

# Economics 137: Corruption

Spring 2024

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## Overview

Our overall aim will be to better understand corruption in developing countries today: why it occurs, what the consequences may be, and what can or should be done about it. We'll consider these questions from the point of view of someone with leadership responsibilities, asking what we can learn from rigorous research on the subject of corruption but also at the end of the day how this would inform the practical decisions you would need to make if you were in charge. This means we'll also be working on skills such as

- **Solving unstructured problems.** School tends to give you structured problems (e.g. solve these problems on this worksheet) where it's fairly clear how to proceed. But life outside of school tends to give you less structured problems (e.g. find a job) where you need to figure out how to proceed for yourself. We'll be tackling an unstructured problem (what to do about corruption) and developing frameworks that help us work on it in sensible, systematic ways.
- **Applying academic knowledge in practice.** Academic research often contains the most rigorous, careful analysis of an issue or an idea, but it not always conducted or communicated in ways that make it easy for operational leaders to use. We'll practice taking the academic work on an issue and working out how it is (or isn't) useful for informing practical leadership decisions.
- **Communicating our ideas.** In school we are often asked to articulate our opinions on some subject. Outside of school, the stakes go up: we need to communicate in ways that convince other people to take action — to approve our proposals, to invest in our projects, to work for us. To succeed we need to be able to communicate convincingly, even in situations where we don't necessarily have all the information we'd ideally like to have. We'll practice this style of communication in in-class presentations and written essays.

We'll work on these skills in the context of your main assignment, a case study of corruption in an actual program or organization in low- or middle-income country. Specifically, you will imagine taking over as the day-to-day operational lead and answer the practical question: what would you do about corruption? You'll present work in progress on this project for feedback & input from me and the rest of the group in two of our class meetings, and then write a final essay laying out your analysis.

The rest of our class discussions will center around assigned readings (below) on a series of topics. We'll focus on questions like

- What are the main ideas or insights about corruption the authors try to establish? How convincing is this?
- What are some ways we might apply these ideas to the case studies we are working on?
- If we were responsible for the specific program / organization the authors study, what would we do about corruption?

As you read the assigned papers, I expect you to understand the substantive conclusions the authors draw, but not all the technical details. The most technically demanding thing you may need to be able to do is to understand the results in a multivariate regression table; I'll talk through how to do this.

## Assignments

Assignments and grading will work as follows:

1. **Reading responses (20%).** Brief written notes responding to the readings for each class meeting. These should be three paragraphs long, with one paragraph on each of the following questions:
  - (a) What, in your opinion, were the 3 most important ideas about corruption in the reading?
  - (b) What is one thing you would do differently as leader of a real-world institution or program (of your choosing) in light of the reading?
  - (c) What issues or questions do the reading bring up that you would like us to discuss in class?
2. **Class participation (10%).** You will be expected to participate actively and constructively in class discussion. You can use your reading responses as a basis for this, e.g. raising questions that you wrote about in your response, or I may call on you to discuss an issue.
3. **An analytical case study (70%).** The core of the class is an original case study, with the following mandate: choose a major government program or public service in a developing country and imagine yourself as the newly appointed head of this program. Prepare a report describing (i) the consequential decisions made by your staff and how those decisions are made, (ii) the ways in which staff could abuse that power for private gain; (iii) what is currently known about corruption among your staff; (iv) what you would do to gather information in order to better understand the situation, and (v) what concrete steps you would then take to control corruption (possibly contingent on what you learn in step (iv)). Your analysis should draw on and explicitly cite the concepts and the evidence in our class readings to support your analysis. I will consider proposals for alternative paper topics on a case-by-case basis. Graded milestones for this project are
  - (a) An in-class presentation (15% of total grade) in Week 6
  - (b) An in-class presentation (15% of total grade) in Week 8
  - (c) A 15-page paper (40% of total grade) due by midnight on the final day of Week 10

Assignments unavoidably missed for an excused medical reason will be dropped. Scores for late work will be reduced by 25% per day late. You are expected to do your own work, as outlined in the UCSD Policy on Integrity of Scholarship: <http://www-senate.ucsd.edu/manual/appendices/app2.htm>.

## Schedule

### Week 1: Logistics, Background & Motivation, Methods

- *Meeting 1*: conceptual and historical background; measurement
- *Meeting 2*: analytical framework for case studies

### Week 2: Corruption and Regulation

This week we'll examine different views on how corruption affects the regulatory process. Is corruption a good thing that circumvents onerous government regulation? Or is it a bad thing that undermines important social policies?

- *Meeting 3*: Leff (1964)
- *Meeting 4*: Bertrand et al. (2007)

### Week 3: Industrial Organization

This week we'll examine how the organization of a bureaucracy—for example, how and whether different bureaucrats compete with or cooperate with each other to provide regulatory services—affects the amount of corruption. What happens to bribes when you need 2 different permits to start a business? What if it were 10 permits?

- *Meeting 5*: Shleifer and Vishny (1993)
- *Meeting 6*: Olken and Barron (2009)

### Week 4: Corruption and Redistribution

This week we'll examine how corruption affects redistribution, or transfers of wealth from the rich to the poor, and how this might influence policy choices. For example, if the government tries to pay workers \$1 more per day, how much do their wages actually go up?

- *Meeting 7*: Reinikka and Svensson (2004)
- *Meeting 8*: Niehaus et al. (2013) — only the empirical section

### Week 5: Cracking Down

This week we'll examine methods of reducing or eliminating corruption – for example, auditing. If time permits we may also discuss an anti-corruption effort in the Indian state of Andhra Pradesh based on biometric authentication technology. Pages 62-97 in Klitgaard are not assigned for this week's discussion but you may find them useful for your case study projects.

- *Meeting 9*: Klitgaard (1988, pp. 13-62)
- *Meeting 10*: Olken (2007)

### Week 6: Student Presentations

This week we'll workshop the first half of your projects, focusing on identifying and assessing the opportunities for corruption that may exist within the programs / organizations you study.

### Week 7: Cultures of Corruption

This week we'll examine different ideas of what a “culture” of corruption might mean. Could bribery be self-perpetuating? Do people become innured to corruption?

- *Meeting 13*: Wade (1982)
- *Meeting 14*: Fisman and Miguel (2007)

### **Week 8: Student Presentations**

This week we'll workshop the second half of your projects, focusing on identifying the actions you would take as the operational leaders of the programs / organizations you study..

### **Week 9: Politics**

This week (and the next, given the holiday) we'll examine the role of the information, elections and the media in limiting corruption among elected politicians. Do voters actually care whether their leaders are corrupt? What does it take to keep elections themselves clean?

- *Meeting 17*: NO CLASS (Memorial Day). Optional reading: Callen and Long (2015)
- *Meeting 18*: Ferraz and Finan (2008)

### **Week 10: Politics; Pitfalls**

This week we'll conclude our discussion of politics, and then examine corruption through the lens of Michela Wrong's acclaimed biography "It's Our Turn to Eat." Wrong tells the story of John Githongo, a prominent journalist and activist in Kenya named anti-corruption czar under the presidency of Mwai Kibaki. Chapters 7, 9, 16, and 17 provide context on Kenyan history and society and are optional; the rest is required.

- *Meeting 19*: Wrong (2009, chapters 1-6, 10-15)
- *Meeting 20*: NO CLASS. Work on final papers!

## References

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- Callen, Michael and James D. Long**, “Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan,” *American Economic Review*, January 2015, *105* (1), 354–81. <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20120427>.
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