	Saudi Arabia	33.8	0.53	3.3
30	Brazil	29.9	0.23	3.3
47	Italy	14.6	0.81	4.9
67	China	9.5	0.07	3.3
69	Venezuela	9.1	0.1	2.3
82	India	6.1	0.56	3.3
125	Guatemala	0.1	0.07	2.6
126	Switzerland	0.1	0	9.1
128	United Kingdom	0	0.01	8.6
145	Norway	0	0	8.8
149	Turkey	0	0	3.8

matter, we would expect all diplomats to abuse their parking privileges in the absence of legal punishment.

We find a striking pattern in the parking data: diplomats from high-corruption countries (based on Transparency International surveys) have significantly more parking violations in New York. We establish this relationship in a way that quantitatively accounts for the importance of cultural norms, as our measure of corruption (average unpaid tickets per year per diplomat for each country) is a result of home-country norms, not law enforcement.³

³ It is possible that diplomats from high-corruption countries also face stronger internal sanction for minor offences committed under diplomatic immunity. We do not find that diplomats from such countries who accrue unpaid violations early in their careers have shorter tenure, however. While this is not conclusive evidence, it suggests that the behaviour we observe is the result of different norms, not different rules.

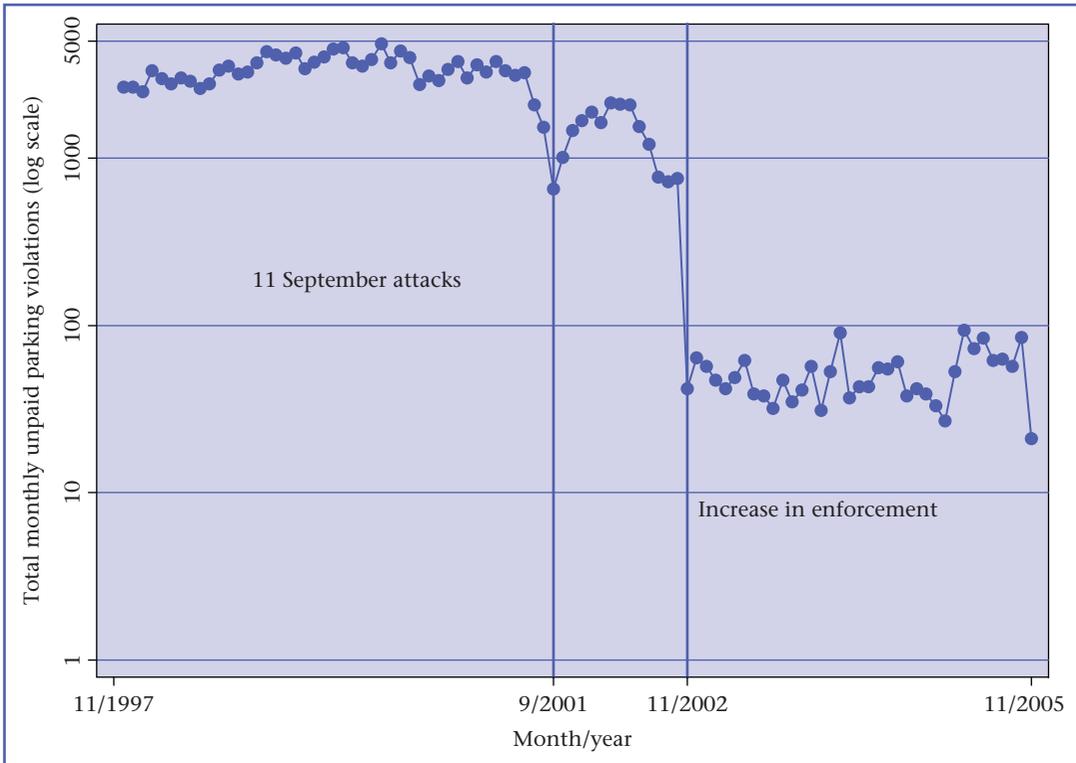


Figure 17 Total monthly New York City parking violations by diplomats, 1997–2005

The New York parking natural experiment also allows us to assess the role of legal enforcement by exploiting a sharp increase in the punishment for parking violations. After October 2002 the New York City government gained permission to seize the diplomatic plates of any vehicle with three or more unpaid violations. This credible increase in enforcement – a number of vehicles were actually made examples of by having their plates stripped in October 2002 – led to immediate and massive declines of approximately 98 per cent in parking violations (see figure 17). Yet our previous conclusion (that high-corruption countries produce more law-breaking diplomats) remains true even in this high-enforcement regime, just at lower average levels of parking tickets.

