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PSC 336

SYRACUSE UNIVERSITY

MONEY AND

POLITICS

WHAT ARE THE CONSEQUENCES OF  
MONEY IN POLITICS? PART 1

# WHAT DETERMINES MONEY IN POLITICS?

- What is the effect of *culture* on how much corruption/money there is in politics?
- What is the effect of *political institutions* on how much corruption/money there is in politics?
- What impact do *voters* have on how much corruption/money there is in politics?

# MOVIE



# MOVIE

## *Indian Opposition Parties Say They Face Tide of Troubles as Vote Nears*

Weeks before pivotal elections, the head of one party was arrested on what his supporters said were trumped-up charges and another party said it lost access to its funds.

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The leader of the Aam Aadmi Party, Arvind Kejriwal, was taken into custody late on Thursday at his home in New Delhi. Biju Boro/Agence France-Presse — Getty Images

• Live Now

## **Arvind Kejriwal Arrest Live Updates: AAP says Delhi CM to hold post in jail as court sends him to 15-day judicial custody**

Delhi Liquor Policy Scam Case Live Updates: The AAP leader will be lodged in Tihar jail number 2, where majority of the convicts are lodged.

By: Express Web Desk  
New Delhi | Updated: April 1, 2024 22:59 IST

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Arvind Kejriwal Arrested in Delhi Liquor Policy Scam Case Live Update: Kejriwal became the first serving Chief Minister to be arrested, after months of skipping summons by the investigation agency – nine in total – and calling them "illegal".  
(Express photo by Abhinav Saha)

## **India arrests Delhi chief minister as crackdown on opposition spreads**

## **India reacts sharply to U.S. criticism over democracy and rights**

# WHERE WE ARE

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

# TODAY

- **Consequences of bureaucratic corruption**
  - Effect of corruption on business
  - Effect of corruption on individuals
  - Effect of corruption on society
- Then: Consequences of money in politics on policy, political competition

# TODAY

- **Effect of corruption on business**
- **Effect of corruption on individuals**
- **Effect of corruption on society**

