MONEY AND POLITICS

WHAT ARE WE TALKING ABOUT? PART 2

HOUSEKEEPING

- Class Journals
- We'll start randomly checking them next week
  - If picked: also attendance check

QUESTIONS IN THIS CLASS

- **What are we talking about?**
- Who is involved in money and politics, why, and how?
- What determines money and politics?
- What are the consequences of money in politics?
- How can we reduce money in politics? Should we?

WHAT ARE WE TALKING ABOUT?

- What is corruption?
  - What are problems with common definitions of corruption?
- How do we measure corruption?
  - What problems do these measures have?
- What are basic patterns of corruption around the world?

CORRUPTION

- **Abuse of public office for private (or political) gain**

MONEY IN POLITICS

- Alternative definition of what we are interested in:
- Transactions where "without the special consideration of [money], the public official could not have made the same decision" (Scott 1972)

WHAT ARE WE TALKING ABOUT?

- **What is corruption?**
  - **What are problems with common definitions of corruption?**
- **How do we measure corruption?**
  - **What problems do these measures have?**
- **What are basic patterns of corruption around the world?**

MEASURING CORRUPTION

- **Direct**
- **Indirect**

MEASURING CORRUPTION

- **Direct measurements of corruption**
  - Arrests and convictions
  - Leaks
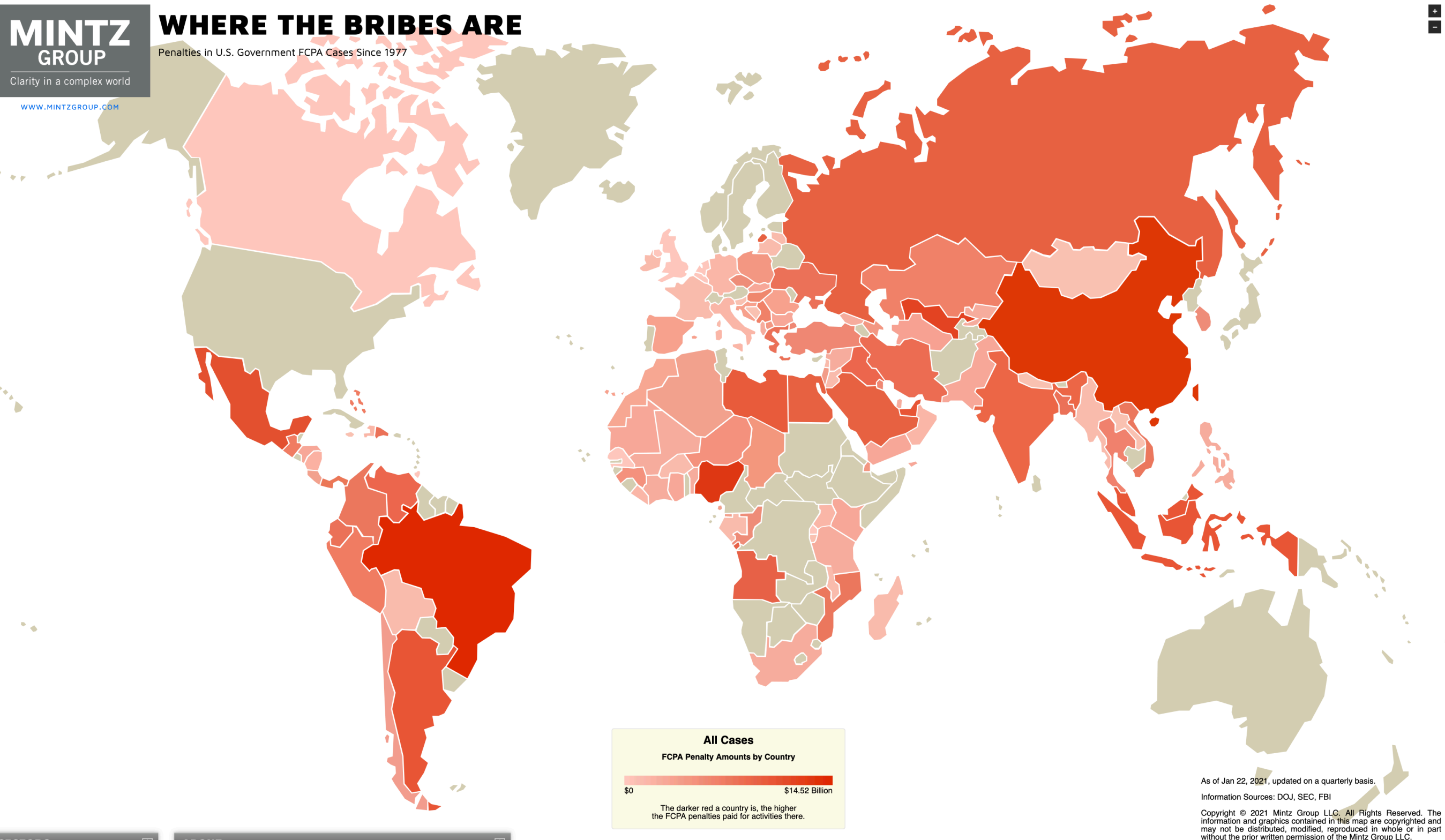 - Sting operations
  - Surveys

ARRESTS AND CONVICTIONS

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Clarity in a complex world
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WHERE THE BRIBES ARE
Penalties in U.S. Government FCPA Cases Since 1977

All Cases

FCPA Penalty Amounts by Country

$0 $14.52 Billion

The darker red a country is, the higher
the FCPA penalties paid for activities there.

As of Jan 22, 2021, updated on a quarterly basis.

Information Sources: DOJ, SEC, FBI

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LEAKS

How to Subvert Democracy: Montesinos in Peru

John McMillan and Pablo Zoido

Vladimiro Montesinos Torres. In the course of exercising power, Montesinos methodically bribed judges, politicians, and the news media. Montesinos kept meticulous records of his transactions. He required those he bribed to sign contracts detailing their obligations to him. He demanded written receipts for the bribes. Strikingly, he had his illicit negotiations videotaped.

LEAKS

Political Capture

Name	Party (Presidential candidate)	Bribe (Monthly)	Favors
Those who changed their party for Peru 2000 (Fujimori's party)			
José Luis Cáceres Velásquez	FREPAP (Ataucusi)	US$20,000	(*) +US$50,000 (one-time) +US$100,000 (one-time) +Judicial favors
Róger Cáceres Pérez	FREPAP (Ataucusi)	US$20,000	
Ruby Rodríguez de Aguilar	APRA (Salinas)	US$50,000	Judicial favors for her husband
Jorge Polack Merel	PSN (Castañeda)	**	Vice President of the Foreign Relations Commission in Congress
Juan Carlos Miguel Mendoza del Solar	PSN (Castañeda)	US$10,000	
Gregorio Ticona Gómez	PP (Toledo)	US$10,000	US$15,000 (signing bonus) +US$20,000 (car) +US$3,000 (apartment). Land deal in Titicaca Lake that would insure his reelection
José Luis Elías Ávalos	A (Salas)	US$15,000	+US$40,000 ("campaign reimbursement") +US$60,000 (continue campaigning)
Antonio Palomo Orefice	PP (Toledo)	US$20,000	
Mario Gonzáles Inga	PP (Toledo)	US$20,000	
Alberto Kouri	PP (Toledo)	US$15,000	
Edilberto Canales Pillaca	PP (Toledo)		Judicial favors, Apparently no payment
Eduardo Farah	PSN (Castañeda)		