What are the policy implications? First, enforcement does work: legal sanctions are effective against corrupt government officials. It is worth noting, however, that most countries will not be able to increase legal enforcement instantaneously; the police and other enforcers may themselves have adopted norms of corrupt behaviour. Hence, while we do find that legal enforcement works, reforming attitudes and norms should also be an important element in efforts to reduce corruption and improve the rule of law.

Petty corruption in public services: driving licences in Delhi

Rema Hanna, Simeon Djankov, Marianne Bertrand and Sendhil Mullainathan¹

While millions of dollars are spent on anti-corruption programmes each year, some analysts still maintain that corruption is nothing more than a tax: the process may be unjust or frustrating but, in the end, it provides goods and services to those who value them the most. Corruption may even ‘grease the wheels’ and speed up an all too cumbersome regulatory process. A study on how driving licences are issued in Delhi, India, finds this view highly misleading and shows precisely how corruption can dramatically alter the consequences of a policy.²

Research design

The International Finance Corporation followed 822 individuals through the licensing process between October 2004 and April 2005, collecting detailed data on the procedures and expenditures involved. Once the participants had obtained a licence the IFC administered an independent – and surprise – driving test to determine how well these individuals could actually drive. An experimental design was included in the study to reveal the efficiency implications of corruption.

Specifically, a randomly selected group of licence candidates were offered a bonus if they obtained a licence within the minimum legal time frame, thirty-two days (the ‘bonus group’). A second randomly selected group (the ‘lesson group’) were given driving lessons. The remaining third served as a comparison group. This design allows for the evaluation of whether individuals with higher willingness to pay, or better qualifications, can obtain licences more easily than the ‘average person’.

Research results

Table 12 presents the results, by experimental group. Individuals with a greater need to get a licence (the bonus group) were most likely to do so. They obtained the licence at the highest rate (71 per cent versus 48 per cent for the comparison group), and obtained it quickly (thirty-two days on average, against forty-eight days for the comparison group). While having a higher willingness to pay speeds up the licensing process, it does so at a social cost. Only a small fraction of the licence-getters in the bonus group (38 per cent) took the legally required driving test at the Regional Transport Office (RTO) and nearly 65 per cent of them failed the driving test independently administered by the IFC. This suggests a socially inefficient bureaucracy that allows unqualified drivers with high willingness to pay to obtain licences.

1 Rema Hanna (New York University); Simeon Djankov (World Bank); Marianne Bertrand (University of Chicago); Sendhil Mullainathan (Harvard University).

2 For more details, see M. Bertrand *et al.*, ‘Obtaining a Driving License in India: An Experimental Approach to Studying Corruption’, *Quarterly Journal of Economics*, vol. 122, no. 4 (2007).

The experience of the lesson group suggests that social considerations play some role in the allocation process. Under an extreme view of a corrupt bureaucracy, the allocation of licences would not depend on applicant qualifications, but only on willingness to pay. We find this is not the case: the lesson group is twelve percentage points more likely than the comparison group to obtain a permanent licence.

All groups spent much more than the official cost to obtain their licences. Individuals in the comparison and bonus groups paid, on average, about twice the official amount to obtain theirs. The lesson group did not pay much less than the other groups, suggesting that even the ‘good drivers’ had to resort to extra-legal payments to obtain their licences. Corruption in this context took a very different form, however. Very few licence-getters (1 per cent) paid direct bribes. Instead, almost all the extra-legal payments went to agents – professionals who operate as intermediaries between citizens and bureaucrats: 80 per cent of both the comparison and bonus groups and 59 per cent of the lesson group hired agents. Across the groups, individuals who used an agent paid almost double the amount to obtain a licence than those who did not (see figure 18). In return, they experienced an easier process: it took, on average, one week less to obtain a licence with an agent. Most startlingly, those who hired agents were, by and large, able to bypass the required driving exam and much more likely to fail the independently administered exam (53 per cent versus 23 per cent).

The corruption documented in this study undercuts the very rationale of the driving regulation, which is to keep bad drivers off the road. Corruption, therefore, not only raises the price of services, but also causes serious social distortions. These findings sharply contrast with a purely efficient view of corruption, and confirm that there are clear social returns to designing and implementing strong anti-corruption programmes. This study also shows that, even in a relatively simple and common process, corruption is often more complicated than a simple bribe passing from citizen to bureaucrat. In this case, most corruption appeared to operate through the agent system. In order to design anti-corruption programmes more effectively, future research should focus on these complexities.