# IT'S GOOD!

## Economic Development Through Bureaucratic Corruption

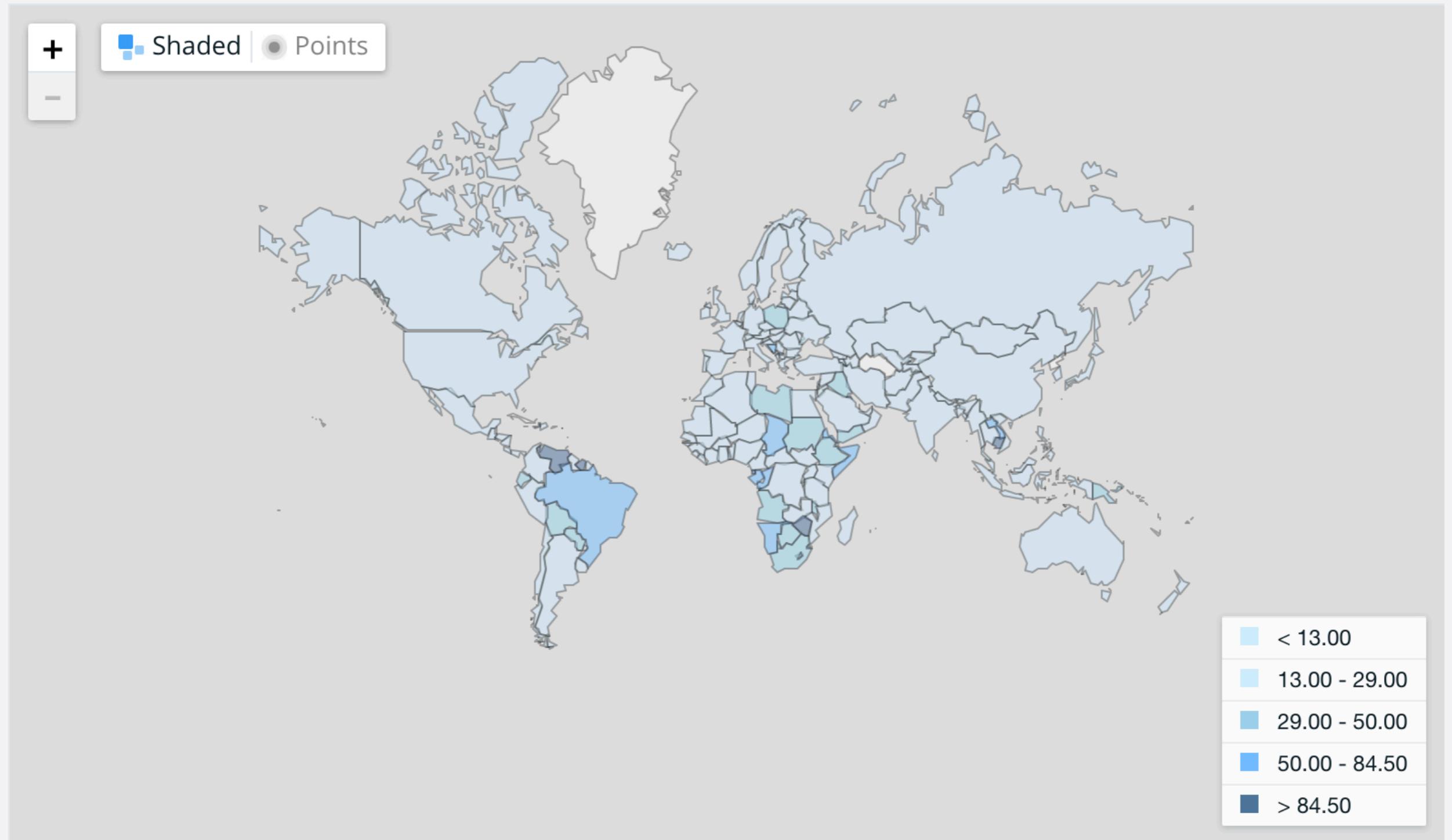
*by Nathaniel H. Leff*

- Background: “Invisible Hand”
- Government interference through “misguided” anti-market policies
  - Challenges assumption that government regulations are necessarily good, informed, and have best interest of people in mind

