

Corruption

Lesson 9

Corrupttour.cz

- Our itinerary
 - Magistrat: opencard (openkrad)
 - Firm Cardiopont & Roman Janousek
 - Dopravni podnik, Martin Dvorak, and Ivo Rittig
 - House where Topolanek and Marek Dalik lived (prisednik)
 - Ministry of Defense
 - Parliament and Senate



Today

- Does money matter in politics
- Ways of limiting influence of money
- Corruption and its causes
- Solutions to the problem of corruption

Keep in mind

- Political parties are necessary for democracy
- Money is necessary for campaigns and competition between parties
- Question is how to make sure money is used for the right purposes
- Some corruption may be the price of democracy

1. Does Money Matter?

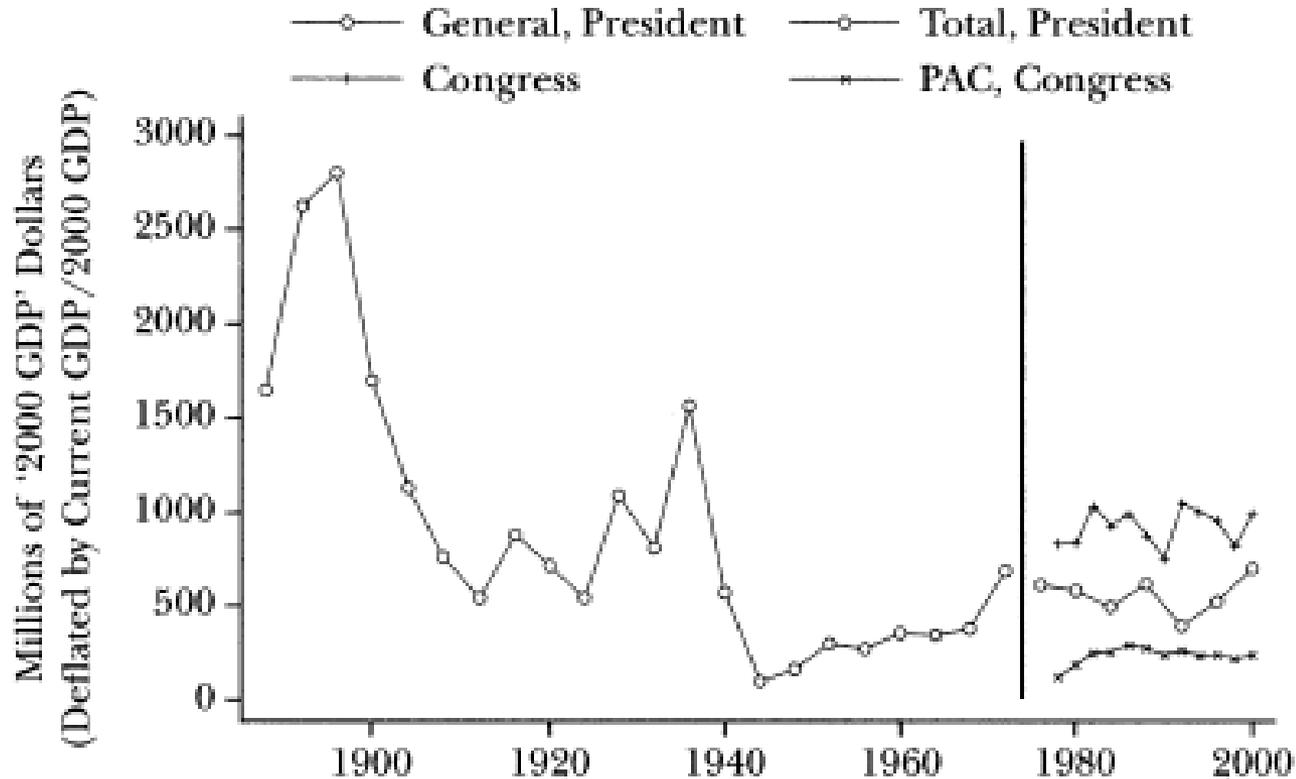
Why do firms give money?

- Buy policy influence
- Buy access to politicians
- Try to influence election
- Consumption

How much money is there?

