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POLITICAL AND ECONOMIC DETERMINANTS OF PUBLIC CORRUPTION IN THE UNITED STATES

LUMINIȚA IONESCU
lionescu.mfc@spiruharet.ro
Spiru Haret University

ABSTRACT. This paper aims to analyze and discuss the causes and effects of public corruption in the United States, the electoral and political drivers of public corruption, and the possible endogeneity of prosecutorial endeavor in establishing corruption convictions. My analysis complements the growing literature on the determinants and effects of political corruption, the detrimental consequences of corruption on firm value, the function of corporate governance processes when the nearby economic setting is rampant with corruption, and corruption control in the United States.

JEL codes: D73; D72; L22; L25

Keywords: United States; public corruption; conviction; firm

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1. Introduction

Companies are typically affected by corruption even when the standing of legal and political entities in the United States is extremely high. Companies in more corrupt states are likely to supply less administrative supervision on earnings; handle their earnings more; and have a diminished degree of stock liquidity, therefore indicating more relevant information asymmetry encompassing their stock. Dissimilarities in cultural norms (Lăzăroiu, 2014; 2013a, b) throughout the states can bring about a prominent heterogeneity in corruption within the United States. If companies engage in the culture of corruption, subsequently dissimilarities in companies' corporate governance are significant – companies with more powerful governance processes operating can overcome the adverse consequences of the local corruption (Ionescu, 2011a, b, c, d, e) and may indicate their advanced quality with more powerful governance processes. The absence of powerful internal governance in addition to more relevant industry competition affects company value in more corrupt states. Companies in more corrupt states are likely to be more nontransparent: when they are compelled to raise their information disclosure, the marginal benefit is more significant. (Dass et al., 2016)

2. The Causes and Effects of Public Corruption in the United States

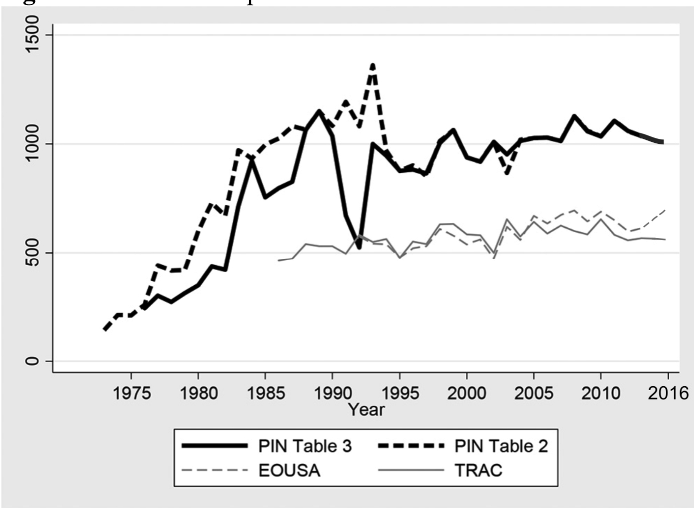
Public corruption represents the misuse of public office for private advantage. Corruption may impede growth by modifying the structure of government expenses: corrupt public servants may choose to distribute more money to particular budget categories as expenses in these categories enable them to obtain more rents via corrupt practices. Corruption raises the allotment of expenses on natural resources and unallocable budget components, and reduces the allotment of expenses on higher education. The amount of public servants convicted for corruption related crimes constitutes an unsatisfactory substitute for the intrinsic degree of corruption. The fundamental structure of government influences intrinsic corruption degrees. Corrupt public servants act in manners that are conceived to further their rent-seeking undertakings. Corruption has a relevant effect on the structure of public spending in the United States. (Cordis, 2014)

The publicly hired agent's choice to obtain money from corrupt contrasted with legal undertakings is contingent at the margin on contrasting the effects of honest conduct (Popescu and Predescu, 2016; Popescu, 2015a, b) with the magnitude of the rents from illegal undertakings. Corruption usually arises as a deal between persons who would choose to maintain the transaction concealed. The amount of convictions, regularized by inhabitants or the amount of public sector workers, indicates the determination, proficiency and probity of police and judiciary, in addition to the political preeminence placed on challenging corruption. More relevant prosecutor resources generate more convictions for corruption on the whole, ceteris paribus. (Alt and Lassen, 2014) More powerful governance processes are notably advantageous for the company (Nica and Potcovaru, 2015a, b; Nica, 2015a, b; 2013) when more corruption takes place in the local area. Corporate governance processes can overcome the issues of corruption because of mediocre political entities. Taking into account the sound legal and regulatory system in the United States, the degree of public corruption in the state may have negligible effect on the values and strategies of companies. Companies in more corrupt states take on more secrecy, either as they would like to keep their assets safe from the public servant's confiscation or they would like to diminish the investors' close examination as they take part in undertakings that back corruption. If the companies are the targets of corruption in the state, subsequently all of them, notwithstanding their corporate governance, are negatively impacted. Companies with better governance processes operating (Lăzăroiu, 2015a, b, c) or an exogenous enhancement in governance of all companies assist the investors more if these companies are established in more corrupt states. Even within a state, companies that are established in various districts of the state are adversely influenced by the degree of corruption in the local district. (Dass et al., 2016)