# IT'S GOOD!

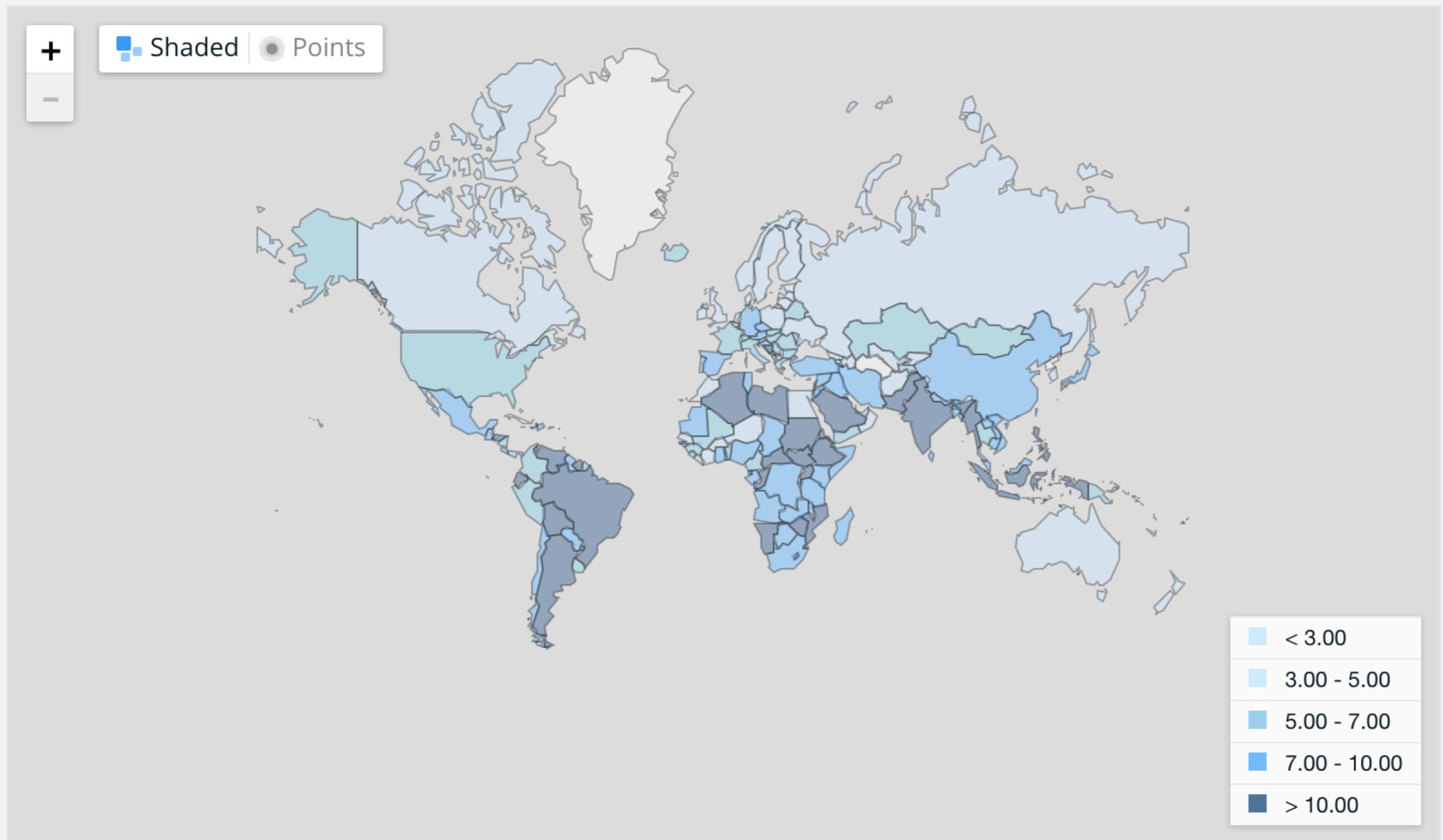
- Corruption allows circumvention of those “misguided” regulations
  - “Grease the wheel”
  - Promotes growth
  - Hedge against bad government policy
  - Corruption as “second-best” option
- Huntington: “The only thing worse than a society with a rigid, over-centralized, *dishonest* bureaucracy is one with a rigid, over-centralized *honest* bureaucracy”

# OPENING A BUSINESS



- Time required to start a new business
  - Source: World Bank

# OPENING A BUSINESS



- Number of procedures to open a business
- Source: World Bank

# ASSUMPTION

- **Corruption actually does help circumvent regulation**

# RED TAPE

DOES “GREASE MONEY” SPEED  
UP THE WHEELS OF COMMERCE?

Daniel Kaufmann  
Shang-Jin Wei

- **If corruption is grease, companies who pay more bribes should spend less time interacting with bureaucrats**

# RED TAPE

- Firm survey, 1997
  - Measure: Time that the firms' management has to spend with government officials negotiating interpretations of regulations
  - Corruption: "irregular payments" made
- Companies that make higher irregular payments spend *more* time with government officials negotiating interpretations of regulations
- Inconsistent with corruption as "greasing the wheel"

# RED TAPE

- “Red tape” is not something god-given that corruption can circumvent
- If corruption is high, bureaucrats have reason to invent more bureaucratic procedures
  - Vicious cycle

# ANOTHER ASSUMPTION

- **Corruption helps firms' bottom line**

# COMPANIES' BOTTOM LINE

- Three ways in which corruption affects companies
  - Amount of bribes
  - Uncertainty
  - Company strategy

# AMOUNT OF BRIBES

- How could the amount of bribes hurt a firms' bottom line?
- How could bribes help a firms' bottom line?