- Political campaigns only a small portion of GDP
- Most contributions come from ordinary people or from state subsidies
- A thought experiment:
 - Contributions are a form of investment
 - Imagine that for a relatively small contribution to a party, a firm can get very large benefits: eg, a 100% rate of return
 - Then many more firms should give contributions
 - Price of policy should rise until rate of return goes down to competitive level

Is campaign spending increasing?



b. Spending Over Time Deflated by GDP

Tullock paradox

- Why is corruption so cheap? Why so little money in politics?
 - Small contributions buy millions in benefits
- Possible solutions
 - Voters don't like corruption – politicians can't appear to be too rich
 - Competition among politicians to sell their support
 - Interest groups don't trust politicians

Do contributions affect legislative behavior?

- Hard to find connection between contributions and legislative votes
 - Which policies are being sold and bought?
 - Which parties are changing their positions?

Typical study design

- Outcome is roll call votes of legislators
- Independent variables
 - Party
 - Public opinion of constituency
 - Contributions
- Results
 - Party and public opinion have very strong effects
 - Contributions usually have weak effect

Problems with empirical analyses

- Endogeneity: do contributions buy votes or do votes encourage contributions?
- Omitted variables: ideologies of parties favor certain interests
 - Parties receive money from groups with similar beliefs

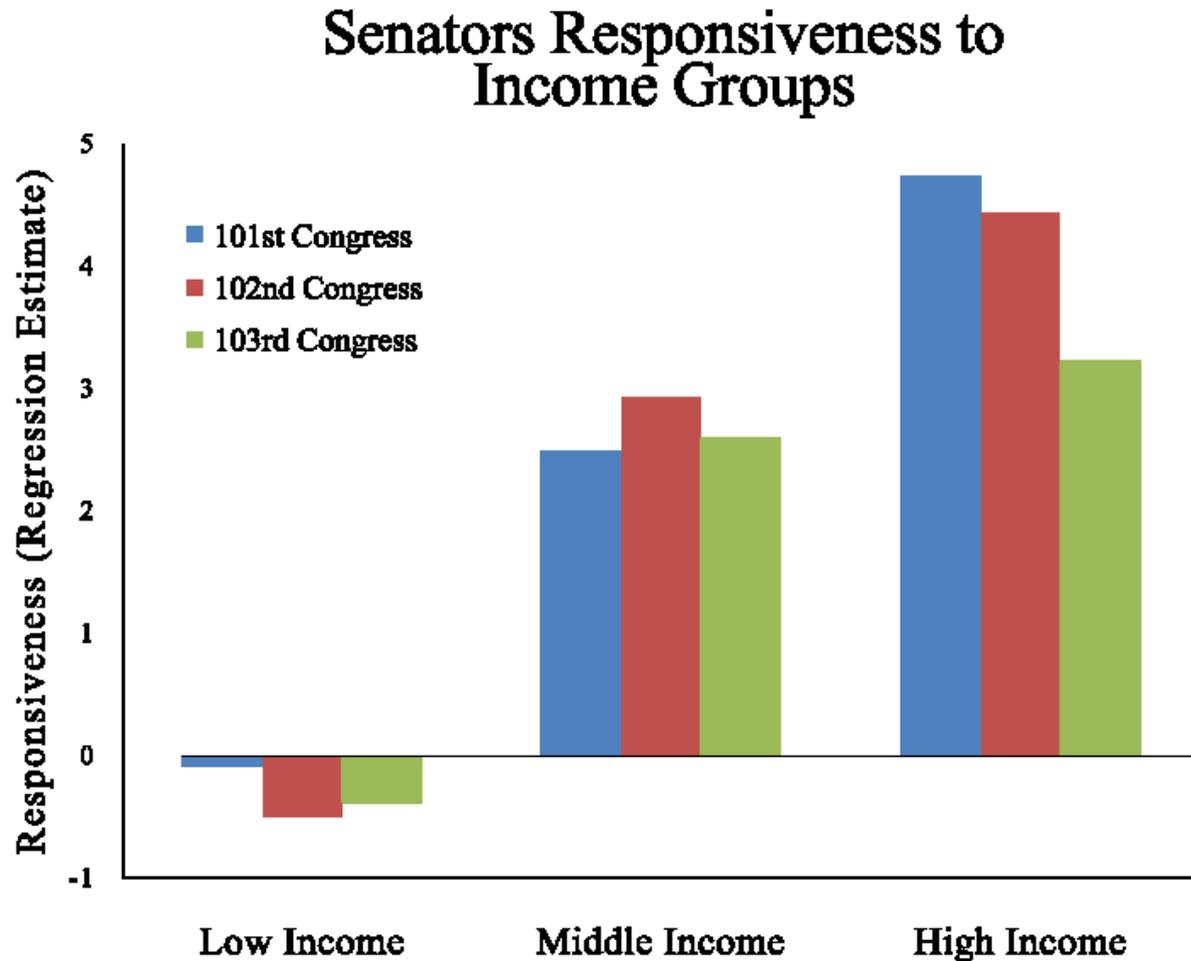
Contributions as investment or consumption?