Table 12 Obtaining a licence, by group^a

	Comparison (1)	Bonus (2)	Lesson (3)
Obtained licence	0.48	0.71	0.6
Days to obtain permanent licence	48	32	53
Took RTO licensing exam	0.29	0.38	0.51
Failed independent exam	0.61	0.64	0.15
Total expenditures	1120	1140	964
Paid direct bribe	0.01	0.02	0.01
Hired agent	0.78	0.8	0.59

^a Sample includes the 409 individuals who obtained a licence.

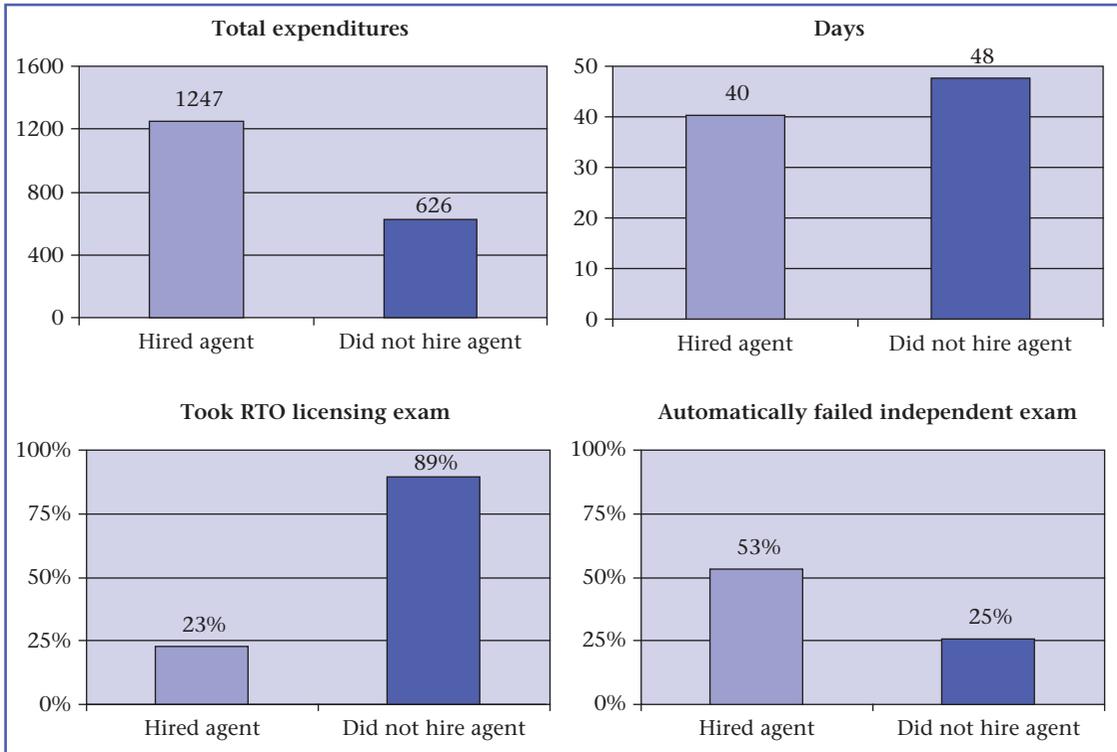


Figure 18 Outcomes by agent use

Corruption and institutional trust in sub-Saharan Africa

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For many years 'efficient grease' theories prevailed in the analysis of corruption in the economic and political sciences. These theories argue that, in an environment in which levels of bureaucratic burden and delay are high, bribery is an efficient way to reduce the red tape, and therefore that corruption can improve economic and political development.² In political science, corruption is presented as facilitating political parties' development and the emer-

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2 See N. Leff, 'Economic Development through Bureaucratic Corruption', *The American Behavioural Scientist*, vol. 8, no. 3 (1964), and S. Huntington, *Political Order in Changing Societies* (New Haven, CT: Yale University Press, 1968).

gence of a stable political environment. Corruption could also increase citizens' loyalty and trust towards their political institutions.³

This research project tests the central argument of 'efficient grease' theories. It challenges the idea that corruption may increase citizens' institutional trust, in particular the trust of those citizens who face a lot of red tape.⁴

This section's empirical basis is the Afrobarometer surveys. The Afrobarometer is an independent, non-partisan research project that measures the social and political atmosphere in Africa. The Afrobarometer surveys are conducted in more than a dozen African countries and are repeated on a regular basis. This study uses Round 2 surveys, which were conducted from May 2002 to October 2003 in fifteen countries: six austral African countries (Botswana, Lesotho, Malawi, Namibia, South Africa and Zambia), four eastern African countries (Uganda, Tanzania, Mozambique and Kenya) and five West African countries (Senegal, Mali, Cape-Verde, Ghana and Nigeria). Round 3 surveys, conducted in 2005, are used for Madagascar.