LEAKS

Judicial Capture

Position	Name	Bribe data (Bresani)	Bribe receipts
General Manager of the Judicial Power	Ricardo Mendoza Torres (Montesinos' cousin)	US$55,000	US$10,000 +US$5,000 +US$10,000 +US$10,000
Justice in the National Elections Board	Alipio Montes de Oca	US$50,000	US$15,000 +US$10,000
Justice in the National Elections Board	Luis Serpa Segura	US$45,000	US$10,000 +US$10,000 +US$10,000
President of the Supreme Court	Victor Raul Castillo Castillo	US$35,000	US$10,000
Supreme Justice	Luis Ortiz Bernardini	US$25,000	US$10,000
President of the Superior Court	Pedro Infantes Mandujano	US$24,000	US$5,000 +US$3,000 +US$3,000
Superior Justice	Raul Lorenzzi Goicochea	US$25,000	
Justice in the Appeals Court	William Paco Castillo Castillo	US$16,000	US$10,000
Supreme Justice, Provisional	Alejandro Rodríguez Medrano	US$10,000	US$5,000 +US$5,000 +US$10,000
Supreme Justice	Carlos Saponara Miligan	US$10,000	US$5,000 +US$5,000

LEAKS

Media Capture

TV channels	Bribe estimates
America Television (Channel 4) Jose Francisco Crousillat	US$9,000,000 in a signed contract for US$1,500,000 per month from November 1999 to April 2000, possibly more (C)
	US$619,000 in October 1998, promised more monthly payments (C) (BH)
Frequencia Latina (Channel 2) Samuel and Mendel Winter (owners after Baruch Ivcher exiled)	US$3,000,000 in a signed contract for US$500,000 per month from November 1999 to April 2000, possibly more (R)
	US$3,073,407 on December 1999 for an increase of capital that gave 27 percent of shares to Montesinos (R)

STINGS

The Simple Economics of Extortion: Evidence from Trucking in Aceh

Benjamin A. Olken

Massachusetts Institute of Technology and National Bureau of Economic Research

Patrick Barron

World Bank

payments. We study these questions in the context of bribes paid by truck drivers to police, soldiers, and weigh station attendants on their trips to and from the Indonesian province of Aceh.

To investigate these payments, we designed a study in which enumerators accompanied truck drivers on 304 trips to and from Aceh, directly observing more than 6,000 illegal payments. To the best of our knowledge, this represents the first large-scale survey that has ever directly observed bribes in the field.[1] On average, drivers spent about US$40 per trip, or about 13 percent of the total cost of a trip, on bribes, extortion, and protection payments.

STINGS

A. Data Collection

We collected data on bribes by having locally recruited Acehnese surveyors accompany drivers on their regular routes. Data were collected between November 2005 and July 2006 and so encompass the third and fourth waves of the military withdrawal as well as a substantial postperiod. Surveyors recorded the time, location, and amount paid at every checkpoint and weigh station.[6] At each checkpoint, they noted the organization manning the checkpoint (police, army, etc.), the number of officers visible, and whether any officers were visibly carrying a gun. They also recorded detailed information about other expenditures, the weight of the truck reported at the weigh stations, and characteristics about the truck and the driver. Drivers were aware of the surveyor, but since truck drivers usually have at least one assistant anyway, the surveyors blended in and those manning the checkpoints were, to the best of our knowledge, unaware of their presence.

SURVEYS

Bribery rates, 2017

Percentage of survey respondents who report having paid a bribe in the last year to access public services such as education; judiciary; medical and health; police; registry and permit services; utilities; tax revenue and customs; and land service.

No data   0%   10%   20%   30%   40%   50%   60%   70%   80%   90%
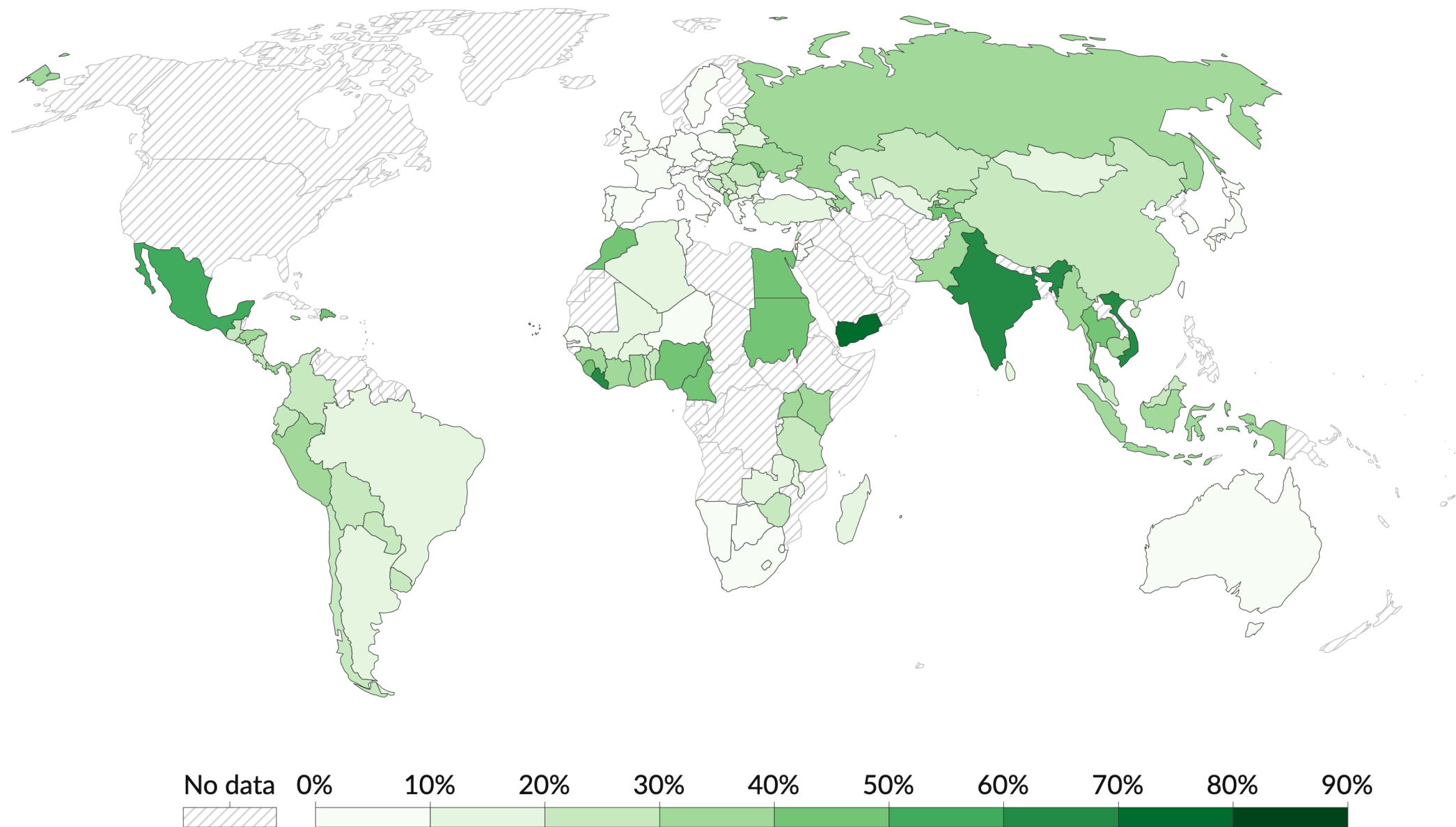
Data source: Transparency International - GCB (2017)

OurWorldInData.org/corruption | CC BY

SURVEYS

Incidence of bribe requests, private sector, 2016

Percent of firms experiencing at least one bribe payment request during 6 transactions dealing with utilities access, permits, licences, and taxes.

