



Corruption, norm violation and decay in social capital



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ARTICLE INFO

Article history:

Received 5 June 2015

Received in revised form 19 March 2016

Accepted 19 March 2016

Available online 1 April 2016

JEL classification:

C91

C92

D03

Keywords:

Corruption

Social capital

Social norm

Trust games

ABSTRACT

The paper studies the link between corruption and social capital (measured as trust), using data from a lab experiment. Subjects play either a harassment bribery game or a strategically identical but differently framed ultimatum game, followed by a trust game. In a second experiment, we elicit social appropriateness norm of actions in the bribery game and ultimatum game treatments. Our experimental design allows us to examine whether subjects, who have been asked to pay a bribe, are less likely to trust than those in an isomorphic role in the ultimatum game. We also uncover the underlying mechanism behind any such behavioral spillover. Results suggest that a) there is a negative spillover effect of corruption on trust and the effect increases with decrease in social appropriateness norm of the bribe demand; b) lower trust in the bribery game treatment is explained by lower expected return on trust; c) surprisingly, for both the bribery and ultimatum game treatments, social appropriateness norm violation engenders the decay in trust through its adverse effect on belief about trustworthiness.

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"I am affected, not because you have deceived me, but because I can no longer believe in you."

Friedrich Nietzsche, Beyond Good and Evil, 1886.

1. Introduction

Social capital, which comprises of commonly held values such as trust, trustworthiness and cooperative norms, is increasingly seen today as an important component of a successful economic environment. Given that social capital helps circumvent the necessity for expensive complete contracts and thereby decreases the costs of enforcing contracts (North, 1990; Sobel, 2002; Williamson, 1985), it is not surprising that it has been found to have a positive instrumental role in a wide range of economic activities: from economic growth (Knack and Keefer, 1997) to financial development (Guiso et al., 2004, 2008) and trade and investment (Guiso et al., 2009).

Studies show that this vital ingredient of economic activity is negatively associated with corruption in a cross-country panel framework. Fig. 1 documents this association in a dynamic panel

of countries with trust data from World Value Survey (WVS) and corruption (perception) data from International Country Risk Guide(ICRG), aggregated over four WVS waves. It illustrates the stylized fact that not only are corruption and trust negatively related cross-sectionally, but the movement of most countries have followed a trajectory from high trust – low corruption to low trust – to high corruption during the period, as is indicated by the arrows which point towards the South East for most countries.

This association has been studied primarily by political scientists and to a lesser extent by economists, however, the precise causal link and the mechanisms driving the association remain less known. Some have taken the view that low levels of trust in a society may engender and nurture corruption since people fail to develop cooperative ethos (Bjornskov, 2011; LaPorta et al., 1997; Moreno, 2002; Seligson, 2002). Others have argued that a lack of trust may diminish the sense of doing something wrong or "immoral", leading to a perception of high corruption in the society (Rotondi and Stanca, 2015), which in turn may lead to greater prevalence of corruption (Bardhan, 1997; Innes and Mitra, 2013). Corruption has also been viewed as a cause for the erosion of social capital (Anderson and Tverdova, 2003; Chang and Chu, 2006; DellaPorta, 2000). This view draws support from the impact of political scandals on trust (Bowler and Karp, 2004), and by relating confidence in institutions entrusted to control corruption to interpersonal trust (Rothstein and Stolle, 2002). Others still, have interpreted the relation as one

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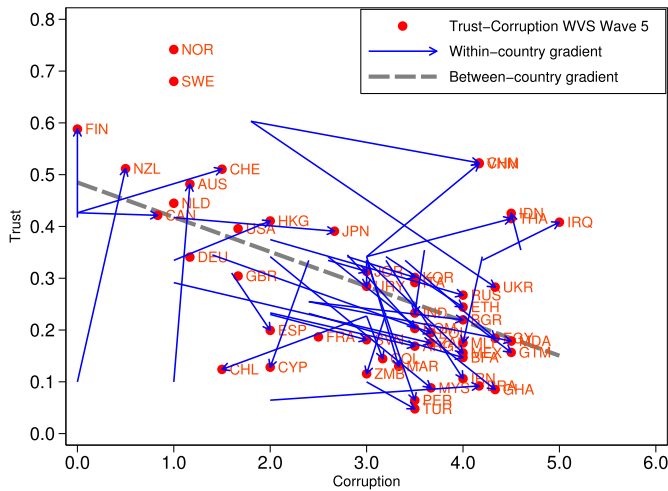


Fig. 1. Within and between country gradient between trust and corruption. Note: Arrows indicate the movement of countries in the trust–corruption space from Wave 2 to Wave 5 in the World Value Survey. The dotted line shows the cross-sectional gradient for Wave 5 in WVS (slope coefficient = -0.07 , p -value < 0.01). 68% of the 43 countries that we have data on, have arrows that point to the South East. The OLS regression coefficient, when change in corruption is regressed over change in trust, is -0.024 (p -value = 0.36). These suggest that not only is the cross-sectional correlation between corruption and trust negative, but over the period most countries have moved towards higher corruption and this movement has also been associated with lower trust. Data source: Corruption – International Country Risk Guide (ICRG); trust – World Value Survey. Arrows in some data points are missing as these countries have only one data point each since WVS has brought more and more countries within its fold over time.