- Contributions due to ideological motivations
- People who contribute to politics also participate in other ways (eg, attend meetings, write letters, etc.)
- Firms give more to charity than to politics

Better evidence that governments cater to preferences of rich

- Good evidence that politicians follow preferences of richer
 - Gilens and Bartels
- Is it influence of money?
 - Rich vote more
 - Rich contribute more
 - Rich are better informed
 - Politicians identify with rich

Bartels – Unequal Democracy



Does money influence election results?

- Most studies find limited effects for campaign spending by incumbents, but stronger effects for spending by challengers
 - Incumbents already have a record and familiarity
 - Challengers need to spend to get noticed
 - Spending often cancels out
 - Difficult to study because money is endogenous: good candidates get more money, parties allocate money strategically
- Implication: By limiting money, we may be hurting challengers and helping incumbents

2. Ways of limiting influence of money

1. Contribution Limits

- Contribution limits
 - Worries about contributions in exchange for policy (quid pro quo)
 - Economic inequality => political inequality
- Issues
 - Where should finances come from if not contributions?
 - Limits on corporations? Trade unions? Foreigners?
 - How high limits for individuals?

2. Expenditure Limits

- Expenditure limits
 - Worries that parties can buy elections
 - Without limits parties of the rich have an advantage
- Issues
 - Limits freedom of speech
 - How high to make limits
 - Does it hurt new and smaller parties

3. Transparency and Enforcement

- Transparency and Enforcement
 - Donations publicly disclosed
 - Party finances are made public
 - Penalties for non-compliance
- Issues
 - Administratively difficult, especially for small parties
 - Can public monitor? Does it care?
 - Privacy issues – will firms worry about punishment if they support the wrong party

4. Public Funding

- Public funding
 - Attempt to limit influence of private money
 - Response to fewer party members and volunteers plus increasing cost of campaign
 - Subsidies for (a) operational costs, (b) campaigns, (c) parliamentary groups
- Issues
 - Ideally helps small parties to survive
 - But may benefit existing, large parties => freeze system (but this may be desirable)
 - Issues of fairness: who gets how much
 - Still want to preserve linkages between citizens and parties: contributions, volunteer work

Czech campaign finance

- Public subsidies based on votes and seats
- Certain donations illegal, but no limits on others
- No limitations on expenditures, but disclosure of finances and contributions
- Is this the problem?

Do restrictions clean up politics?

- Hard to say – few good studies
- Do least corrupt countries (eg, Scandinavia) have strictest laws?
 - No, but they don't need them because they have less corruption
 - We see stricter regulations in places that suffer from corruption
- How do restrictions affect public opinion?
 - Can lead to more cynicism: more restrictions => more scandals
 - But can increase sense of efficacy

Has public funding helped nurture small parties in CZ?

- Cross-national research unclear
- Are there cases where new parties survive and gradually build themselves up with public funding?
 - Maybe Greens?
- Successful new parties seem to build on other sources of funds
 - VV, ANO, Usvit

3. Corruption

What is corruption?