These datasets are particularly interesting for four major reasons. First, so far as can be ascertained, the corruption and trust nexus has never been explored in comprehensive empirical fashion in these countries, despite the fact that corruption is widespread in this area of the world. Second, these countries are young democracies; this makes an analysis of the consequences of corruption on these regimes' consolidation particularly important, since institutional trust and state legitimacy may be key elements to political stability. Third, the survey includes questions about both the experience with and perception of corruption. Thus the consequences of both these facets of corruption on institutional trust can be analysed. Fourth, the survey also contains information about citizens' perception of the quality of public services. Therefore the effects of corruption on institutional trust according to the level of red tape can be explored, and in this way 'efficient grease' theories can be rigorously tested.

The section relies on four key composite indicators drawn from the survey: institutional trust, experienced corruption, perceived corruption and bureaucratic quality. Institutional trust measures citizens' trust in political institutions such as the courts, the national government and political parties. Experienced corruption captures how frequently the respondents have had to pay a bribe in order to access a public service in the past year, while perceived corruption taps the popular perceptions of the overall prevalence of corruption among politicians and public officials. The quality of bureaucracy index assesses whether clients consider public services to be 'easy to use'. Every indicator uses a 0 to 10 scale, where 10 means a high degree of trust, quality of bureaucracy, experienced corruption or perceived corruption.

The following correlation coefficients show a negative and significant relationship between experienced and perceived corruption and trust in political institutions. Moreover, table 13

3 See D. Bayley, 'The Effects of Corruption in a Developing Nation', *Western Political Quarterly*, vol. 19, no. 4 (1967) and J. Becquart-Leclercq, 'Paradoxes of Political Corruption: A French View', in A. J. Heidenheimer *et al.* (eds.), *Political Corruption: A Handbook* (New Brunswick, NJ: Transaction, 1989).

4 An article was published on this research in *Afrique Contemporaine*, vol. 4, no. 220 (2006).

Table 13 Correlations between corruption and institutional trust according to the level of red tape

	Experienced corruption	Perceived corruption
Complete sample	-0.09 [0.00]	-0.14 [0.00]
Sample restricted to high level of red tape	-0.08 [0.00]	-0.14 [0.00]
Sample restricted to low level of red tape	-0.07 [0.00]	-0.13 [0.00]

Source: Author's computations.⁵

indicates that the strength and direction of that relationship does not change with the quality of public service delivery.

This section also uses a multivariate model⁶ that controls for additional factors to analyse further the trust – corruption nexus and to test systematically the ‘efficient grease’ hypothesis. The calculations, performed on the complete sample of African countries, indicate that ‘experienced’ or ‘perceived’ corruption has a negative influence on institutional trust, whatever the quality of bureaucracy. Furthermore, the results show that these negative effects increase as the quality of administration increases.⁷ For instance, when access to public services is seen as very difficult, a one-unit increase in perceived corruption leads to a drop in institutional trust of 2 per cent. In contrast, when access to public services is considered to be very easy, the same increase in corruption lowers institutional trust by almost 15 per cent.

In order to verify the soundness of these results the same calculation was performed for each country. Although the results may vary drastically from one country to another, they never indicate that corruption has a positive influence on institutional trust. In the best case, corruption has no impact on institutional trust, such as in Malawi, Namibia, Tanzania, Mozambique or Senegal. Every time corruption has a significant impact on institutional trust, it is negative. The central argument of ‘efficient grease’ theories can therefore not be substantiated. Higher levels of corruption most of the times coincide with low levels of institutional trust. Corruption does not appear to grease the working of institutions.

5 The significance level of each correlation coefficient is reported in brackets. The sample is split in two parts according to the quality of the bureaucracy reported by the respondent. The mean of the bureaucratic quality index is used as the splitting threshold (other thresholds have been tested, and these results appear to be quite robust).

6 Other covariates are introduced, such as demographic variables and variables denoting the economic situation of the respondent and his or her political attitudes and preferences.

7 This counterintuitive result is probably explained by the fact that corruption may be perceived as only one problem among many in a weak institutional environment.