

# Seminar on Political Economy: Political and Bureaucratic Corruption

Instructor: Piero Stanig

The course, sponsored by the Alexander Hamilton Center for Political Economy at New York University, is a broad survey of the political economy literature on political and bureaucratic corruption. It also touches the topics of accountability, special interest politics, information, and delegation to the bureaucracy. Emphasis is given to (often formal) theoretical proposals, and to systematic evidence in support of theoretical predictions. The selected readings span the relevant political science and economics literatures. Most of the scholarship covered is quite recent. Some of it is yet unpublished, but already influential.

At the end of the course, students have a clear understanding of

- where the social scientific debate on corruption stands
- what are the proposed remedies
- what are the trade-offs involved in the remedies proposed.

Particular attention is given to the discussion of policy prescriptions that can be derived from the literature.

The course privileges quality over quantity: instead of assigning several papers on each of the weekly topics, usually just two or three papers are required reading for each meeting. These papers are, in many cases, classics of the subfield, and are to be studied before the class meeting. Namely, students should come to class with a clear understanding of the main argument and the substantive intuitions that each article formalizes or tests empirically. Students should also

- either understand the main assumptions (for theoretical papers) or measurement and data collection strategies (for the empirical papers) that make these pieces outstanding contribution to the social scientific understanding of the phenomenon of corruption
- or come to the lecture with a very well-defined idea regarding what obstacles are preventing them from understanding the contributions.

For the formal theoretical papers, emphasis is given to the logical intuition and the set-up of the models, not to the proofs.<sup>1</sup> Hence, a thorough knowledge of high-school algebra, and a working knowledge of basic calculus, is going to be sufficient to understand the material.

For the empirical/statistical papers, a clear understanding of linear regression models, and the willingness to understand the intuition on how more complicated models work, is more than enough.

The papers marked below with the [READ] symbol are to be read carefully but not studied.

The lectures

1. take a look at the “technical” aspects of the readings, close enough to unpack and possibly criticize the political economic intuition or the empirical results

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<sup>1</sup>For instance, if a model of the interaction between a politician and a bureaucrat states that information is modeled as asymmetric, attention is paid the question of which agent knows what piece of information, and why this benefits her and harms somebody else, and not, say, on the equilibrium solution concept used to solve the model in the paper. (And indeed, no knowledge of what an “equilibrium solution concept” is assumed.)

2. discuss the substantive contribution of the selected works
3. derive the policy implications of the findings.

The grade is determined by class participation (10%), a midterm exam (30%) and a final paper (60%). For the midterm, students provide answers (around half-page long) to three specific questions closely related to the course readings. The final paper can take the form of a research article or a policy proposal. The effort required to write a successful paper is expected to be the same for the two formats. The choice is given to accommodate the potentially different goals of the students in the class.

A research paper criticizes and expands on the literature, through the presentation of (systematic or well-collected case-study) evidence or logical arguments. It must have the potential to be turned, with minor revisions, into an APSA conference paper.

A policy proposal paper addresses the problem of corruption in a specific country, organization, sub-national entity, etc., and proposes a specific (non-empty) set of possible solutions. In spite of the practical aim of the proposal, it must have a theoretical backbone and be grounded in the social scientific literature on corruption. The student needs to demonstrate a clear understanding of the theoretical argument(s) on which they are grounding their proposal, *and* a thorough knowledge of the case to which their policy proposal applies.<sup>2</sup>

#### Week 1. **Corruption: what is it and why do we care?**

- What is corruption?  
Rose-Ackermann, *Corruption and Government*, pages 9-38
- The consequences of corruption.  
Mauro, "Corruption and Growth"  
Mauro, "Corruption and the Composition of Government Expenditure"[READ]  
Gupta et al., "Does Corruption Affect Income Inequality and Poverty?"

#### Week 2. **Measuring corruption**

- Governance indexes  
Kaufman et al., "Governance Matters IV: Governance Indicators for 1996-2004"[READ]  
Kurtz and Schrank, "Growth and Governance: Models, Measures, and Mechanisms"[READ]  
Kaufman et al., "Growth and Governance: A Reply"[READ]
- Indirect measures: Fisman and Miguel, "Cultures of Corruption" (pages 1-9)
- (Almost) direct measures  
Golden and Picci, "Proposal for a New Measure of Corruption"  
Olken, "Monitoring Corruption: Evidence from a Field Experiment in Indonesia" [focus only on the engineering survey, in the Data section]
- Surveys of victims and perpetrators:  
Seligson, "The Measurement and Impact of Corruption Victimization: Survey Evidence from Latin America"[READ]  
Gingerich, "On Unstable Ground: Parties, Patronage and Political Corruption" (focus on the survey of bureaucrats)  
Additional material:  
Olken, "Corruption and the Cost of Redistribution"

#### Week 3. **Corruption, bad policy, rent seeking**

- Bad policy as self-interested survival strategy:  
Robinson, "Theories of Bad Policy".

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<sup>2</sup>In other words, if a student proposes to introduce congressional oversight of agency A in country X, the student needs to show that (a) understands why congressional oversight might work, and (b) knows enough about agency A and country X.