No data   0%   5%   10%   15%   20%   25%   30%   35%   40%   45%   50%   60%   70%   80%
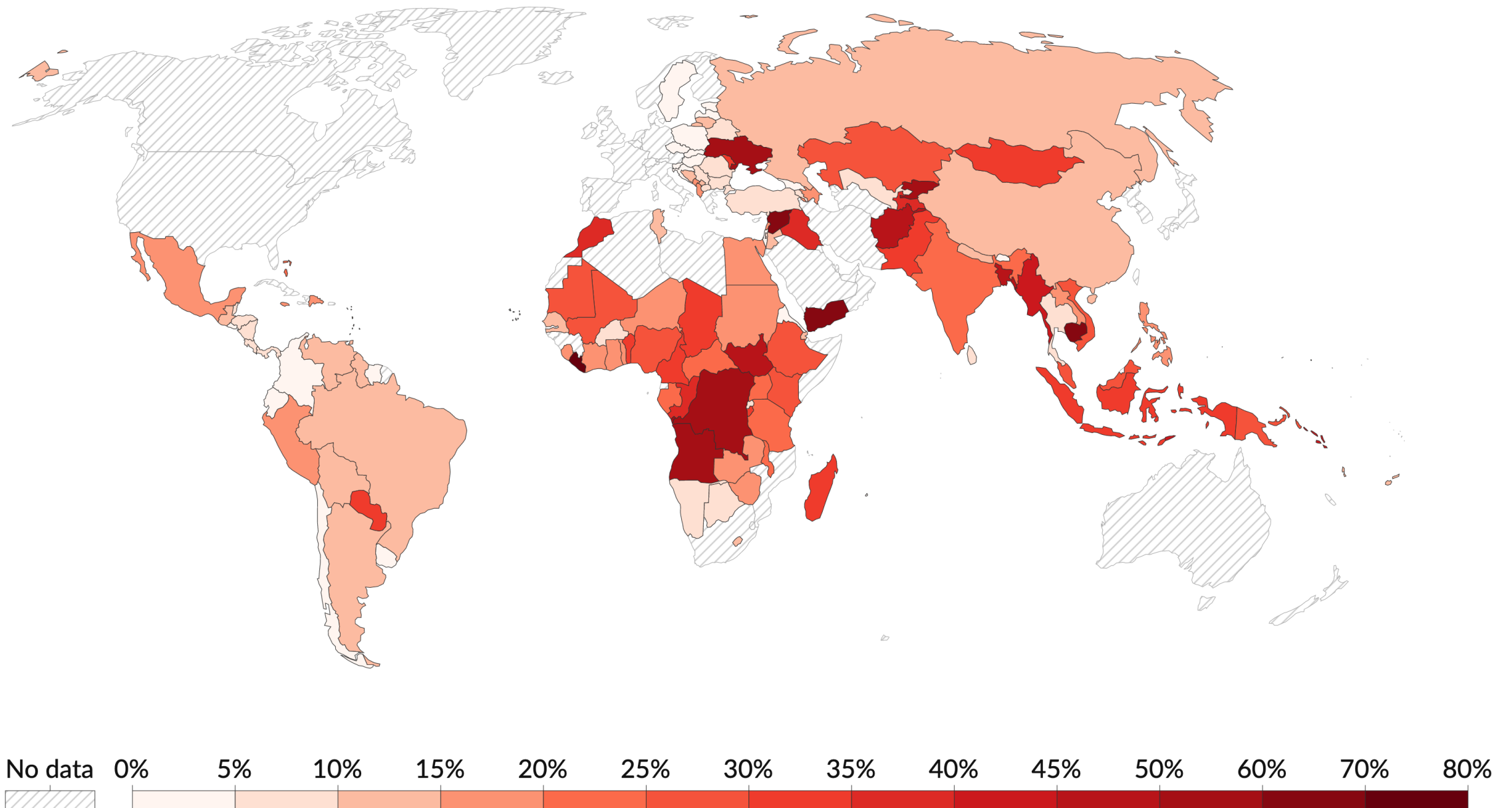
Data source: World Bank

OurWorldInData.org/corruption | CC BY

DIRECT MEASURES

- Disadvantages
  - Data often specific to a particular place and a particular time (comparison difficult)
  - Often only capture one form of corruption
  - Often only capture fraction of actual corruption
  - People may not tell truth, or have different definitions of corruption

MEASURING CORRUPTION

- **Indirect measurements of corruption**
  - "Forensic" approaches
  - Corruption perception measures

FORENSICS

- **Idea: detect patterns that indirectly provide evidence for hidden immoral or illicit behavior**
  - **e.g. smuggling, tax evasion**
  - **Here: corruption**

FORENSICS

Monitoring Corruption: Evidence from a Field Experiment in Indonesia

Benjamin A. Olken

Harvard University and National Bureau of Economic Research

on direct measures of corruption.[4] This paper, however, builds on a small but growing literature that examines corruption by comparing two measures of the same quantity, one "before" and one "after" corruption has taken place.[5] To do this in the context of the road projects, I assembled a team of engineers and surveyors who, after the projects were completed, dug core samples in each road to estimate the quantity of materials used, surveyed local suppliers to estimate prices, and interviewed villagers to determine the wages paid on the project. From these data, I construct an independent estimate of the amount each project actually cost to build and then compare this estimate with what the village reported it spent on the project on a line-item by line-item basis. The difference between what the village claimed the road cost to build and what the engineers estimated it actually cost to build is the key measure of missing expenditures I examine in this paper. Since the

FORENSICS

The Control of Politicians in Normal Times and Times of Crisis: Wealth Accumulation by U.S. Congressmen, 1850–1880[*]

Pablo Querubin[1] and James M. Snyder, Jr.[2]

In this paper, we use historical census data from the United States to address these questions and estimate the magnitude of political rents for members of the U.S. House of Representatives during the period 1850–1880. We compare wealth accumulation by members of the U.S. House of Representatives relative to candidates who ran but lost the election. To address

vides an ideal setting for exploring some of these ideas. First, the U.S. census recorded wealth in 1850, 1860, and 1870, and we have found the individual census records for a large sample of candidates. We also collected information on the number of domestic servants in each candidate's household as reported in the 1850, 1860, 1870, and 1880 censuses as other proxies for wealth. Second, the United States was by most accounts a consolidated

PERCEPTIONS

- Idea: Rather than asking people directly about whether they paid bribes, ask people about how much corruption they think there is
  - Country experts
  - Corporate employees
    - e.g. "What percentage of informal payments of gifts do firms like yours typically pay?"

