

Corruption and Growth: Non-connections and Table Manners

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Background: Corruption and Growth

The question falls in the broader debate on the role of Institutions

Two views:

Institutions Cause growth

Glorious Revolution limits the sovereign, private sector flourishes and we get the Industrial revolution occurring in Manchester not Reims

Acemoglu, et al, AER

Growth Causes Institutions

Dictator maybe tough (and even corrupt) but introduces order. Growth takes place without democracy. Institutions are developed. When the dictator dies, there is sufficient agreement on a set of basic principles that we can have democracy without, corruption, confiscation and chaos. Park, Pinochet, Franco are examples.

Shleifer et al (2004)

In a democracy the policy questions are:

which institution should be changed and how ?

The World Bank, the IMF, the American government, have all insisted that corruption is a key part of Institutional (2nd Generation) reforms

The question of how corruption should be tackled is more complicated.

There is some evidence that lower inflation and increased trade openness help with bureaucratic corruption.

There is NO evidence on what reduces high-level corruption.

Yet ALL the popular demand is on reducing high level corruption.

You would say that this puts the World Bank and others in a bit of a bind,

Actually it doesn't.

The World Bank (and others) strategy is to TALK about corruption.

The more difficult the problem the more intense the talking.

It's a bit like an emotional support group.

This "solution" has spread like a disease, or a new form of table manners. One of these day it is going to make it in

www.soyouwanna-ImproveYourTableManners.com

(probably between

GENERAL TIP #6: Do not put the entire soup spoon in your mouth

And

GENERAL TIP #8: If you're not sure whether or not you can eat something with your fingers, just use a utensil

And it will read something like

GENERAL TIP #7 (New):

If your conversation is boring the host, (or worst, he/she is disagreeing with everything you say), just say something banal about corruption

It also has the immediate effect of "cleansing" your aura

Although quite charming, this new addition to table manners has some unintended consequences.

Some of them quite dangerous. This is a partial list.

No Effect on Real Corruption Cases

Let's clear one thing first. This obsession with talking about corruption is unlikely to be useful from the point of view of helping reduce actual cases of bribery.

Awareness?

Incentives? Becker Stigler . Psychology of self-justification.

Key fact: It is extraordinarily hard (next to impossible?) to "prove" an act is corrupt.

This is true even in countries with well functioning legal systems.

Once we accept this, we can see that the new "table manners" aren't going to help much.

Indirect effects

1. Lower quality of policies and of politicians

Policy debates substituted by “ad hominem” arguments.

Who wants to be a Prostitute? Technocrats.

2. Bad Institutions: “Fondos Reservados” and Judicial Immunity

Not a question of just Thick Skin. *Judicializacion de la Politica*

2 approaches have been used:

Insurance (e.g., "fondos reservados")

Immunity laws (with IMF support)

Probability of corruption actually increases

Although it can be shown that immunity is the "correct" (second best) institution, the public resists it, perhaps realizing that what is needed is a new judicial system that throws out these frivolous cases.

Indirect effects (cont'd)

3. Corruption as a Bulwark against Capitalism

Obsession with random denouncing corruption moves the electorate to the left.

(Evidence on the link is overwhelming)

But the precise mental mechanism through which corruption moves people to the left has not been will identified.

Likely explanation: right-wing/pro-capitalist parties appear lenient towards those who defraud us. People who care about fairness then demand high taxes to punish capitalists. Note that they do this at a personal monetary cost, much as they “burn money” in the ultimatum experiments.

Extortion versus Capture. Role of the Media

4. Mistakes out of Desperation: High Wages and the Office of Ethics

ICAC (hong Kong)

High wages: Unpopular (Singapore)
 Not logical (jamming signals)

A Proposal: The Harvard-Yale Judicial Observatory

If the IMF can provide financial "supervision"

Why can't somebody provide judicial "supervision" ?

Let's set up in the US

a group lawyers (from academia, some retired, students)

to observe judicial decisions in other countries.

No formal judicial follow up after the opinion is passed

All we need is access to the judicial rulings (which are public).

Start by selecting some famous judicial decision where political influence (allegedly) played a role. We would then pass an opinion on how good or bad they think the decision.

Obviously the limits to depend on the funding. But since some of the rulings are incendiary (NPV=Corruption) a lot can be achieved

Effects

Demonstration effect: the mere possibility ... judges more careful

A deeper reason lies in the technology used by judges to bias their decisions.

Bias never verifiable (such as fabrication of evidence). Action is on the more technical reasoning (because scrutiny by the public is less likely). But technicalities are precisely the expertise of the members of the Judicial Observatory.

Like extradition courts...(Chile refused to extradite Menem) but even less political as no governments will be involved.

If we don't do well, there will be entry....No reason to think a few of these institutions is a bad thing....

Hope

1. Maybe politically motivated judges exercise some restraint.
2. Without judicial sanction, people may feel silly using corruption in each sentence they pronounce.
3. This may, in turn, help moderate random uses of corruption accusations in political debate.
4. Finally, a more rational debate may allow us to choose better policies.