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World Development Vol. 40, No. 2, pp. 355–372, 2012

0305-750X/$ - see front matter

doi:10.1016/j.worlddev.2011.06.001

Is Bribery Really Regressive? Bribery's Costs, Benefits, and Mechanisms

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Summary. — We use data on households' bribery of public officials in Peru and Uganda to analyze the distribution by income of the burden of bribery, the mechanisms leading to it, and the payoffs to bribery. We show the burden of bribery is not borne disproportionately by the poor. Among bribers, the poor do pay a greater share of their income than the rich, but the rich use officials more often, and among users, the rich are more likely to bribe. The benefit of bribery is avoidance of the poor service delivered to clients who refuse to bribe.

Key words — bribery, corruption, Peru, Uganda, Latin America, Africa

1. INTRODUCTION

It is now widely accepted that corruption has negative economic consequences. Rose-Ackerman's influential early work warned that the assumptions required for corruption to enhance efficiency were unlikely to be satisfied in practice, and more recent theoretical contributions on the causes and consequences of corruption have also emphasized efficiency losses. [1] Empirical work has substantiated these fears: Mauro (1995) finds cross-country evidence that corruption reduces economic growth and Wei (2000) shows that corruption reduces foreign direct investment. Many development economists fear that corruption not only reduces efficiency, but also equity, constituting a regressive tax, causing the poor to be excluded from public services, and skewing growth in favor of the rich. [2] Yet there is little empirical evidence on the burden of corruption by income or on the links between income and corrupt behavior by individuals more generally. [3]

We fill this gap using data on households' bribery of public officials in complementary Peruvian and Ugandan data sets. We analyze the distribution across permanent income classes of the burden of bribery, the mechanisms leading to this distribution, and the payoffs to bribery. The mechanisms we study are the determinants of use of public officials, the determinants of bribery for users, and the determinants of bribe amounts for bribers. The client payoffs we consider include speed of service, quality of service, and the probability of paying an official fee for service.

Our study of contrasting countries allows us to draw more general lessons than would be possible with one country alone. Peru is a middle-ranking country in Transparency International's Corruption Perceptions Index, with a GDP *per capita* of US$4265 in 2002, while Uganda is classified as one of the most corrupt countries by TI and had a GDP *per capita* of only US$1134 in 2002. Peru's income is more equally distributed than Uganda's with a Gini of 0.45 in 2002, compared to 0.52 for Uganda. [4]

We first build a theoretical framework to understand the bribery-related interactions between public officials and clients. Officials angle for a bribe by shirking, punish clients who refuse to bribe with further shirking, and reward clients who bribe with a reduction in red tape that at least partially offsets the earlier shirking. Officials are more likely to angle for bribes from rich clients, who are more willing to pay due to a higher valuation of time, and officials with monopoly power can extract higher bribes from richer bribers.

We then turn to the data. We show that in Peru, the poor do not pay higher shares of their permanent income in bribes. We find the same result for Uganda once we account for measurement error in household permanent income. These results are contrary to conventional wisdom, yet the conventional wisdom is poorly documented. Kaufmann, Montorial-Garriga, and Recanatini (2008) find that the Peruvian poor pay a greater share of their income in bribes: the contrast with our own results appears to be due to the absence from their data of bribes to the judiciary. Herrera, Razafindrakoto, and Roubaud (2005) and Kaufmann *et al.* (2008) state a similar result, but Herrera *et al.* (2005) acknowledge that their income data are noisy. Despite our results on the monetary burden of bribery, the disutility burden of bribery may still be higher for the poor if there is diminishing marginal utility of income.

Having shown that the monetary burden of bribery is not borne disproportionately by the poor, we study the mechanisms underlying the distribution of the burden of bribery. The distribution of the burden among users of public officials

[*] We are grateful to Vincent Chandler for excellent research assistance, to the Instituto Nacional de Estadística e Información for the Peruvian data, and to Niels Ulrich, Paul Mpuga, Barbara Kasura Magezi Ndamira and K2 Consulting for the Ugandan data. We thank Leah Brooks, Miriam Golden, Yossi Greenberg, Franque Grimard, Javier Herrera, Miguel Jaramillo Baanante, Daniel Parent, Jan Svejnar, Kathy Terrell, Duncan Thomas and participants in numerous seminars for comments. Hunt is also affiliated with the CEPR, IZA and DIW-Berlin, and acknowledges the Social Science and Humanities Research Council of Canada for financial support. Laszlo is also affiliated with CIRANO in Montreal and Grupo de Análisis para el Desarrollo (GRADE) in Lima. Final revision accepted: May 31, 2011.

is the result of offsetting effects: rich users are more likely to bribe, but although rich bribers pay larger bribes, the bribes are a smaller share of their income than is the case for poor bribers. Such price discrimination is consistent with the theoretical model. The Ugandan data further reveal that poorer users are more likely to bribe unwittingly, and that income differences in the bribery rate are smaller once this is taken into account. The most closely related previous work is by Hunt (2007), who shows using the same Peruvian data how people bribe when they fall victim to misfortune, by Hunt (2010), who focuses on bribery in the Ugandan health sector, and by Deininger and Mpuga (2004), who use the same Ugandan data to show that individuals knowing how to report bribery are less likely to bribe. Their results, and those of Hunt (2004), also show that the rich bribe more frequently. [5]