of mutually reinforcing causality (see for instance Uslaner, 2002, Morris and Klesner, 2010). Despite the fact that the negative association between trust and corruption has been widely documented in a number of settings, the causal interpretation between the two is at best weak.¹

In this paper, we analyze one side of the potentially simultaneous relation and causally relate corruption to decay in trust using experimental data. Both corruption (or more generally unethical behavior) and trust originate from behavioral primitives and both have been extensively studied through lab based experimental methods in the past (for a review of experimental corruption games see Abbink and Serra (2012) and Serra and Wantchekon (2012)). First, we analyze if people exhibit less trust in a standard trust game after having played a bribery game than after having played a strategically identical but differently framed ultimatum game (for an analysis of the two frames see Banerjee (2016)). Second, we elicit social appropriateness norm of actions in the bribery and ultimatum game frames in order to identify the precise mechanism underlying any observed effect. Thus, our experimental design allows us to identify and estimate the causal link from corruption to trust, as measured through behavioral spillovers.

Behavioral spillover effect is defined as an effect which is observed only when an experimental game is played together with other games but not when played in isolation. Such effects, which are common in the experimental literature, have been found to enhance cooperation (Albert et al., 2007; Brandts and Cooper, 2006; Cason and Gangadharan, 2013; Cason et al., 2012), help attain a Pareto improving coordination equilibrium (Weber, 2006), induce rationality (Cherry et al., 2003; Cherry and Shogren, 2007) and even change

actions when subjects hear about the actions of others in their group (Huck et al., 2011). Though some studies have inferred that higher cognitive load induced by greater outcome entropy, uncertainty and lesser path dependence induce positive behavior spillovers (Bednar et al., 2012; Cason et al., 2012), we know surprisingly little about the mechanisms behind negative behavioral spillovers. While studying the interplay between corruption and trust, our study also aims to fill this gap.

In the first experiment, we randomly assign people to either a real effort harassment bribery game or a strategically identical but differently framed ultimatum game.² After subjects have been through the experience of being in one of the frames and have known the outcomes, we measure their trust behavior in a standard trust game. In the bribery game, a “Citizen” performs a task and earns a prize if successful. However, a “Public Official” may demand a bribe in order to let the Citizen have her prize – the Citizen may subsequently accept or reject this bribe demand. In the strategically identical but differently framed ultimatum game treatment, “Participant A” (analogous to the Citizen) upon successfully completing the task – earns the right to go to the second stage of the game. At the second stage, “Participant B” (analogous to the Public Official) plays an ultimatum game, with the same stake size as the prize in the bribery game, and decides how much to share with Participant A, which the latter can accept or reject. In this way, not only do we cleanly identify the causal impact of corruption on trust but also answer whether lower trust in people is associated with greater unethical behavior.

Why do negative spillover effects originate in the first place? We hypothesize that in our setting negative spillover effects originate from violation of a certain commonly held moral code. In order to unravel this mechanism, in a second experiment, we elicit social appropriateness norm governing the bribery game and the ultimatum game using a coordination tool developed by Krupka and Weber (2012).

First, our results from the first experiment confirm that the two frames trigger different behavioral responses – in particular, the bribery frame successfully imposes the intended frame of immorality. It is indeed the case that the two frames are governed by different social norms and this partly explains the difference in actual behavior. Second, Citizens trust less than Participant As and the baseline subjects in the trust game but we find no difference in trustworthiness among them.³ Third, the expectations of the Citizens about the trustworthiness of the matched partner, are lower when compared to that of the Participant As and baseline subjects. The negative shock to expectation is driven by the violation of social appropriateness norm governing bribery and explains part of the difference in trust behavior. Interestingly, there is no independent effect of the corruption frame on trust i.e. there is no mindset effect, but there is a mindset effect of corruption on expectations about trustworthiness. Hence, our findings suggest that norm violation and corruption mindset affect expectation about trustworthiness, which in turn leads to lower trust. Finally, we find a weak negative association between corruption and trust behavior among Public Officials.

Our contributions to the literature are the following. We provide a clean identification of the causal link that corruption leads to lower trust using an experimental approach and thereby contribute to a

¹ Potential simultaneity in the association between corruption and trust leads to endogeneity bias, which is difficult to overcome due to lack of suitable instruments and limited time varying and comparable cross-country data.

² Harassment bribery is a form of bribery where a Public Official asks for a bribe from a Citizen who is entitled to a service that the official is obligated to provide. Petty bribery of this nature is very common in developing countries where Citizens, despite being entitled to government services (e.g. passport, driver's license), have to pay a bribe in order to obtain them or avoid inordinate procedural delays. Harassment bribery has been studied through experimental games in the past by Banerjee (2016) and Abbink et al. (2014).

³ For completeness we conducted a standalone baseline trust game – it was not preceded by either the bribery game or the ultimatum game.

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