TRANSPARENCY INTERNATIONAL

- Berlin-based non-governmental organization (NGO), founded in 1993
- Largest NGO dedicated to the fight against corruption
- 100+ independent national chapters that focus on fighting corruption locally

Transparency International around the world
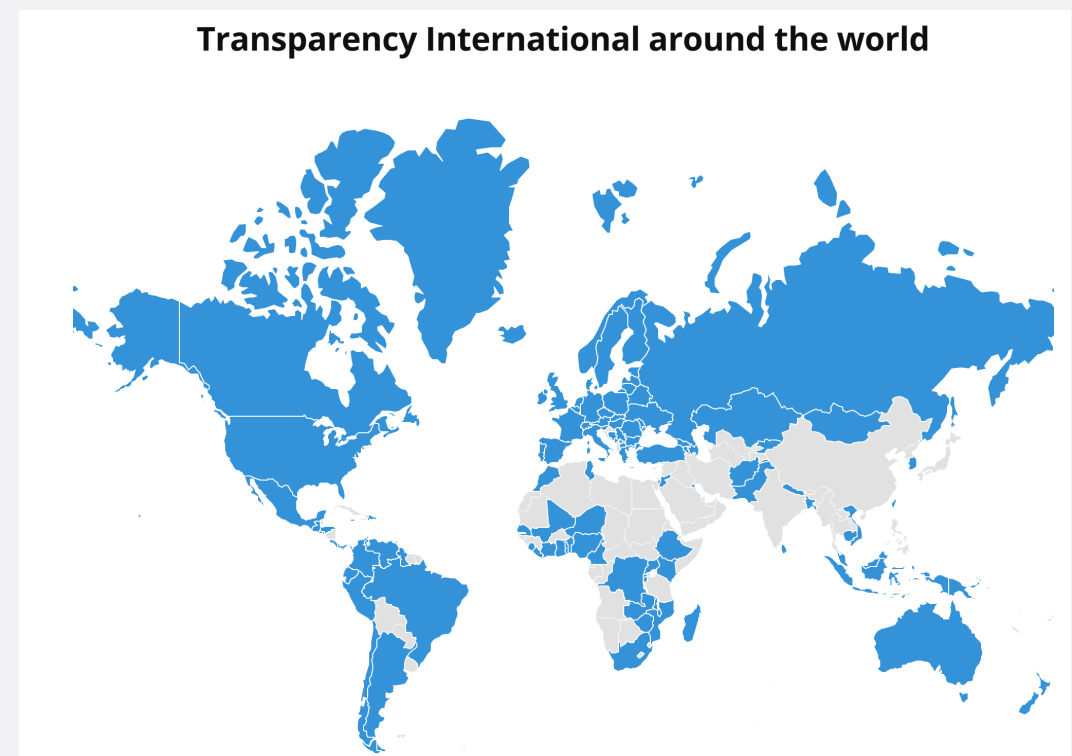
CORRUPTION PERCEPTIONS INDEX

- Annual ranking of countries by perceived level of corruption
- Since 1996

CORRUPTION PERCEPTIONS INDEX

- "Poll of polls"
  - Use a number of polls and create an average of sorts
- 4 steps to create index
  - Assemble surveys asking perceptions of public sector corruption (13 surveys)
  - Transform each survey into a scale from 0 (highest level of perceived corruption) to 100 (lowest level)
  - Take average of available scores for each country

CORRUPTION PERCEPTIONS INDEX

SCORE

Highly Corrupt — Very Clean

0-9 | 10-19 | 20-29 | 30-39 | 40-49 | 50-59 | 60-69 | 70-79 | 80-89 | 90-100

No Data | Disputed Boundaries* | Lines of Control*

#cpi2022

www.transparency.org/cpi
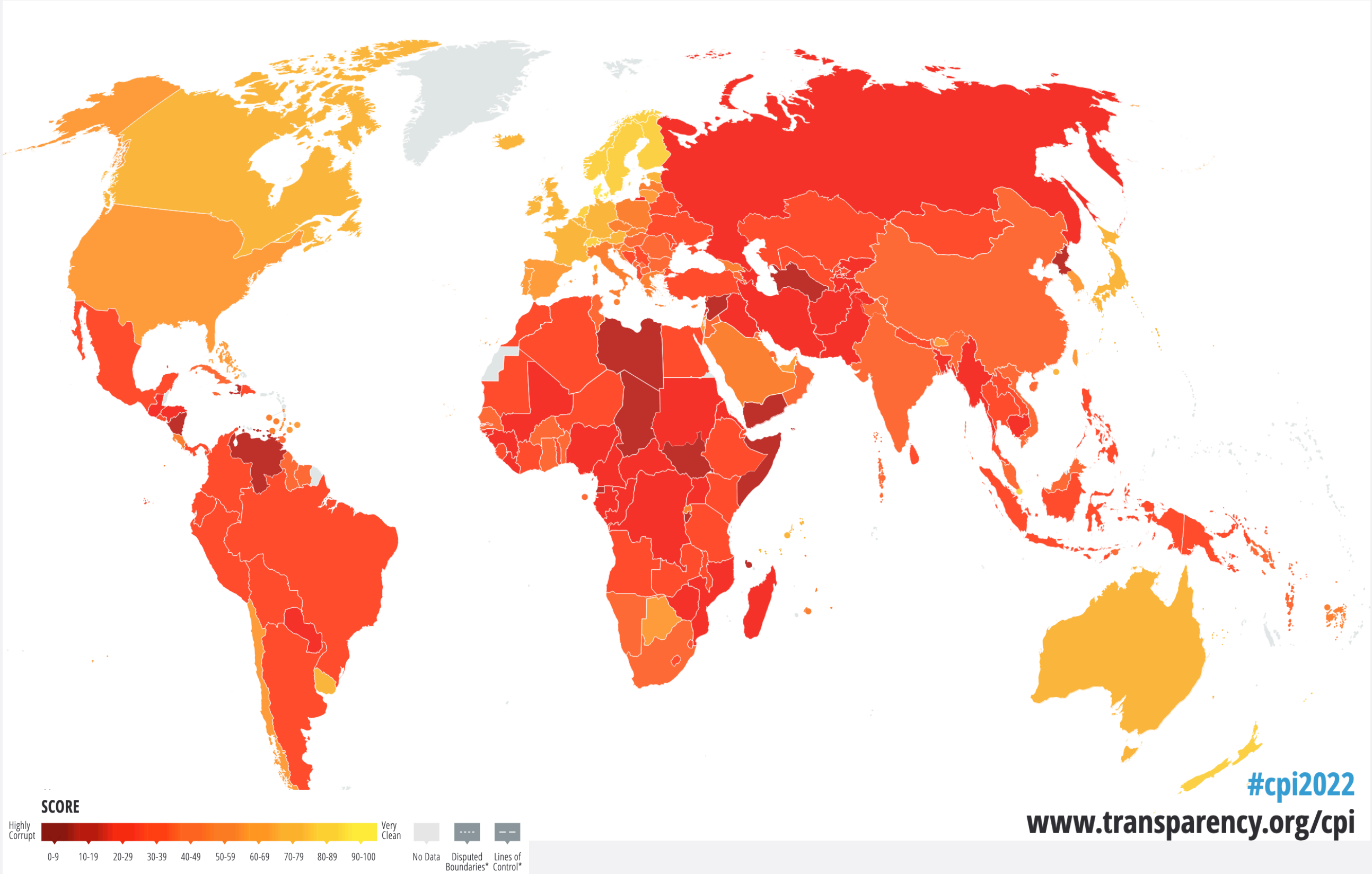
PERCEPTIONS=REALITY?