We find that permanent income's role in households' use of officials also influences the distribution of the burden of bribery. The rich use officials much more than the poor, and it is this, rather than differences in bribery among users of officials, that drives the fact that the rich bribe more frequently than the poor, and ultimately pay the same or higher share of their income in bribes. This difference in usage might be the natural result of the rich demanding more of normal goods, although some services, such as the provision of welfare or even public health care, might be considered inferior goods. Development economists' concern is that the need to bribe deters the poor from using officials. We present evidence that bribery does not deter the poor from using officials more than it does the rich. [6]

Finally, we study the payoffs to bribery. The Peruvian data indicate that the main client benefit of bribing is to avoid the poor service delivered to clients who refuse to bribe. Voluntary bribers receive service similar to that of clients engaged in scrupulous transactions, involuntary bribers receive worse service, and clients who refuse to bribe receive the worst service. This suggests that service improvements in response to a bribe merely offset service reductions associated with angling for a bribe, and that clients refusing to bribe are punished. The Ugandan results are consistent with this, although they suggest that bribes may be used to avoid official fees for service. We conclude that bribery involves a transfer from client to official with little or no net change in service quality relative to a scrupulous transaction. Our results are consistent with Thompson and Xavier (2002), who find that Kazakh patients who bribe stay longer in hospital and rate their service worse. [7]

Our results suggest that the main costs of bribery lie in efficiency losses, as any large distributional effects must come indirectly through the performance of the economy. Nevertheless, the Ugandan data indicate that a good starting point for reducing bribery for the poor would be to reduce unwitting bribery by increasing literacy and clearly publicizing official costs for services. More generally, the results highlight the power of public officials in their relationship with clients and the importance of weakening this power, for example, by providing clients with a choice of official or rotating officials through jobs.

2. CORRUPTION IN PERU AND UGANDA

(a) *Peru*

The enormous scale of grand corruption in Peru was revealed in 2000 by discoveries leading to the resignation and self-exile of President Alberto Fujimori. Video-taped evidence showed Fujimori's spy chief Vladimir Montesinos repeatedly bribing congressmen to defect to Fujimori's party to ensure its majority in congress. Worse, large bribes enabled Montesinos to control most of the media and influence the judiciary. [8]

Despite these high-profile bribes, Fujimori is credited with having reduced petty corruption. His 1990–2000 administration pursued policies reducing the role of government, which he justified not only on efficiency grounds, but on the grounds that reducing the role of government would reduce opportunities for corruption. He attempted to reduce corruption in the police and municipal governments, in the latter case by establishing a supervisory agency to field citizen complaints. In contrast, his reforms of the judiciary are thought to have made it more corrupt.

Despite some progress, several institutions with which ordinary people have much contact were judged to be corrupt by Transparency International in a November 2001 report. [9] An increase in the number of temporary judges, appointed in part to help clear backlogs, had contributed to corruption. Such judges, representing 74% of all judges, were vulnerable to political pressure and susceptible to corruption because of their lack of job security.

The morale of the police in 2001 was thought to be low owing to poor pay and equipment, which, combined with weak internal controls and sanctions, rendered the police susceptible to small and large-scale corruption, as well as to cooperation with criminals. At this time it was customary to bribe the transit police. [10]

Public administration generally was corrupted by poor pay, complex procedures for sanctioning bribe-taking, and the judiciary's frequent overturning of administrative sanctions. Public servants whose contracts had been converted to private sector terms were well-paid, but they lacked the job security that would protect them from political interference (and, presumably, allow them to report corruption by superiors).

The interim and Alejandro Toledo administrations that followed Fujimori made corruption a priority, but focused particularly on prosecuting actors in the Montesinos affair. Nevertheless, a set of anti-corruption proposals was drawn up in 2001 by a group including representatives of civil society and the World Bank. Some initiatives put into place include the naming of an "Anti-Corruption Tsar," the establishment of a special anti-corruption police division, and the introduction of an anti-nepotism law for the public service.

(b) *Uganda*

As part of the collection of the Ugandan data, the consulting company commissioned by the government ran focus groups on bribery and availability of public services in 180 villages. The picture that emerges from the discussion summaries is of inadequate public services plagued with rampant corruption, a picture consistent with academic and World Bank studies. [11] Almost every focus group notes that medical attention at public hospitals and health units can only be obtained in exchange for payment, despite the official abolition of patient payments, and that the only drug available is Panadol (Tylenol). Other drugs must be purchased at pharmacies, drug shops or private practices with connections to the doctor recommending the drug. Some groups note that the corruption and poor service in the public health sector lead people to use private clinics, despite their cost, or mission or NGO hospitals, if available. [12] Most focus groups also report that the police will not respond to any call from a complainant unless given an up-front payment, purportedly for transport costs. One group notes that the poor cannot afford to use the police.