# AMOUNT OF BRIBES

- Bribes are similar to taxes
  - Payment to the government when doing business
  - Taxes (at least at some point) discourage business activity
  - More bribes=less economic activity
- Bribes may help companies to get out of paying regular taxes and fees
  - More bribes=less regular taxes=more economic activity

# AMOUNT OF BRIBES

## The Cost of Doing Business: Firms' Experience with Corruption

*Jakob Svensson*

- Survey of Ugandan firms done by Ugandan Manufacturers' Association
- Questions on corruption were phrased indirectly to avoid implicating the respondent of wrongdoing

# AMOUNT OF BRIBES

- Average bribes: 6.4% of total costs
- But: Additional \$1 in firm profit per worker leads to \$0.004 in additional bribe paid
  - Marginal bribe rate of 0.4% on profits
  - Marginal rate of taxation on corporate profit in US is 21%

# UNCERTAINTY

- How are taxes different from bribes?

# UNCERTAINTY

- How are taxes different from bribes?
  - Taxes are a known quantity
  - Bribes are not: Could be low, could be very high
  - Promises given in exchange for bribes are not enforceable
- Uncertainty should reduce investment and bottom line

# UNCERTAINTY

**HOW TAXING IS CORRUPTION ON INTERNATIONAL INVESTORS?**

Shang-Jin Wei\*

WHY IS CORRUPTION SO MUCH MORE  
TAXING THAN TAX? ARBITRARINESS  
KILLS

Shang-Jin Wei

- **Multinational corporations in different countries**
  - Investments lower in high-tax countries
  - Negative effect of bribes on investment, much bigger in magnitude than taxes
  - Uncertainty of corruption expectation has most detrimental effect

# COMPANY STRATEGY

- How could corruption affect company strategy?

# COMPANY STRATEGY

## AN EMPIRICAL STUDY OF CORRUPTION IN PORTS\*

Sandra Sequeira  
LSE

Simeon Djankov  
World Bank

- Two competing ports for South African companies
- Observe bribe payments for 1,300 shipments
  - One port more corrupt than the other
- Firms on average travel additional 322km to avoid going to the high-corruption port
- Additional travel costs > Bribe in high-corruption port
  - Uncertainty matters!

# YET ANOTHER ASSUMPTION

- **Government regulation is (always) onerous**

# GOOD REGULATION



# GOOD REGULATION

- Rana Plaza, Dhaka, Bangladesh
- Textile factories for Walmart, Primark, Mango, etc.
- 1,134 dead, 2,500 injured
- Corruption
  - Building not zoned for industrial use
  - Built without authorization on top of pond
  - 3 stories higher than permitted (another floor was being added at time of collapse)
  - Shoddy construction material
  - Occupied even though inspectors had found cracks in building days before

# TODAY

- Effect of corruption on business
- Effect of corruption on individuals
- Effect of corruption on society

# GOOD REGULATION

OBTAINING A DRIVER'S LICENSE IN INDIA: AN  
EXPERIMENTAL APPROACH TO STUDYING CORRUPTION\*

MARIANNE BERTRAND  
SIMEON DJANKOV  
REMA HANNA  
SENDHIL MULLAINATHAN

- Applicants for drivers' licenses in Delhi, India
- Experiment
  - Control/comparison: nothing
  - Bonus: Rs 2,000 if license within 32 days
  - Lessons: up to 15 free driving lessons
- Second survey, independent driving test

# GOOD REGULATION

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- “Twenty-nine percent of individuals in the comparison group obtained licenses and automatically failed our independent driving test, where failing means that the individual knew so little about the workings of the car that the test-giver refused to take him on the road.”