3. Public Corruption Convictions in the U.S. States

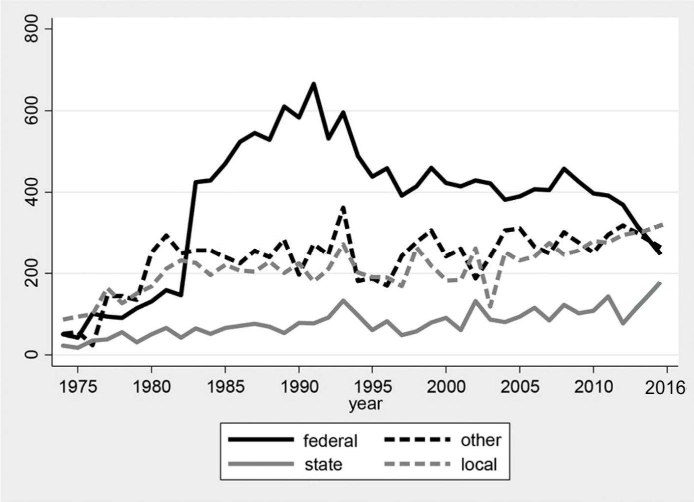
A small number of corruption cases incriminate public servants stuffing bribes into their undergarments (the ordinary public corruption case is categorically less indecent). Federal prosecutions are an unsatisfactory substitute for corruption as (i) not all corruption cases are carried out in federal court; and (ii) federal prosecutors may vary in their determination to carry out official corruption or particular kinds of corruption cases. Concerning prosecutorial endeavor, the significant correspondence in state-year examinations between convictions and convictions with prison sentences alleviates considerations that prosecutors may use quantity instead of quality as regards corruption convictions. (Cordis and Milyo, 2016) (Figures 1, 2, and 3)

Figure 1 Official corruption in the United States



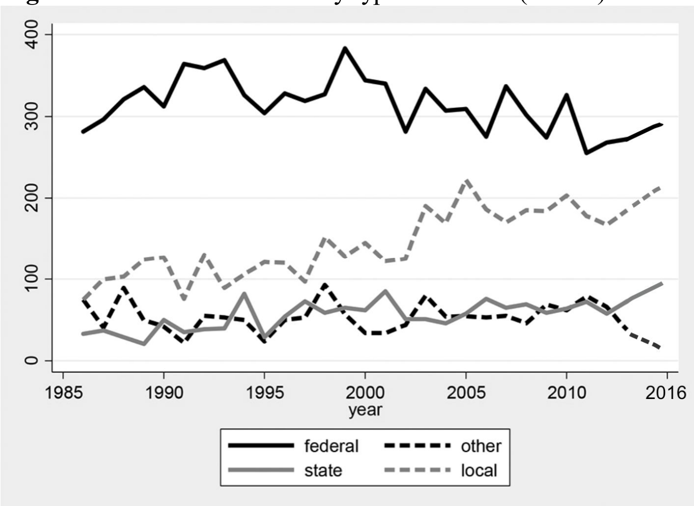
Source: Cordis and Milyo (2016) and my estimations
PIN = Public Integrity Section, TRAC = Transactional Record Clearing house at Syracuse University, EOUSA = Executive Office of the U.S. District Attorneys

Figure 2 Federal convictions by type of official (PIN)



Source: Cordis and Milyo (2016) and my estimations

Figure 3 Federal convictions by type of official (TRAC)



Source: Cordis and Milyo (2016) and my estimations

4. Corruption Control in the United States

State ethics commissions, accompanied by freedom of information undertakings (Mircică, 2014) and campaign finance and awareness raising directives, are the exemplary established remedies for political corruption. Ethics commissions tend to be embraced either following political scandal or in states affected by continually significant degrees of public corruption. The latter, among state and local magistrates, are not considerably associated with either the authority of state ethics commission or limitations on the party structure of these commissions. The latter have unsatisfactory consequences on public corruption. (Crider and Milyo, 2013) Isolated US state capital cities are related to more relevant degrees of corruption. Low responsibility and corruption caused by isolation have an influence with reference to government performance (Popescu Ljungholm, 2015) and first concerns. Isolated capital cities are related to reduced public good provision and to low responsibility and corruption, with adverse consequences on the state's performance as a supplier of public goods. (Campante and Do, 2014)

The public servant who exploits the reduced value of a stream of predicted returns (Nica et al., 2016) and examines a corrupt deed can arrive finally in these situations: (i) if no corrupt deed is performed, the worker goes on to get his wage; (ii) if he takes part in corruption but is not spotted, he gets both the wage and the bribe; (iii) if he takes part in corruption and is spotted and prosecuted he gets neither the wage nor the bribe, but is condemned and is dismissed from public hiring. Expanded resources to reduce corruption would finally be internalized by possible lawbreakers, generating a diminished amount of corruption observed by a decreased quantity of referrals and eventually convictions. Establishing a public sector wage higher than the market-clearing one (Dixon, 2016; 2015; Fabre, 2017) cuts down the tendency of the public servant to take part in corrupt conduct. More significant per person income degrees (degrees of income inequality) are inadequately related to lower (higher) corruption. (Alt and Lassen, 2014)

5. Conclusions

Companies that choose informational openness and aim to distinguish themselves from peer companies prefer more powerful corporate governance processes (Ionescu, 2010) and recognize the value of shareholder rights. The detrimental impact on firm value is the most significant when there is convergence of three elements: no external constraint as a result of market competition, unsatisfactory corporate governance, and a practice of corruption in the nearby economic setting. The combination of unsatisfactory corporate governance and absence of external market limitations (Popescu et al., 2016; Popescu, 2016; 2013) reduce firm value when corruption in the company's state is more significant. Several of the ill-consequences of corruption can be diminished with guidelines that stimulate more powerful governance and informational openness. Companies that sell a relevant portion of their production to the federal government are less adversely affected by corruption. The detrimental effect of corruption may be alleviated either as the company can sell products and services to the government at satisfactory prices or as it can restrict competition from other companies. (Dass et al., 2016)

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