Corruption perceptions vs. corruption reality[*]

Benjamin A. Olken

MIT, United States
NBER, United States

- **Road construction in Indonesia**
  - Measure of true corruption
  - Survey of villagers about perceived corruption

PERCEPTIONS=REALITY?

- More corruption=higher perception of corruption
  - But: Increase of 10% in corruption = 0.8% increase that villager believes there was corruption
  - Officials hide corruption where it is hardest to find (inflate reported quantity of material, rather than price)
  - Some villagers systematically more accurate than others (education, gender)

PERCEPTIONS=REALITY?

Are International Databases on Corruption Reliable? A Comparison of Expert Opinion Surveys and Household Surveys in Sub-Saharan Africa

MIREILLE RAZAFINDRAKOTO and FRANÇOIS ROUBAUD[*]
IRD, DIAL, Paris, France

- Ask ordinary people about their *experience* with corruption
- Ask experts about their *perceptions* of ordinary people's experience with corruption

PERCEPTIONS=REALITY?

- 13% report experience with corruption
  - Burkina Faso as one of the most corrupt
- Experts *perceptions* of ordinary people's experience with corruption: four times higher
  - Burkina Faso perceived as least corrupt

PERCEPTIONS=REALITY?

We witnessed two remarkable trends in the Americas in 2015: the uncovering of grand corruption networks and the mass mobilisation of citizens against corruption. It's no surprise that Brazil – which faced its largest-ever corruption scandal around Petrobras – is this year's biggest index decliner in the Americas, yet there and elsewhere we saw corruption investigations against people who looked untouchable only 12 months ago. The challenge now is to tackle the underlying causes.

- From CPI 2015
- The corruption that was uncovered in 2015 happened years earlier
  - 2015 investigations likely deter corruption
- Perception of corruption increases when it is likely that in fact it went down

WHAT COUNTS AS CORRUPTION?

- CPI as "poll of polls"
- What questions do the separate polls ask?

WHAT COUNTS AS CORRUPTION?

Experts are asked to assess:

"To what extent are public officeholders prevented from abusing their position for private interests?"

Experts are asked to assess:

Transparency, Accountability and Corruption in the Public Sector.

Experts are asked to assess:

"To what extent are public officeholders who abuse their positions prosecuted or penalized?"

- Is there a professional civil service or are large numbers of officials directly appointed by the government?

- Does the government advertise jobs and contracts?

- Is the government free from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?

WHO IS INVOLVED?

"To what extent do you perceive corruption to be a problem in the following positions?"
- National-level political leaders
- City and other local-level political leaders
- Civil servants at the national level
- Civil servants at the city level

"To what extent do you perceive corruption to be a problem affecting the following institutions?"
- The police department
- The court system
- Customs
- The taxation bureau
- Government licensing bodies
- Inspection bodies
- The military

PROBLEMS WITH CPI

- Perceptions ≠ Reality
- Many different forms of corruption, involving different actors
  - Countries with the same score often have very different corruption problems
- Different data sources measure different forms of corruption, but not all sources are available for every country
  - Average of corruption scores contains different "mix" of corruption types for each country

MEASURING CORRUPTION

- **Perception-based**
  - Available for many countries over time
  - But problems with using perceptions
  - All kinds of corruption mixed together
- **Non-perception based**
  - Usually more accurate
  - But: Only available for some forms of corruption, in one place, at some time

MEASURING CORRUPTION

- There is no perfect corruption measure
- Which one is best depends on what you want to analyze
- Always be mindful of your measure's weaknesses

WHAT ARE WE TALKING ABOUT?

- **What is corruption?**
  - **What are problems with common definitions of corruption?**
- **How do we measure corruption?**
  - **What problems do these measures have?**
- **What are basic patterns of corruption around the world?**

CORRUPTION WORLDWIDE

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SCORE

Highly Corrupt — Very Clean

0-9 10-19 20-29 30-39 40-49 50-59 60-69 70-79 80-89 90-100

No Data Disputed Boundaries* Lines of Control*
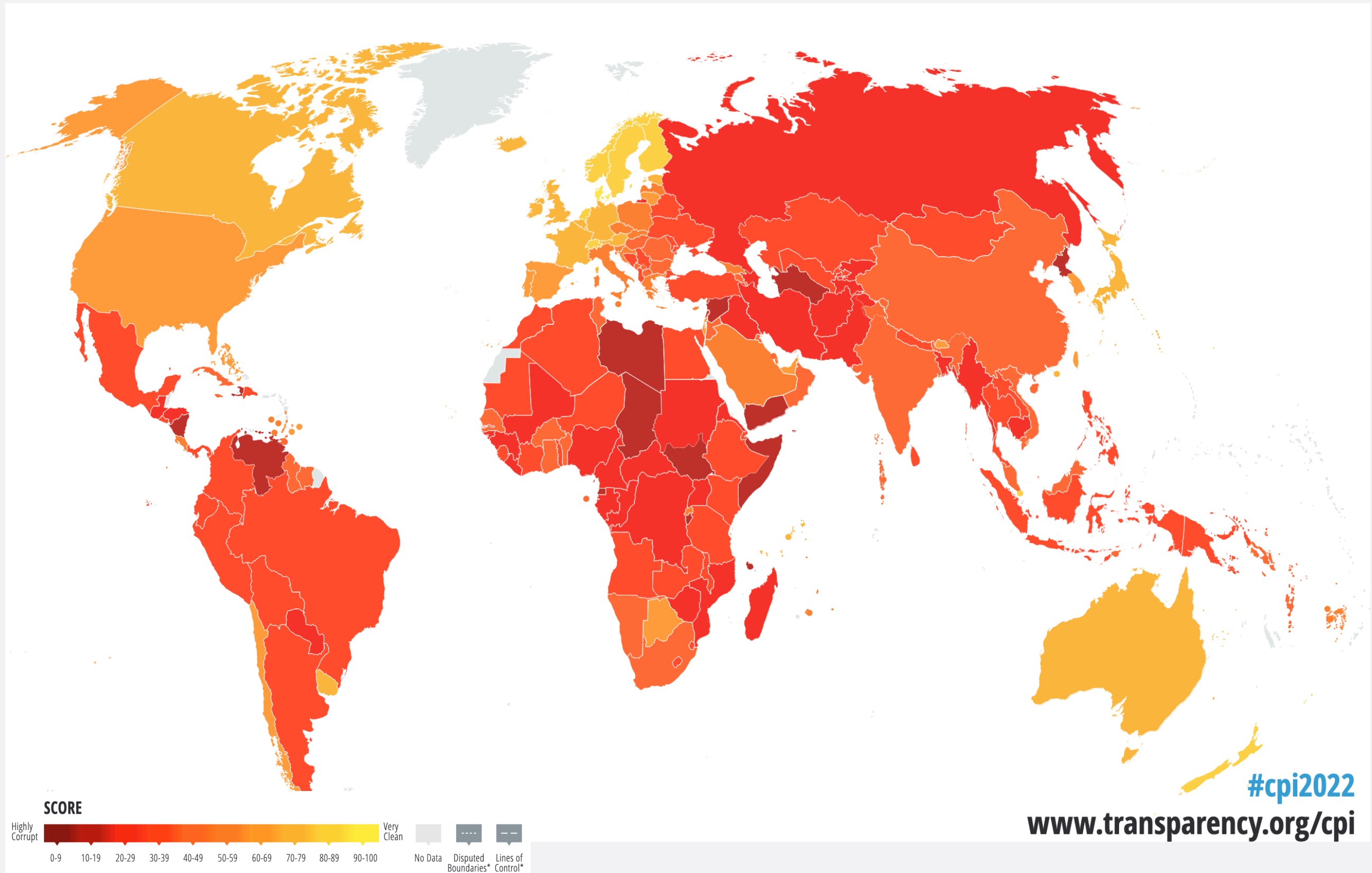
CORRUPTION WORLDWIDE