# GOOD REGULATION

## OBTAINING A DRIVER'S LICENSE IN INDIA: AN EXPERIMENTAL APPROACH TO STUDYING CORRUPTION\*

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- **Bonus group (compared to control group)**
  - 42% more likely to get license in 32 days
  - 18% more likely to fail independent driving test
- **How does this show corruption?**
  - They pay above official fees
  - More likely to hire an agent, who gets a license for them

# GOOD REGULATION

## The Mortality Cost of Political Connections

RAYMOND FISMAN

*Columbia University*

and

YONGXIANG WANG

*University of Southern California*

- Publicly traded Chinese firms, 2008-13
- Did CEO or other high-level executives previously hold political office?
- Dependent variable: Workplace deaths per employee

# GOOD REGULATION

## The Mortality Cost of Political Connections

RAYMOND FISMAN

*Columbia University*

and

YONGXIANG WANG

*University of Southern California*

- Workplace deaths per employee 2-3 times higher in “connected” firms
  - Absence of workplace safety audit
  - “Connected” firms fined for pollution less often and avoid other costs associated with regulation

# CORRUPTION AND INDIVIDUALS

- How else could corruption affect individuals?

# DISTRIBUTIONAL EFFECTS

- How does corruption affect bottom line of individuals?
  - Is it progressive or regressive? Why?

# DISTRIBUTIONAL EFFECTS

Is Bribery Really Regressive? Bribery's Costs, Benefits, and Mechanisms

JENNIFER HUNT  
*Rutgers University, NJ, USA*  
*NBER, USA*

and

SONIA LASZLO<sup>\*</sup>  
*McGill University, Montreal, QC, Canada*

- **Finding: Rich and poor pay similar *shares* of their income as bribe (in Uganda and Peru)**

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  - Paying same share of income hits poor more
  - 10% less for poor means cutting food
  - 10% less for rich means cutting a Lexus

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  - **Reason why rich pay same share of bribes:** They pay lower bribes (relative to their income), but are more likely to bribe

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- **Finding: Rich and poor pay similar *shares* of their income as bribe (in Uganda and Peru)**
  - **Reason why rich pay same share of bribes:** They pay lower bribes (relative to their income), but are more likely to bribe
  - **Reason:** Rich bribe more often to avoid poor service given to those who do not bribe

# SHAKEDOWNS

- Rich *choose* to pay more bribes to avoid bad service
- What about situations in which people are asked for bribe (rather than offering one)?
  - shakedowns
  - e.g. getting out of ticket?

# SHAKEDOWNS

CORRUPTION AND INEQUALITY  
AT THE CROSSROAD  
A Multimethod Study of Bribery and Discrimination  
in Latin America