- Misuse of public office for private gain
- Depends on country's institutions
- Consider a country with a good legal framework
 - Then bribes are paid to do bad things (eg, pollute)
- Or a country with a bad framework
 - Then bribes are paid to do good things (eg, set up a business)

How to measure corruption?

- Since illegal, actors will try to hide
- All we know is exposed corruption
 - But exposure depends on police, media
 - Better police and media mean corruption more obvious
- Standard method = surveys on perceptions of corruption (businessmen, experts, public)
 - Problem: they are simply perceptions
 - Advantage: multiple surveys give similar results (or similar biases?)

Transparency International Scores

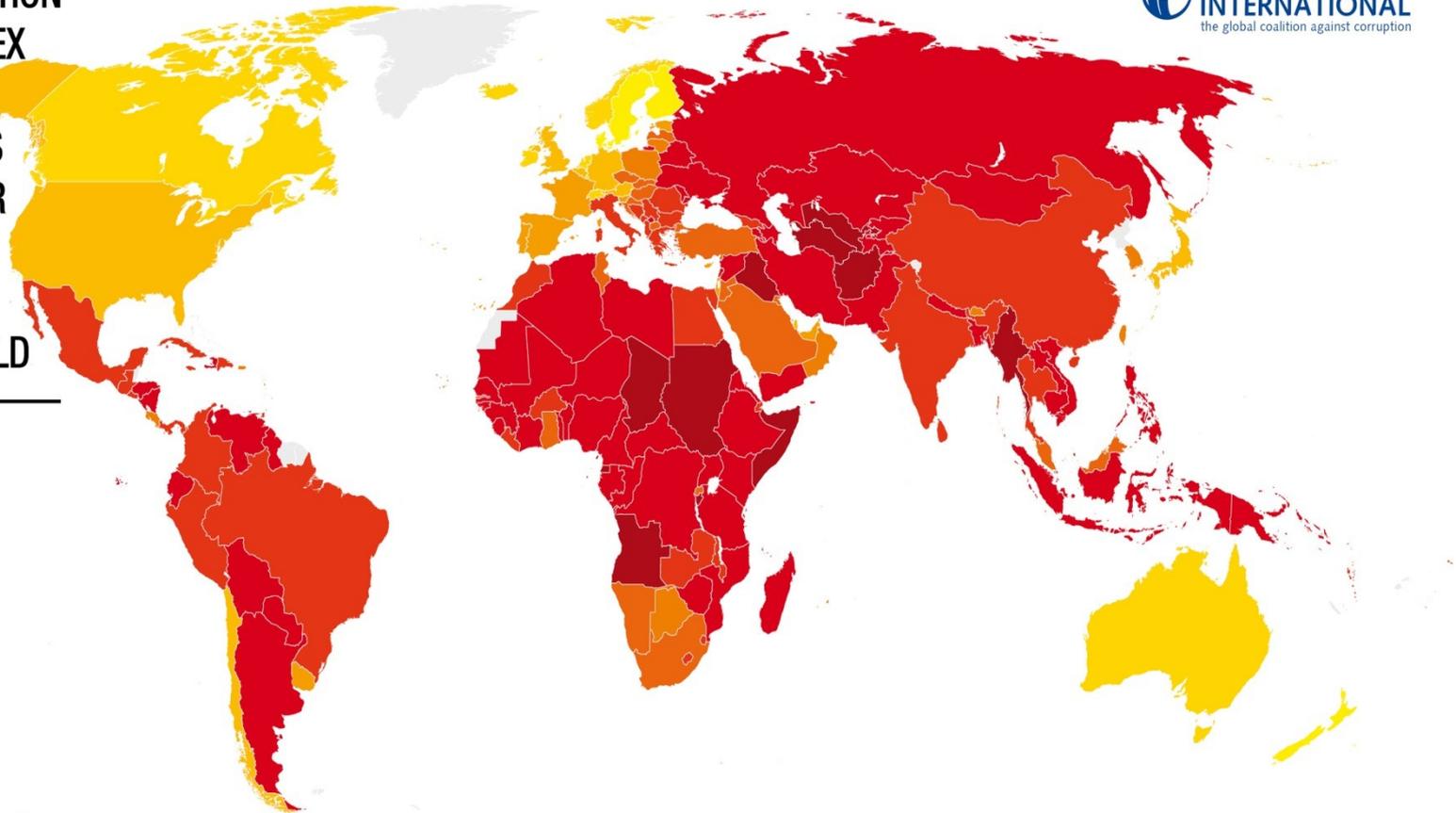
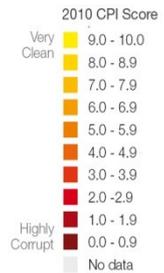
RANK	COUNTRY/TERRITORY	SCORE
1	Denmark	90
1	Finland	90
1	New Zealand	90
4	Sweden	88
5	Singapore	87
6	Switzerland	86
7	Australia	85
7	Norway	85
9	Canada	84
9	Netherlands	84
11	Iceland	82
12	Luxembourg	80
13	Germany	79
14	Hong Kong	77
15	Barbados	76
16	Belgium	75
17	Japan	74
17	United Kingdom	74
19	United States	73
20	Chile	72
20	Uruguay	72
22	Bahamas	71
22	France	71