Score		Country	Rank
90	⬆	Denmark	1
87	⬇	Finland	2
87	⬇	New Zealand	2
84	⬇	Norway	4
83	⬇	Singapore	5
83	⬇	Sweden	5
82	⬇	Switzerland	7
80	⬇	Netherlands	8
79	⬇	Germany	9
77	⬆	Ireland	10
77	⬇	Luxembourg	10

CORRUPTION WORLDWIDE

73	=	Belgium	18
73	=	Japan	18
73	↓	United Kingdom	18
72	↑	France	21
71	↓	Austria	22
70	=	Seychelles	23
69	↑	United States of America	24
68	=	Bhutan	25
68	=	Taiwan	25
67	=	Chile	27
67	↓	United Arab Emirates	27

CORRUPTION WORLDWIDE

17	↓	Burundi	171
17	=	Equatorial Guinea	171
17	↓	Haiti	171
17	↑	North Korea	171
17	=	Libya	171
16	=	Yemen	176
14	=	Venezuela	177
13	↑	South Sudan	178
13	=	Syria	178
12	↓	Somalia	180

WHAT EXPLAINS CORRUPTION?
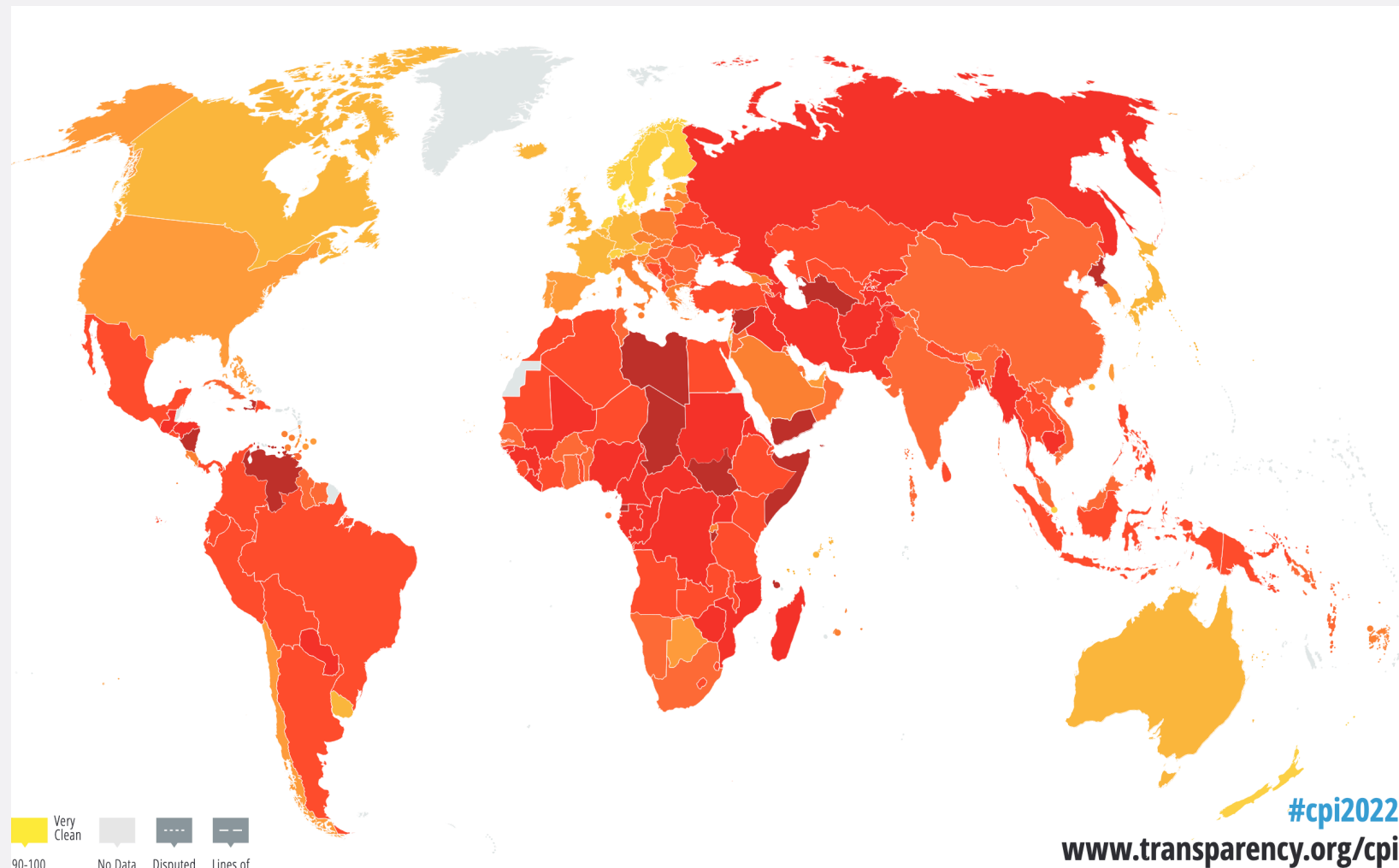
- **Treisman, Daniel (2007): What Have We Learned about the Causes of Corruption from Ten Years of Cross-National Empirical Research?" Annual Review of Political Science 10: 211-244.**
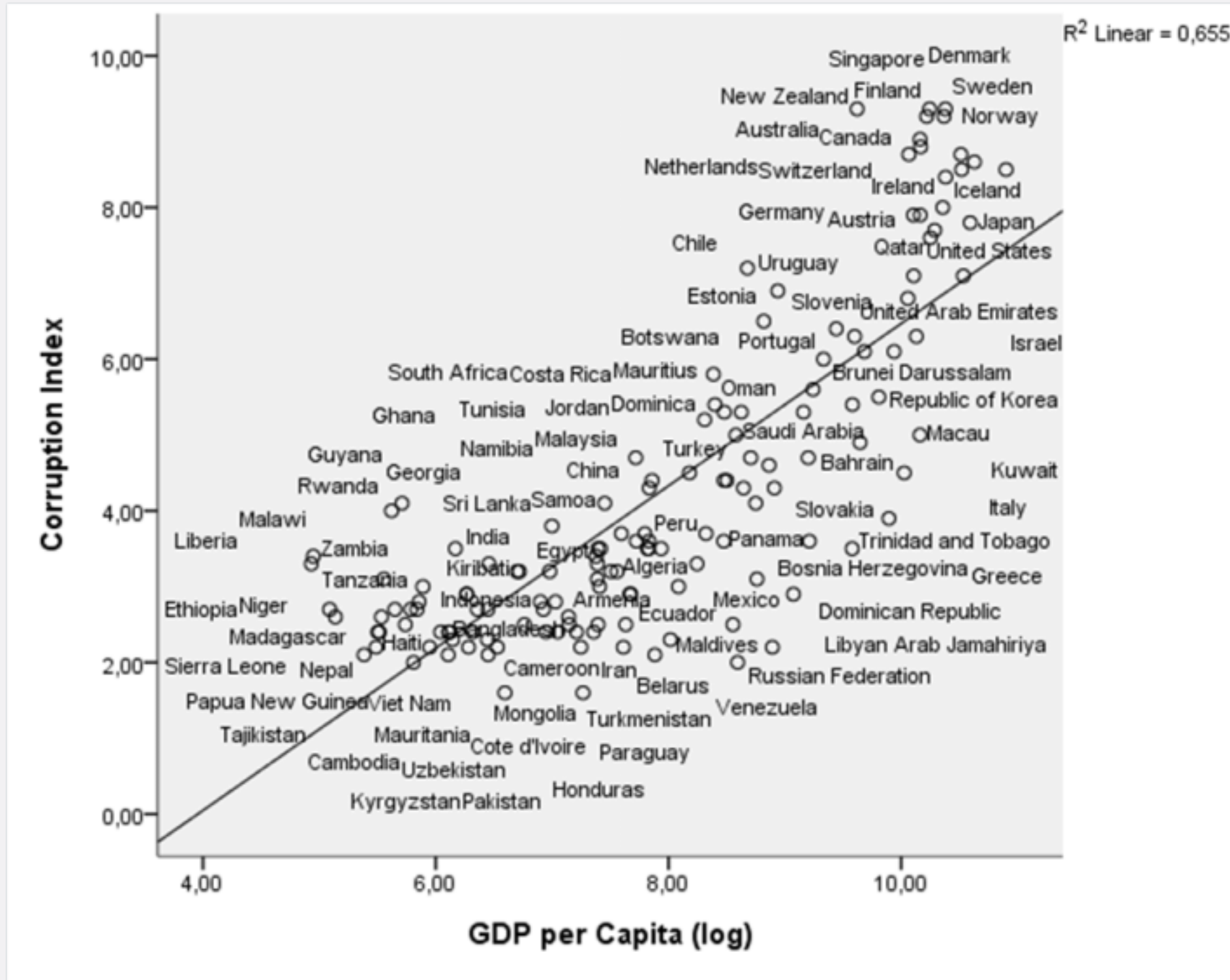
WHAT EXPLAINS CORRUPTION?

