Inequality & ... Corruption

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University of Luxembourg/European Investment Bank
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Outline

1. Corruption leads to inequality...

2. Evidence

3. ... but fairness concerns might play a role in corrupt decisions

4. Bribery and fairness

5. Focus on fairness

6. Next...
Corruption leads to inequality…
Corruption leads to inequality...

“Bribery accepted is fairness declined”
(Yury Fedotov, United Nations Office on Drugs and Crime 2012)
Corruption leads to inequality…

“Bribery accepted is fairness declined”
(Yury Fedotov, United Nations Office on Drugs and Crime 2012)

”Corruption leads to an unequal distribution of power in society which, in turn, translates into an unequal distribution of wealth and opportunity, feeding the risk of popular discontent”
(Heinrich, Transparency International 2017)
Macro and micro studies

Corruption...

- ...exclude poor from public services and skew growth

  (Gupta et al. 2002, Gyimah-Brempong 2001)
Does corruption affect income inequality and poverty?
Gupta, Davoodi, Alonso-Terme (2002)
Macro and micro studies

Corruption...

- ...exclude poor from public services and skew growth  
  (Gupta et al. 2002, Gyimah-Brempong 2001)
- ...limit redistribution and damage welfare  
  (Olken 2006)
Macro and micro studies

Corruption...

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- ...limit redistribution and damage welfare
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- ...leads to poor bearing the burden in terms of disutility
  (Hunt & Laszlo 2012)
Macro and micro studies

Corruption...

- ...exclude poor from public services and skew growth  
  (Gupta et al. 2002, Gyimah-Brempong 2001)
- ...limit redistribution and damage welfare  
  (Olken 2006)
- ...leads to poor bearing the burden in terms of disutility  
  (Hunt & Laszlo 2012)
- ...leads to poor being victims of street-level bureaucrats  
  (Justesen & Bjornskov 2014, Fried, Lagunes & Venkataramani 2010)
Table 1. Poverty and Bribery in Africa: Estimates from Fixed Effects Regressions

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</table>

Dependent variables are respondents’ experience with paying bribes to government officials to obtain services (permits and documents, school placement, household service, medical services, and avoid problems with police). In models 1-6, the dependent variable is the bribe index (Figure 1b); in models 7-8 the dependent variable is the binary bribe variable (Figure 1b). Models 1-4 show estimates from OLS regressions; models 5-6 show estimates from negative binomial regression (NBREG); models 7-8 show estimates from conditional (fixed effects) logit regressions (LOGIT). All regressions include country fixed effects. Cell entries are regression coefficients for each variable (OLS: unstandardized regression coefficients; NBREG: log(count); LOGIT: log(odds)). Standard errors are robust and clustered by country. Absolute values of z-statistics are shown in parentheses.

*** p < 0.01.
** p < 0.05.
* p < 0.1.
Corruption and inequality at the crossroad
Fried, Lagunes & Venkataramani (2010)

Figure 1 Crossroad Schematic
Note: Authors’ illustration; depicts one of the traffic patterns commonly encountered.
Corruption experiments

When experimental bribery game is one-shot anonymous no risk of sanction → bribe-taking is high!

Leszczynska (FNRS, ECARES)
Corruption experiments

When experimental bribery game is

- one-shot
- anonymous
- no risk of sanction

→ bribe-taking is high!
88% students (Hohenheim University)


Fig. 1. Distribution of bribes (%).
88% public servants (Burundi)

75% - 90% students (Oxford University)

... but fairness concerns might play a role in corrupt decisions
... but **fairness concerns** might play a role in corrupt decisions

- In general, people have preferences for fairness.
  (Fehr & Schmidt 1999, Konow 2000)
... but **fairness concerns** might play a role in corrupt decisions

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- Some are ready to give up money.
  (Kahneman et al. 1986)
... but fairness concerns might play a role in corrupt decisions

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  (Fehr & Schmidt 1999, Konow 2000)

- Some are ready to give up money.
  (Kahneman et al. 1986)

  → **Fairness preferences might be used to deter corrupt behavior**

  WHERE? reduce bribe-taking in street-level bureaucracies

  HOW? consequences of corrupt decisions made salient to decision-maker
Corruption awareness and public service delivery
Corruption awareness and public service delivery

objectives:
1. increasing moral costs with anti-corruption messages
2. observing behavior of bribe-taking and fairness in public service delivery
Bribe taking vs. inequality in voucher allocation by number of participants
To sum up:

- Most participants take the maximum bribe amount
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- BUT most of them treat citizens equally
  → fairness preferences do exist...
  ... but easy when they are not costly
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- BUT most of them treat citizens equally
  → fairness preferences do exist...
  ... but easy when they are not costly

Now, would they hold if they were costly?
Does caring about fairness impact corrupt decisions?

structure - UNFAIR treatment
scenario with bribery - UNFAIR treatment
CONTROL: equal wealth, UNFAIR: poor vs. rich

Average bribe rejection rate by player \( B \)

CONTROL: \( n = 25 \), UNFAIR: \( n = 49 \)
To sum up:

- bribes rejected more when rich vs. poor
To sum up:

- bribes rejected more when rich vs. poor
- with two simultaneous bribes:
  → rich briber is accepted less
  BUT poor briber is *not* more accepted
To sum up:

- bribes rejected more when rich vs. poor
- with two simultaneous bribes:
  \[
  \rightarrow \text{rich briber is accepted less}
  \]
  BUT poor briber is \textit{not} more accepted
- more complex than plain fairness?
  e.g.: rank preserving preferences
The positive correlation between corruption and inequality is widely established.

Fairness preferences might play a role in corrupt decision-making.

However, crucial elements interacting with fairness preferences must be taken into consideration and further investigated:

- professional identity  
  (Falisse & Leszczynska 2015)
- rank reversal aversion  
  (Xie, Ho, Meier & Zhou 2017)
- ”fairness-loyalty” tradeoff  
  (Waytz, Dungan & Young 2013)
- ...

...
Thank you for your attention!