22	Saint Lucia	71
25	Austria	69
25	Ireland	69
27	Qatar	68
27	United Arab Emirates	68
29	Cyprus	66
30	Botswana	65
30	Spain	65
32	Estonia	64
33	Bhutan	63
33	Portugal	63
33	Puerto Rico	63
36	Saint Vincent and the Grenadines	62
37	Slovenia	61
37	Taiwan	61
39	Cape Verde	60
39	Israel	60
41	Dominica	58
41	Poland	58
43	Malta	57
43	Mauritius	57
45	Korea (South)	56
46	Brunei	55

RANK	COUNTRY/TERRITORY	SCORE
46	Hungary	55
48	Costa Rica	54
48	Lithuania	54
50	Rwanda	53
51	Georgia	52
51	Seychelles	52
53	Bahrain	51
54	Czech Republic	49
54	Latvia	49
54	Malaysia	49
54	Turkey	49
58	Cuba	48
58	Jordan	48
58	Namibia	48
61	Oman	47
62	Croatia	46
62	Slovakia	46
64	Ghana	45
64	Lesotho	45
66	Kuwait	44
66	Romania	44
66	Saudi Arabia	44
69	Brazil	43

69	FYR Macedonia	43
69	South Africa	43
72	Bosnia and Herzegovina	42
72	Italy	42
72	Sao Tome and Principe	42
75	Bulgaria	41
75	Liberia	41
75	Montenegro	41
75	Tunisia	41
79	Sri Lanka	40
80	China	39
80	Serbia	39
80	Trinidad and Tobago	39
83	Burkina Faso	38
83	El Salvador	38
83	Jamaica	38
83	Panama	38
83	Peru	38
88	Malawi	37
88	Morocco	37
88	Suriname	37
88	Swaziland	37

