

# Corruption and the Public Administration\*

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# Corruption and the Public Administration

- The term “corruption” derives from the Latin word “rumpere” (to break).
- To break a rule, a principle, or something similar
- Corruption is a deviation from a desirable behavior or code of conduct.

# Corruption and the Public Administration

- Corruption is not a new phenomenon. It is an old profession. We find mentions of corruption in:
  - i. The Bible
  - ii. In Arthashastra, a political treatise written two thousands years ago by Kautilya, the prime minister of a state of India.
  - iii. In Gibbon's description of the fall of the Roman Empire.
  - iv. In Dante's Inferno.
  - v. In the Constitution of the United States.
  - vi. In literary works and operas (Tosca, Manon Lescaux)

# Corruption and the Public Administration

- Attitude vis à vis corruption varies from country to country and from time to time.
- There were times when corruption was considered an almost natural phenomenon.
- Now, it is assumed to have negative consequences for the economy and for the democratic, political system. But it is still prevalent.

# Corruption and the Public Administration

- In the decade of the 1990s, attitudes toward corruption became more negative, perhaps because of the impact of the “Washington Consensus”; or the fall of the Soviet Union.
- Corruption came to be called a “menace” to democracy and to the market economy. There was less political tolerance for corruption than in earlier years.
- Role of U.S. government? Or of the IMF and other international institutions?

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- During the decade of the 1990s, the governments of various countries (Italy, Japan, Brazil, others) fell because of corruption.
- “Measures” of corruption became available.
- Some governments and international institutions started to react to corruption.
- Various surveys indicated that political parties and parliaments were often the sectors more exposed to corruption.
- In Italy “tangentopoly” brought about a change in the political class.

# Corruption and the Public Administration

- There was much controversy on the legal definition of corruption and on the specific acts that could be considered corrupt.
- Difference in cultures lead to difference in attitudes. The role of the “arm’s length principle” in different societies and its conflict with prevalent norms.
- Distinction between genuine gifts and bribes.
- Are there markets for favors in some countries?
- How to judge the role of lobbies? Are lobbies democratic expressions or often attempts at corruption?

# Corruption and the Public Administration

- Distinction between “bureaucratic” and “political” corruption: Breaking of rules and regulations versus breaking of principles?
- Does corruption exist only in the public sector: What about corruption in the private sector?
- What about the space that often exists between the public and the private sectors? A growing concern.
- Enterprises that have significant state control? Italian examples?
- Is corruption related only to the breaking of specific rules? Or also to the violation of principle? Tax evasion versus tax avoidance? With bureaucratic or with political assistance?



# Corruption and the Public Administration

- The role of corruption in the financial crisis.  
Corruption in:
  - i. Operation in financial sector? Insider Trading?
  - ii. In the actions of regulators? (In several sectors and not just in the financial sector).
  - iii. Results due to incompetence of regulators, or to corruption? Revolving doors?
  - iv. Role of political leaders?

# Corruption and the Public Administration

- Attempts to “measure” or to “quantify” corruption. Not easy and not without controversy. Numbers of acts, versus significance of them? Impact on economy? On politics? (buying of votes?).
- Various “measures” of corruption became available in the past two decades.
- What do they measure? What should they “measure”? Reality or perceptions?
- “Transparency International” and the “Corruption Perception Index”, (CPI) since 1995. CPI with values from 10 to one. How countries are distributed.

# Corruption and the Public Administration

- Connection between the role of the state and the incidence of corruption. G. Becker's thesis.
  - i. Size of public spending and of taxes and corruption.
  - ii. Other policy tools and corruption.
  - iii. Growing role of complexity in corruption.

# Corruption and the Public Administration

- The sectors most exposed to “bureaucratic corruption”:
  - i. Authorizations and licenses.
  - ii. Outsourcing of public activities.
  - iii. Regulations and their interpretations.
  - iv. Administration of taxes.
  - v. Decisions on tax incentives.
  - vi. Decisions on some spending:
    - a. hiring and contracting;
    - b. assignments of disability pensions, public housing and subsidized goods;
    - c. public investments.

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- Basic rule: monopoly power for public employees plus discretion equal corruption.
- However, the elimination of all discretion may be difficult (or even impossible) and may lead to inefficiency.
- At some point, efficiency and corruption may imply some trade-offs.
- Removing monopoly power might help but may be costly.

# Corruption and the Public Administration

- Authorizations and Licenses:
  - i. Controls and inspections to small enterprises.
  - ii. Bureaucratic obstacles to small entrepreneurs.
  - iii. Differential costs between small and large enterprise. Use of facilitators.
  - iv. Fiscal federalism and regulations.
  - v. Zoning laws and corruption.

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- Public investments and bribes. Their effect on
  - quantity of investments
  - quality of investments
  - Outcome: more quantity and less quality
- ii. Bribes and unproductive public investments
  - white elephants and
  - cathedrals in the deserts.
- iii. Impact on the efficiency of economy (and on the public accounts). More spending with less growth.

# Corruption and the Public Administration

- Tax Systems and Fiscal Policy: Main Factors in corruption:
  - i. Increase in policy objectives and in the complexity of tax systems.
  - ii. Increase in the use of tax incentives
  - iii. Increased power of lobbies in the tax areas.
  - iv. Increase in the quantity of laws and in their complexity.
  - v. Impact of globalization and of “fiscal termites” on taxation.
  - vi. Increasing principal-agents problems within the tax administration.



# Corruption and the Public Administration

- Tax Systems and Fiscal Policy: Other Aspects:
  - i. Tax amnesties and attitudes vis à vis tax evasion.
  - ii. Sociological factors? Trust in the government.
  - iii. Salaries and Penalties for acts of corruption.
  - iv. Cross-institutional externalities.
  - v. Limits to penalties because of horizontal equity in their applications.

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- Quantitative Impact of Corruption on tax system:
  - i. Reduction in tax revenue.
  - ii. Reduction in revenue from income taxes.
  - iii. Reduction in the efficiency of the Value Added Tax.
  - iv. Reduction of the progressivity and of the equity of the tax system.
  - v. Increase of “underground economy” and the burden of taxes on the official economy.

# Corruption and the Public Administration

- Other major issues:
  - i. Corruption and the economic role of the state.
  - ii. Importance of transparency. But what kind?
  - iii. Importance of a clear line of separation between public and private sector.
  - iv. Importance of limiting complexity.
  - v. Limiting principle -agents problems.
  - vi. Role of anticorruption commissions?
  - vii. Examples of political leaders?