



Delegating decision rights for anticipated rewards as an alternative to corruption: An experiment



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ABSTRACT

We study experimentally whether anti-corruption policies with a focus on bribery might be insufficient to uncover more subtle ways of gaining an unfair advantage. In particular, we investigate whether an implicit agreement to exchange favors between a decision-maker and a lobbying party serves as a legal substitute for corruption. We find that even the pure anticipation of future rewards from a lobbying party suffices to bias a decision-maker in favor of this party, even though it creates negative externalities to others. Although future rewards are not contractible, the benefitting party voluntarily compensates decision-makers for partisan choices. In this way, both earn more at the expense of others. Thus, the outcome mirrors what might have been achieved via conventional bribing, while not being illegal.

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1. Introduction

Corruption is a pervasive feature across all political systems. Politicians or public officials have to make decisions that potentially favor one party at the expense of another. For example, a politician may have to vote either for a consumer-friendly or an industry-friendly legislation, and a public official may have to decide which of two competing firms is successful in the bid for a public contract. Bribing a decision-maker can be an effective way not to end up as the losing party, but has one obvious disadvantage – it is illegal. Whether this is sufficiently deterrent for the involved parties depends on the risk of being caught and the resulting penalties for bribery, and varies over countries and political systems. In Western democracies with strong rule of law, at least, bribery carries the constant threats of revelation by free media, prosecution by independent courts, and a negative backlash from voters and consumers for both the briber and the bribee.¹ Instead, many industrialized countries have institutionalized lobbying as a legal and regulated form of gaining influence in exchange for e.g. campaign contributions.² However, contributions are usually capped at rather low levels compared to the rents that are at stake for the lobbying parties, which is known as the Tullock-paradox (Tullock, 1980).

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¹ The negative reaction of voters to corruption scandals can be quite substantial. With data from local elections in Spain, Costas-Pérez et al. (2012) show that an incumbent who has been charged with corruption loses on average 14% of his vote share.

² See also Harstad and Svensson (2011) for a model which can explain why bribery is relatively more common in poor countries, whereas lobbying is relatively more common in richer countries.

Our research question is whether there are more subtle but similarly effective ways of gaining an unfair advantage. In particular, we wonder whether a mutually beneficial relationship can also be maintained by an implicit agreement to exchange favors at two distinct points in time. This question is motivated by the fact that there are few outright corruption cases of high-ranking public officials in Western democracies, while after their political career they frequently enter business relationships with parties who might have benefitted from their previous decisions. Given that each party has an existential interest to conceal corruption (or activities closely bordering on corruption), appropriate field data are not available. Thus, our objective is to explore this research question experimentally.

In Western democracies there is a notable discrepancy between the monetary rewards of pursuing a political career during the years in office, and the financial possibilities that can be exploited when a politician leaves office. A potential briber who refrains from bribing and instead establishes a relationship based on mutual gift-giving has various opportunities to reward a decision-maker after his political or administrative career, e.g. via honorariums for speeches or mandates, or by directly offering a position in the upper management level or in influential lobbying roles. In their study of the US lobbying industry, [Blanes i Vidal et al. \(2012\)](#) report that 56% of the revenues of private lobbying firms are generated by persons with federal government experience, and that 34 of the 50 top Washington lobbyists have federal government experience. A politician may anticipate benefits from this “revolving door” phenomenon and proactively help the party which is more likely to reward him in the future. Of course, there are also legitimate reasons why a firm may seek the experience of a person who had an important role in the public service, such as personal contacts and expert knowledge. However, the line between both motives is thin and often blurred. Conducting an experiment offers us the possibility to create an environment where we can eliminate all plausibly legitimate reasons for such a business relationship and focus entirely on whether such a long-term co-operation can be established as a result of the decision-maker being “helpful” in the preceding step.

In our experiment, we first create a situation in which a decision-maker has to allocate points between two other participants, while his own payoff is unaffected. This reflects that – in the absence of illegal payments – a politician's income is fixed and not related to the decisions he takes. In the second stage, we introduce the possibility that other players reward the decision-maker for his choice. Knowing this, the decision-maker gets the option to delegate his decision right, such that one self-interested player can impose her preferred allocation. A decision-maker may expect that doing another party a favor by delegating his decision right increases his reward. However, this is not contractible and entirely depends on the reciprocal inclinations of the party to whom the decision was delegated. It is thus uncertain whether such an arrangement of mutual favor trading can be similarly effective as corruption.³

We find that even the pure anticipation of a future reward from a lobbying party suffices to bias a decision-maker in favor of this party, even though it creates negative externalities to others. The favored party frequently reciprocates and voluntarily compensates the decision-maker for his partisan choice. In this way, they both end up with a higher payoff, at the expense of the third party. Thus, we find that the outcome mirrors one that could have been achieved via a conventional bribery relationship.

The paper proceeds as follows: in [Section 2](#) we provide a brief and selective survey of economic research on corruption, with a focus on experiments. [Section 3](#) explains the experimental design and [Section 4](#) makes behavioral predictions. [Section 5](#) presents the results and [Section 6](#) concludes.

2. Literature on corruption and gift-giving

According to [Aidt \(2003\)](#), there are at least three necessary conditions for corruption: (i) discretionary power of the relevant public official, (ii) the existence of economic rents that can be extracted and (iii) sufficiently weak institutions. By its very nature as an illegal activity, obtaining objective data on corruption at the individual level is difficult when both the briber and the receiver of the bribe are reaping benefits from it. Furthermore, the observed occurrence of bribing is not a particularly informative indicator for corruption as it confounds the occurrence of bribing with the authorities' determination to crack down on corruption. A different scenario is when a person or firm is required to pay bribes to an official in order to receive a treatment it is actually entitled to. A prerequisite for this situation is that the rule of law is sufficiently weak for an official or politician to demand a bribe without being charged, and therefore we are more likely to encounter cases in developing countries.

Survey questions about corruption are often phrased indirectly and in rather general terms, to avoid that individuals have to admit that they paid a bribe. [Svensson \(2003\)](#) uses such indirectly obtained information on involuntary bribe payments reported by Ugandan firms and concludes that a firm's “ability to pay” and “refusal power” explain a large part of variation in bribes. [Pieroni and d'Agostino \(2013\)](#) use firm-level data from 67 countries and find that a larger degree of economic freedom generally reduces corruption, but may not help when institutions are weak. A different line of research uses information on perceived corruption from business risk surveys and investigates its determinants in a cross-country comparison. [Treisman \(2000\)](#), for example, comes to the interesting conclusion that while a long exposure to democracy predicts lower perceived corruption for the countries in his sample, the current state of democracy does not. [Paldam \(2002\)](#) shows that corruption goes down as countries become richer and that countries in the same cultural area tend to have similar corruption levels.

In recent years, a growing number of field experiments and controlled field studies have helped to shed light on the determinants and patterns of corruption. For example, [di Tella and Schargrodsky \(2003\)](#) investigate corruption in hospitals of

³ Note that the difference between these two settings is not only that the order of moves is reversed (the briber first pays the reward, then the politician takes the decision) but also that the course of action is more consequentially in the case of bribery. Once a politician accepts a bribe, he already commits an illegal act. In contrast, a politician who implements the desired choice of a self-interested party can always claim that he found this option preferable himself.

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