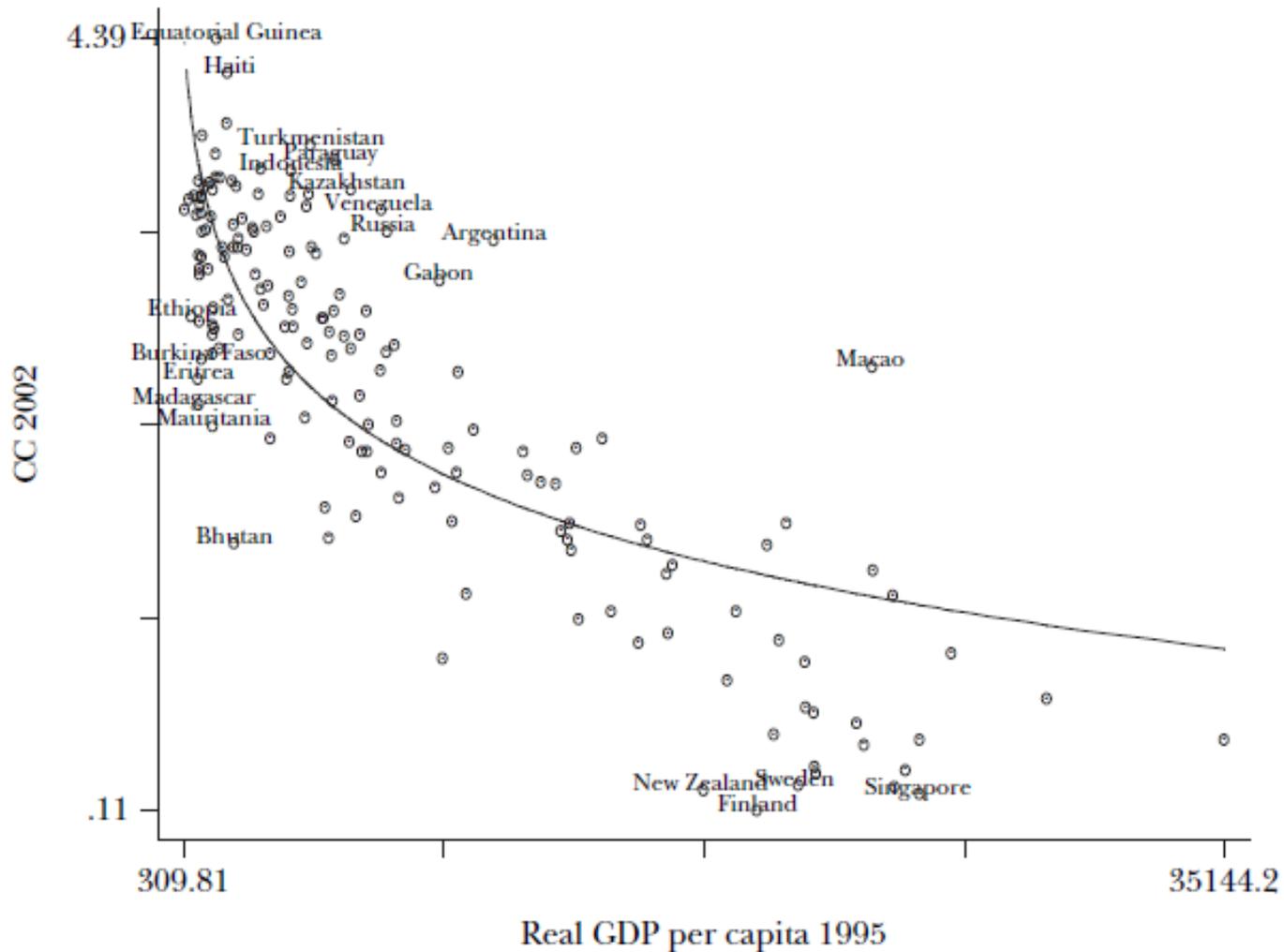
THE 2010 CORRUPTION PERCEPTIONS INDEX MEASURES THE PERCEIVED LEVELS OF PUBLIC-SECTOR CORRUPTION IN 178 COUNTRIES AROUND THE WORLD



Causes of corruption

- How to measure corruption?
 - Transparency and WB measures of “perceived corruption”
- Cross-national regressions
- Key factors reducing corruption
 - Protestant tradition
 - history of British rule (common law versus civil law)
 - high income
 - long history of democracy (not current level)
 - trade liberalization
- It appears that corruption has deep roots
- But potential for reverse causality & omitted variables