PROBLEM

Economic
Development
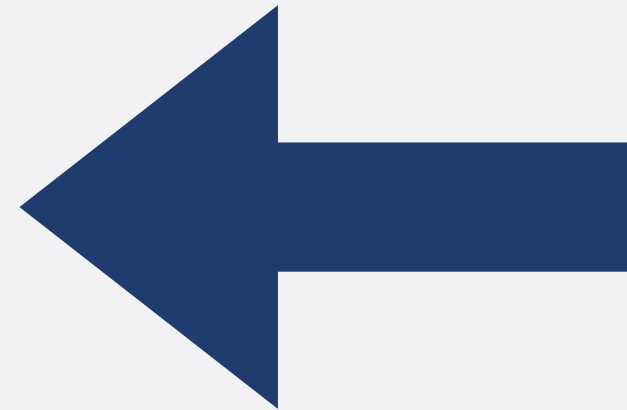
← Corruption

Economic
Development
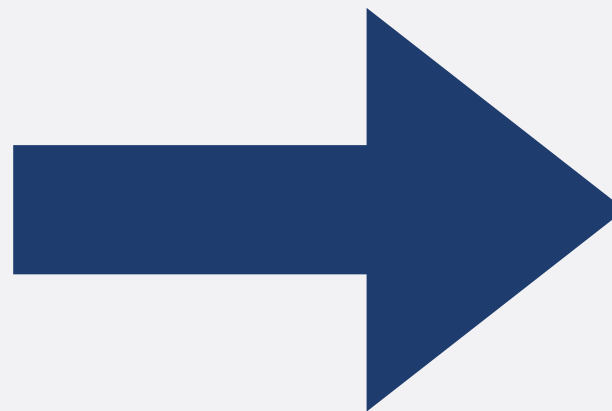
→ Corruption

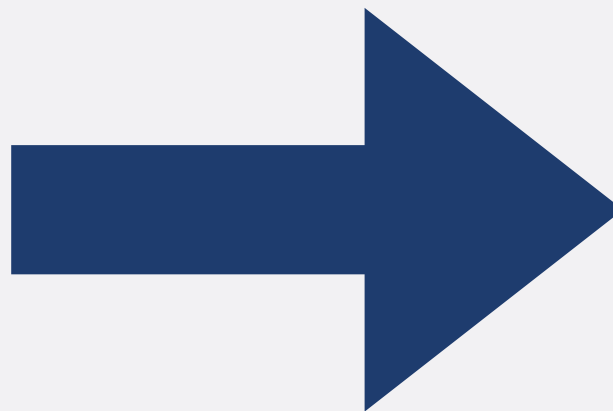- **Causality may run both ways**

WHAT EXPLAINS CORRUPTION?
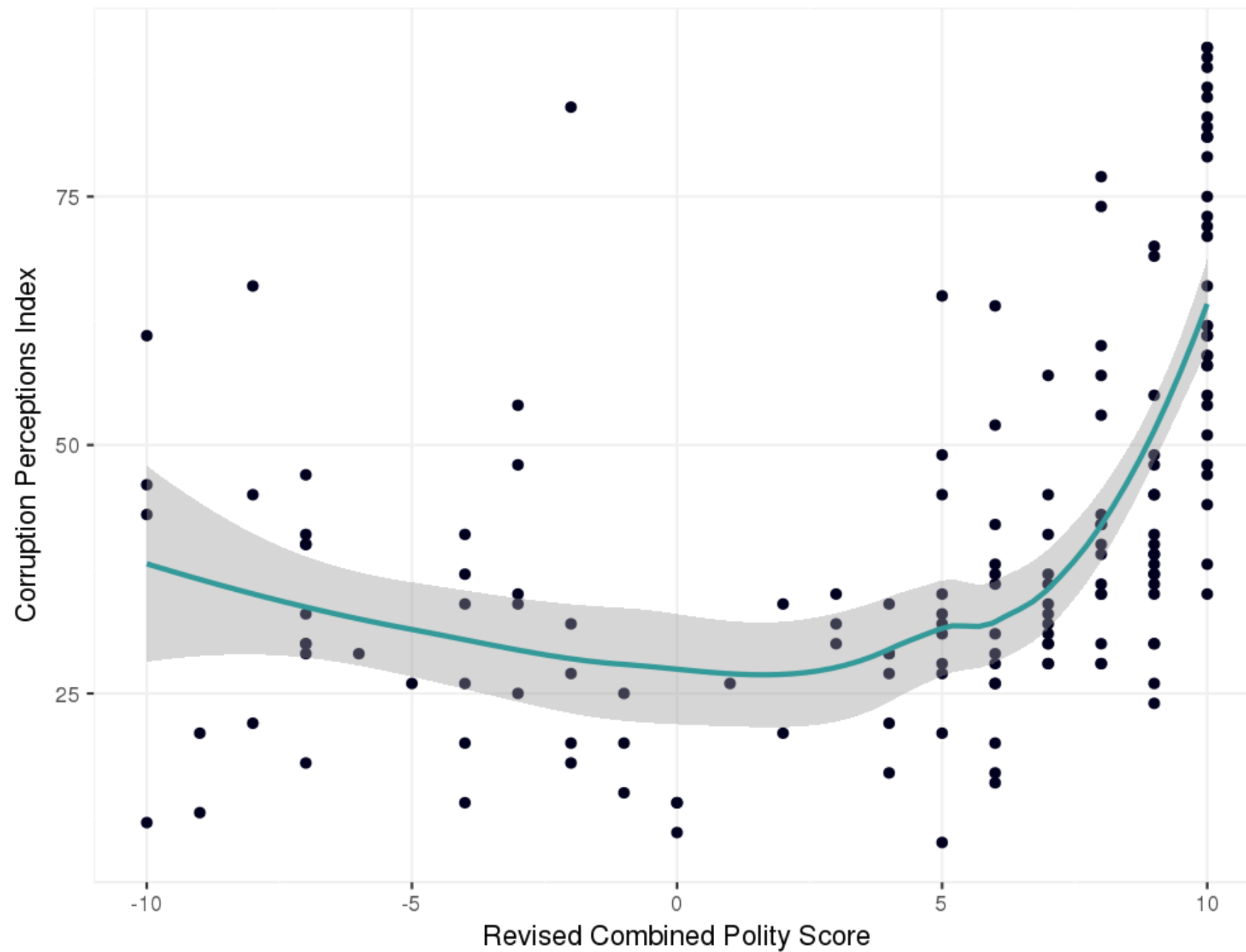
AGAIN...
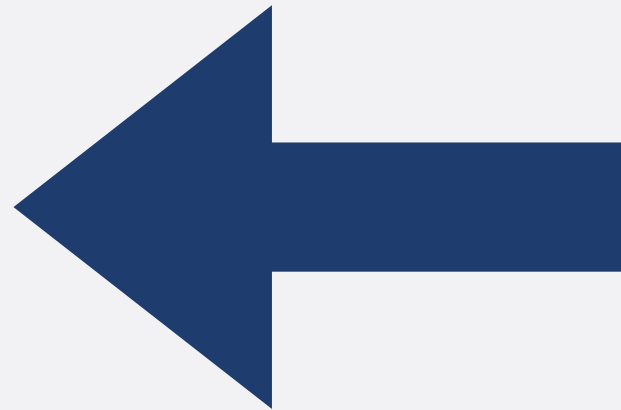
Level of Democracy ⟵ **Corruption**
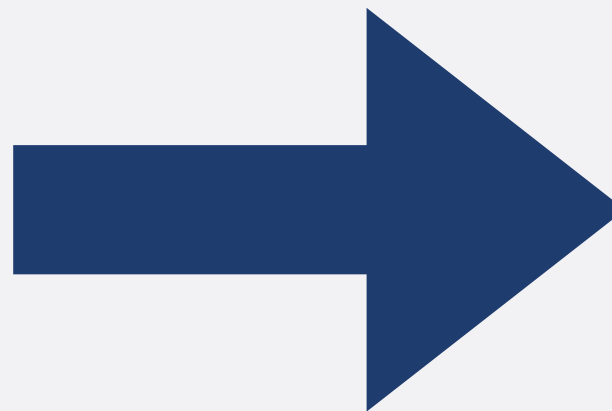
Level of Democracy ⟶ **Corruption**

- **Causality may run both ways**
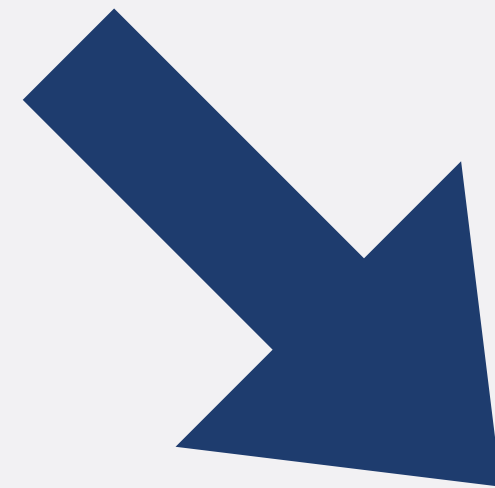
PROBLEM
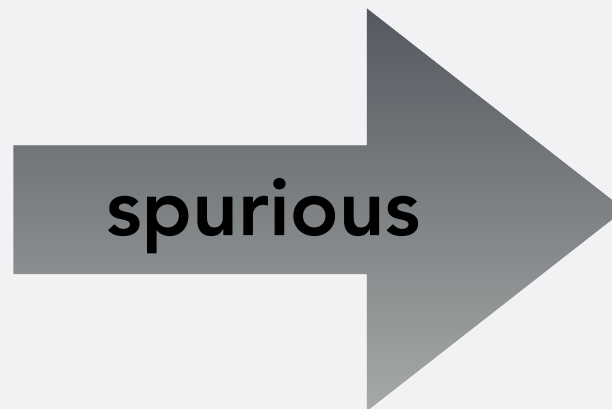
Economic Development

Level of Democracy → Corruption

- Corruption may be determined by multiple factors

Economic Development

Level of Democracy   spurious →   **Corruption**

- **Some variables may not have a causal effect on corruption**

PROBLEM

- Direction of causality
- Thorny problem in study of corruption
  - And social sciences general
- Will try to identify *causal* relationships

PROBLEM

- **Many different forms of corruption, involving different actors**
  - Same variable may have different impact on corruption, depending on what type we look at
- **Will study different *mechanism* of money in politics**

WHAT EXPLAINS CORRUPTION?

- Unpacking "corruption"
- Who is Involved, Why, and How?
- First up, next week: Bureaucrats and Citizens
  - Bureaucratic corruption, petty corruption
- Question:
  - Why are bureaucrats corrupt?
  - Why do citizens and corporations participate in corruption?