- Bad policy and institutions:  
Humphreys and Bates, “Political Institutions and Economic Policies: Lessons from Africa”
- Rent seeking:  
“Rent seeking” from Mueller, *Perspectives on Public Choice: A Handbook* (pages 506-525)
- Bad politicians:  
Caselli and Morelli, “Bad Politicians”

Week 4. **Social causes of corruption: inequality, culture, development...**

Treisman, “The Causes of Corruption: A Cross-National Study.”  
Fisman and Miguel, “Cultures of Corruption”  
You and Khagram, “A Comparative Study of Inequality and Corruption”

Week 5. **What is accountability?**

- Overview of principal-agent models:  
Dixit, “Power of Incentives”  
Moe, “The New Economics of Organization”
- Accountability  
Fearon, “Electoral Accountability and the Control of Politicians”[READ]

Additional sources (textbook presentations of the principal-agent framework)

- Przeworski, *States and Markets*, Section I: chapter 4
- Rasmusen, *Games and Information*, chapter 7. This has nice, easy to follow, examples.

Week 6. **Electoral control of politicians**

- What can voters reasonably expect from politicians?  
Ferejohn, “Incumbent Performance”  
Persson Roland Tabellini, “Separation of Powers...”(only section II)
- Does accountability matter?  
Ferraz and Finan, “Electoral Accountability and Corruption in Local Governments: Evidence from Audit Reports”

Week 7. **Electoral control and information**

Some substantive work based on the electoral control framework: the role of information and the media.  
Besley and Prat, “Handcuffs for the Grabbing Hand? The Role of the Media in Political Accountability”  
Adserá et al. “Are You Being Served?...”  
Brunetti and Weder, “A Free Press is Bad News for Corruption”[READ]

Week 8. **Excursus: can the media be trusted?**

Gentkow et al., “The Rise of the Fourth Estate: How Newspapers Became Informative and Why it Mattered.”  
Hughes and Lawson, “Propaganda and Crony Capitalism: Partisan Bias in Mexican Television News”  
Mullainathan and Shleifer, “The Market for News.” [READ]  
Puglisi, “Being the New York Times: The Political Behaviour of a Newspaper.”

Week 9. **Institutional causes of and solutions to political corruption**

- Electoral systems and accountability:  
Persson et al., “Electoral Rules and Corruption”  
Kunicova and Rose-Ackerman, “Electoral Rules and Constitutional Structures as Constraints on Corruption”

- Separation of powers and accountability:  
Persson et al., “Separation of Powers...”(from section III to the end)
- Other institutional arguments  
Alt and Lassen, “The Political Economy of Institutions and Corruption in American States”

Week 10. **Causes of corruption: not only private gain**

- Campaign finance as the motive of corruption  
Golden and Chang, “Competitive Corruption: Factional Conflict and Political Malfeasance in Postwar Italian Christian Democracy.”  
Chang, “Electoral Incentives for Political Corruption under Open-List Proportional Representation.” [READ]
- Campaign finance and gullible voters:  
Baron, “Electoral Competition with Informed and Uninformed Voters”

Week 11. **Solutions? Campaign spending restrictions, judicial monitoring**

- Are restrictions desirable?  
Prat, “Campaign Spending with Office-Seeking Politicians, Rational Voters, and Multiple Lobbies”
- Do campaign restrictions reduce corruption? Preliminary evidence  
Stratmann, “Do Strict Electoral Campaign Finance Rules Limit Corruption?”
- Can campaign restrictions backfire?  
Drazen et al. “Political Contribution Caps and Lobby Formation: Theory and Evidence”  
Christensen, “The Effect of Electoral Reforms on Campaign Practices in Japan: Putting New Wine into Old Bottles.”[READ]
- Can law enforcement limit illegal campaign finance?  
Colazingari and Rose-Ackerman, “Corruption in a Paternalistic Democracy: Lessons from Italy for Latin America”

Week 12. **The bureaucracy: theoretical tools**

- Politicians and bureaucrats: background  
Huber and Shipan, “A Comparative Theory of Legislation, Discretion, and the Policymaking Process”[READ]
- What happens if the bureaucrats are incompetent?  
Huber and McCarthy, “Bureaucratic Capacity, Delegation, and Political Reform”
- A taxonomy of bureaucratic corruption:  
Shleifer and Vishny, “Corruption”

Week 13. **Bureaucratic corruption: substantive issues**

- What can one do to keep the bureaucrats in line (or limit the damage)?  
Besley and McLaren, “Taxes and Bribery: The Role of Wage Incentives”  
Van Rijckeghem and Weder, “Bureaucratic Corruption and the Rate of Temptation: Do Wages in the Civil Service Affect Corruption, and by How Much?”
- A corrupt bureaucracy might be better than no bureaucracy:  
Acemoglu and Verdier, “The Choice between Market Failures and Corruption”

Week 14. **Some general remedies**

- Decentralization  
Fisman and Gatti, “Decentralization and Corruption”
- Auditing and monitoring  
Olken, “Monitoring Corruption: Evidence from a Field Experiment in Indonesia”  
Reinikka and Svensson, “Fighting Corruption to Improve Schooling: Evidence from a Newspaper Campaign in Uganda”

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