Corruption and income

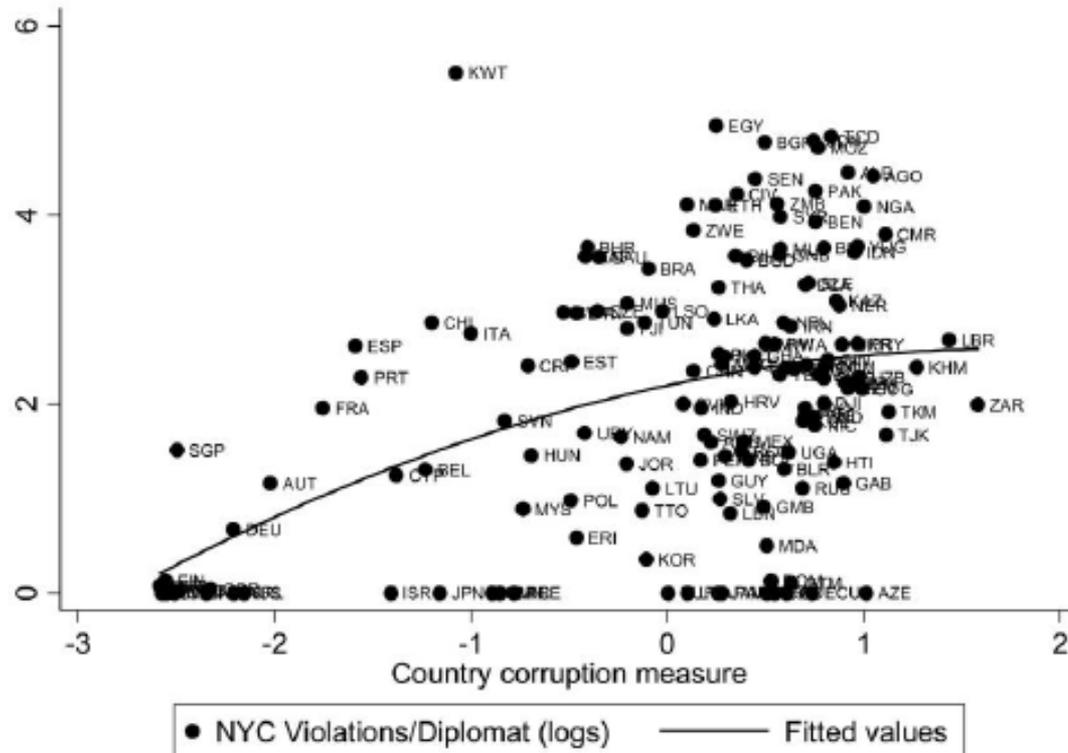


Corruption and parking tickets

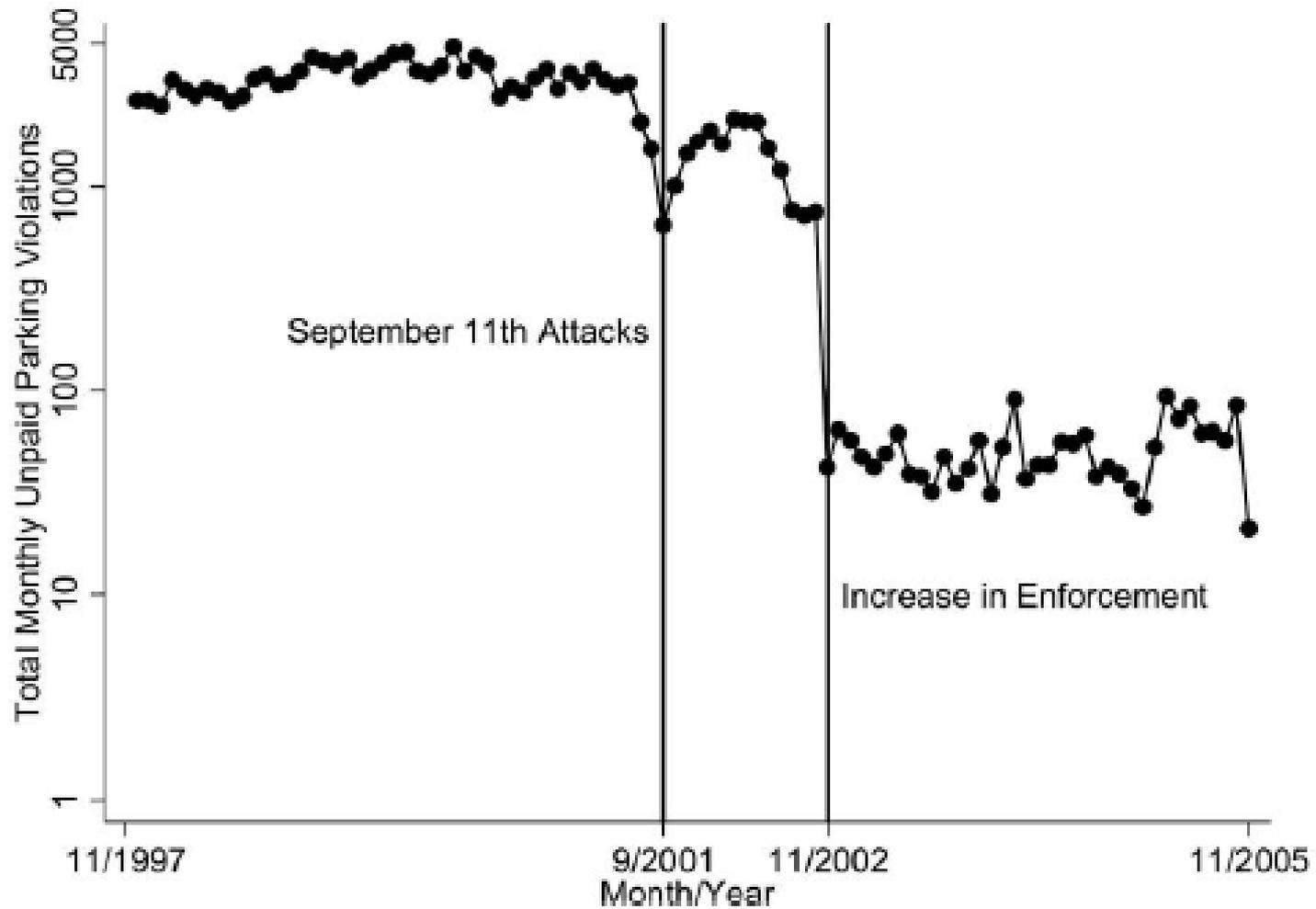
- Some countries more corrupt than others
- What happens when you take people out of corrupt environment?
- Consider diplomats in NY who can ignore parking tickets
 - How would diplomat from a corrupt country behave?
 - How would diplomat from an honest country behave?

