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# Anti-corruption policy making, discretionary power and institutional quality: An experimental analysis

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## ABSTRACT

We analyse policymakers' incentives to fight corruption under different institutional qualities. We find that 'public officials', even when non-corrupt, significantly distort anti-corruption institutions by choosing a lower detection probability when this probability applies to their own actions (legal equality), compared to a setting where it does not (legal inequality). More surprising perhaps is the finding that policy-makers do not choose a zero level of detection on average, even when it applies to them too. Finally, corruption is significantly lower when the detection probability is exogenously set, suggesting that the institutional power to choose detection can itself be corruptive.

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## 1. Introduction

The fight against corruption has resulted in strikingly few success stories (Heeks and Mathisen, 2012; Mutebi, 2008). While there are many clear practical difficulties in this fight, part of the failure is explicable by the unwillingness of some governments to try to eliminate or even curb corruption (Fritzen, 2005). This is most likely to be a problem in weak institutional environments where the policy makers are themselves corrupt. A key issue in the fight against corruption is that 'anticorruption strategies are adopted and implemented in cooperation with the very predators who control the government and, in some cases, the anticorruption instruments themselves' (Mungiu-Pippidi, 2006: 87).

This paper describes the results of a framed laboratory experiment designed to analyse policy-makers' incentives to fight corruption under different institutional settings. The basic design of our repeated-game experiment is as follows. In the

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Control treatment, in each round, two randomly matched public officials, A and B, are entrusted with separate funds to be spent on (different) social projects. Each public official can embezzle some of the fund under their control. The amounts sent to the social projects are multiplied by 2 while the amounts embezzled by officials A and B are multiplied by 1. Thus embezzlement is socially inefficient. As there is no monitoring and punishment, the Control treatment mimics an institutional environment where there is total impunity regarding corruption.

There are three additional treatments with detection and punishment.<sup>1</sup> In the first treatment (Endogenous and Discretionary, ED), Public Official A has the power to choose a level of detection probability, which can take the following values: 0%, 5%, 10%, 15%, 20%, 25%, or 30%. Detection and punishment applies only to Public Official B. This is analogous to a weak institutional environment, with endogenous detection and discretionary punishment institutions; for example, where the judicial and police systems act in the service of the government (as opposed to the state). As a result, opposition leaders are jailed while government supporters are shielded from prosecution. In the second treatment (Endogenous and Non-Discretionary, END), Public Official A is again given the power to choose a level of detection probability but detection and punishment applies both to Public Official A and Public Official B. This situation can also be described as a weak institutional environment, with endogenous detection but non-discretionary punishment institutions, for example, when the judicial and police systems work independently, but under ‘manipulable’ monitoring and punishment institutions. In the third treatment (Exogenous and Non-Discretionary, XND), the probability of detection is set exogenously at 30% and applies to both public officials. This situation reflects a strong institutional environment, with non-discretionary punishment and exogenous detection and punishment mechanisms, for example, a state where the judicial and police systems work independently, under non-discretionary strong punishment laws.

The analyses in this paper focus on choices made by Public Official A, particularly in treatments where he/she has the power to choose the probability for detecting and punishing embezzlement. We find that Public Official As choose a weaker, though non-zero, anti-corruption policy in the Endogenous and Non-Discretionary treatment when they too are subject to its provisions, compared to the Endogenous and Discretionary treatment where they are not subject to its provisions. Defining corrupt and honest behaviour by a participant's actions in a given round, even an honest Public Official A will choose a weaker anti-corruption policy when it notionally applies to him too. We also find some evidence that corrupt decision makers in the Endogenous and Non-Discretionary treatment tend to impose a larger distortion than their corrupt counterparts in the Endogenous and Discretionary treatment, suggesting complementarity between two acts of corruption: embezzlement and institutional distortion. However, it is worth noting that in both the Endogenous and Discretionary and Endogenous and Non-Discretionary treatments, the choice of detection probability is significantly different from zero. This suggests that, despite the distortion caused by a weak institutional setting, there is some scope for anti-corruption law-making. The implications of our findings are therefore not entirely pessimistic and they should be of practical value and interest to both domestic and external anti-corruption actors in developing and transition countries. Finally, the level of corruption is found to be significantly lower when detection levels are exogenously set by the experimenter compared to the treatments with endogenous detection, suggesting that institutional power can be corruptive.

The expected result in this paper is the finding that people distort institutions when their own payoff is at risk. Yet this fact seems to have been neglected in thinking about anti-corruption policy formation as government incentives to fight corruption are typically taken for granted. In particular, we have a see-saw effect, where an improvement in one institutional dimension (equality before the law) leads to a negative effect in that detection and punishment institutions are weakened. It should be noted however that our other results are more surprising. First, honest officials who have no payment at stake due to higher detection risks, are not more severe towards corruption than corrupt officials in either of the endogenous treatments suggesting that an “honest” policy-maker may not necessarily be an anti-corruption champion. Second, we find a significant difference between honest officials in the Endogenous and Non-Discretionary and Endogenous and Discretionary treatments, with honest officials in the former treatment choosing a lower detection probability; which points to an unintended and undesirable consequence of equality before the law. Finally, the fact that some people will choose positive (and even high) probabilities is encouraging (see [Appendix A](#) for a theoretical justification); especially in the Endogenous and Non-Discretionary treatment where our policymakers are at risk from their own choice of detection level. This result may be explained by the fact that corruption is considered as “bad” and making no effort to fight it may provoke cognitive dissonance.<sup>2</sup>

The remainder of this paper proceeds as follows: [Section 2](#) reviews the relevant literature and further motivates our work in its light; [Section 3](#) outlines in full our experimental design; [Section 4](#) presents our results, and [Section 5](#) concludes.

## 2. Literature review

Our work is related to the sizeable experimental literature that has examined corruption and anti-corruption policies.<sup>3</sup> In particular, our work builds on a literature that investigates the role of monitoring and punishment; both in bribery and

<sup>1</sup> In case of embezzlement, a detected public official loses both their salary and the amount embezzled.

<sup>2</sup> Cognitive dissonance refers to cases where there is a conflict between beliefs (corruption is bad) and behaviour (I embezzle funds); thereby provoking some discomfort and related actions to reduce that discomfort.

<sup>3</sup> A comprehensive and relatively recent review of this literature is provided by [Abbink and Serra \(2012\)](#) while [Rocha Menocal et al. \(2015\)](#) review the broader literature on what works in anti-corruption.

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