Who breaks the law?

- Diplomats from corrupt countries break the law
- But honesty is also sticky – internalized norms



Enforcement also matters



Two types of politics

- You go into politics in order to get rich
- You get rich and then you go into politics
- Is this second better than the first?
- Rich people in politics: Babis, Schwarzenberg, Barta, Topolanek

How would Czech politics look different without money?

- Which policies would look different?
 - Which parties would be more successful?
 - Would policies be different? More conservative? Liberal? Social democratic?
- Less corruption in form of kickbacks, public tenders, etc.
 - How consequential is it for economy?

Some solutions

General ideas

- Publicity for crimes
- Increase penalties
- Reduce size of government
- More transparency
- Anti-corruption bureau
- Higher wages for bureaucrats
- * But few have been tested

Master's in Corruption Administration

- Nevzali Vás na školu? Nebo Vás vzali, ale zjistili jste, že Vás vzít neměli? Nemáte prostředky na nákup běžného akademického titulu? Nechce se Vám ztrácet čas studiem? Právě pro Vás je skvělá nabídka Corrupt Tour University!
- **Žádné studium! Žádné zbytečné výdaje.** Platíte pouze cenu papíru, tisku a administrativní poplatek 699 Kč. A nyní! V rámci předprodeje titulů na akademický rok 2013/14 mají první studenti **50% slevu na pouhých 299 Kč!**
- Studium netrvá ani minutu a vede rovnou k cíli. Hit tohoto akademického roku! **Nežádanější obor, atraktivní titul.** Pouze a jedině na Corrupt Tour University získáte krásný titul



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- Does this information help?
- How should you act on it?
- Does it encourage people to vote for new parties – ANO, Usvit, VV – because existing politics is corrupt?

www.ipaidabribe.com

- **Paid bribe for not having required papers**
- [Police](#) | [Traffic Violations](#)
- Reported on **April 02, 2014** from [Pondicherry,](#)
[Pondicherry](#) | Report #100347
- I was going on my friend's bike and i don't know where he will keep the papers for that bike. I said him i am a student and i don't know where the papers were and i have paid a bribe of Rs.200

Zero rupee note