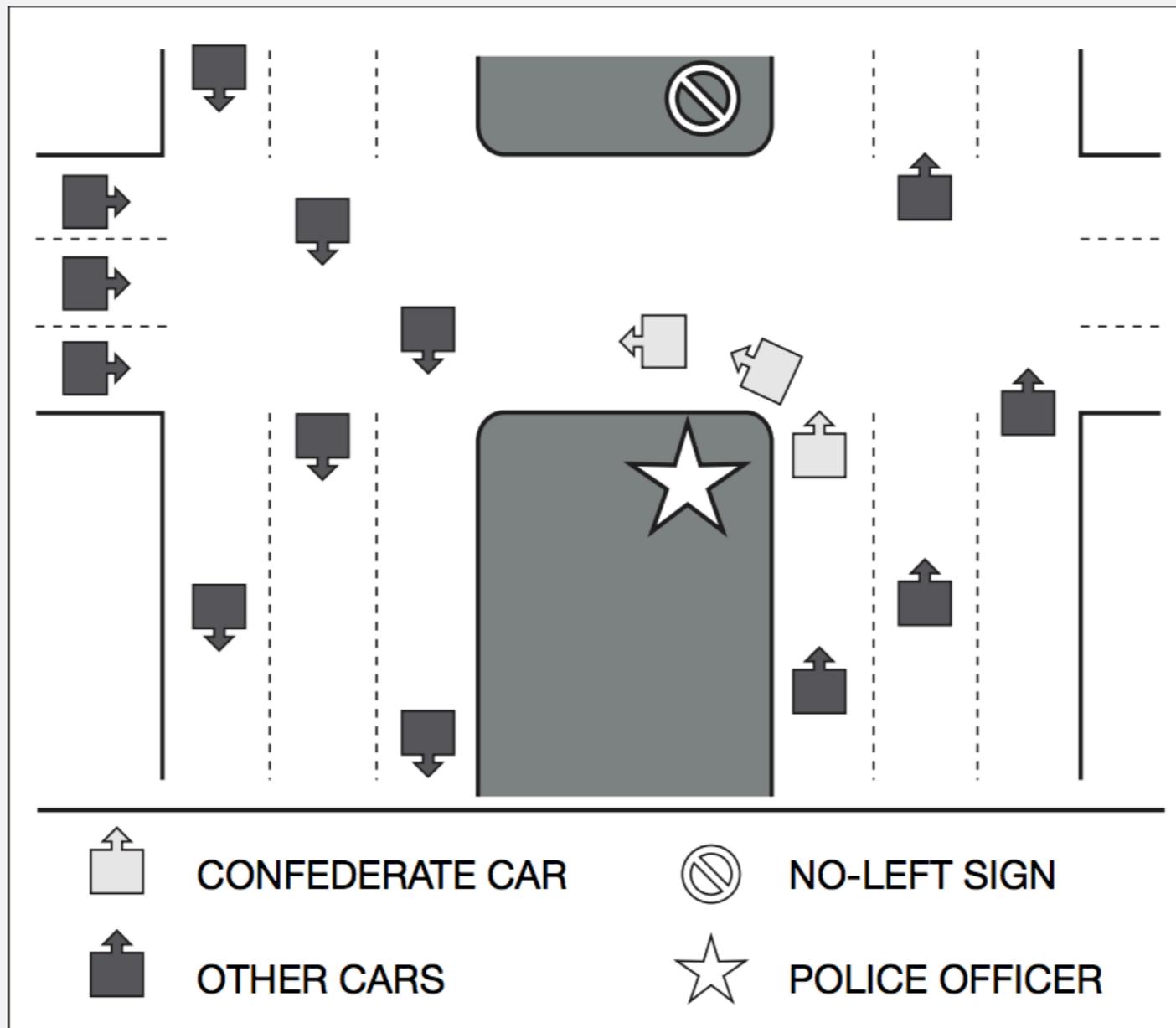
*Brian J. Fried*  
*Yale University*

*Paul Lagunes*  
*Yale University*

*Atheendar Venkataramani*  
*Yale University,*  
*Washington University*

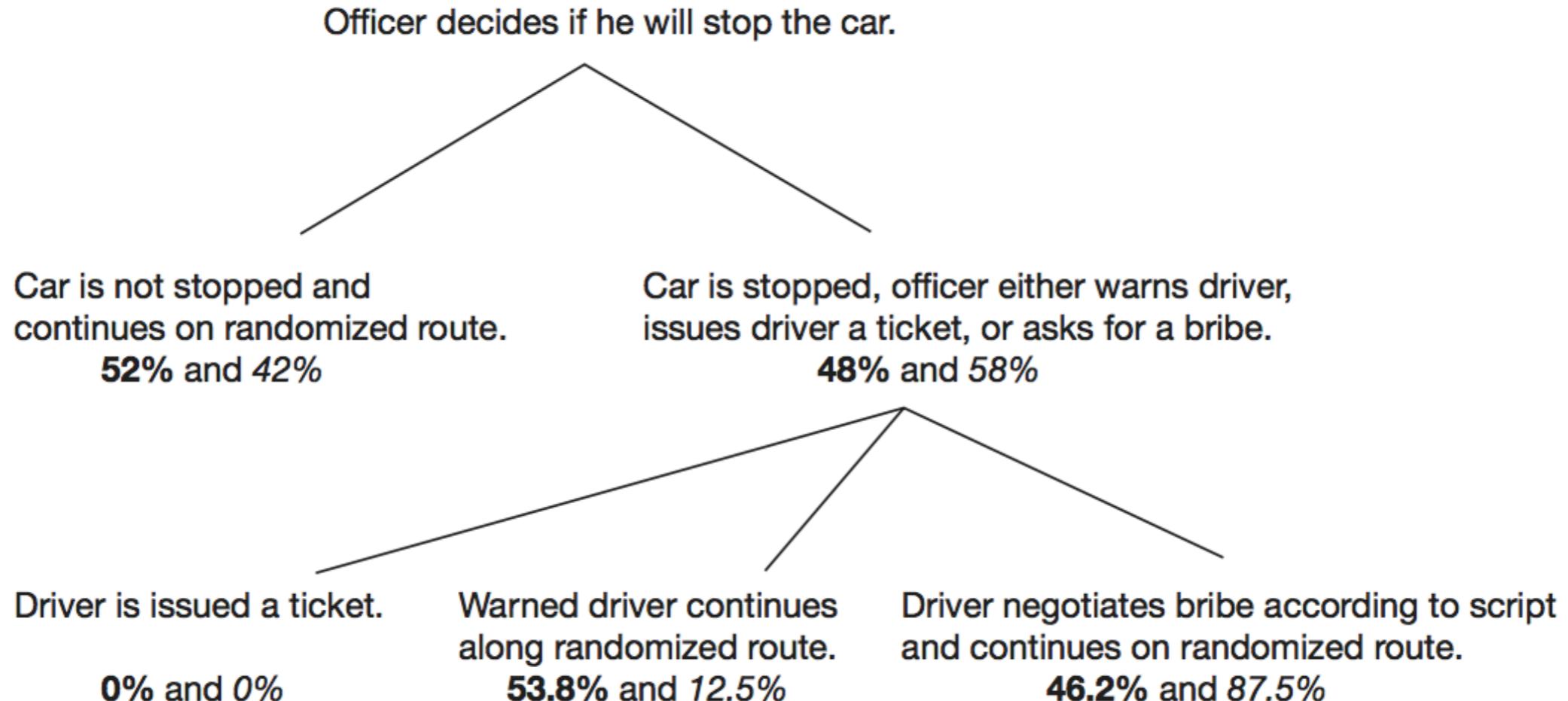
- Driving in Mexico City
- Intersections with traffic cop
- Hired drivers to make illegal left turns
  - Some look/act “lower-class”, others look/act “upper-class”

# SHAKEDOWNS



- “lower-class”: old, cheap car; less nice clothes; “lower-class” accents
- “upper-class”: new luxury car; nice clothes; “upper-class” accents

# SHAKEDOWNS



Key:

**Bold numbers refer to observed likelihood of decision under high-class treatment**

*Italic numbers refer to observed likelihood of decision under low-class treatment*

# DISTRIBUTIONAL EFFECTS

- Rich chose to pay more bribes to avoid bad service
- Rich are less likely to be asked for bribe to get out of situation with law enforcement

# SERVICES TO THE POOR

Corruption and the costs of redistribution:  
Micro evidence from Indonesia

Benjamin A. Olken

- In many contexts, governments implement programs to help the poor in targeted way
  - e.g. free or subsidized distribution of staple foods
- Do they get to intended recipients?
  - Compare government figure on rice distributed with survey reports of how much received
  - 18% of rice seems to have disappeared

# DISTRIBUTIONAL EFFECTS

- Rich chose to pay more bribes to avoid bad service
- Rich are less likely to be asked for bribe to get out of situation with law enforcement
- Government service delivery to the poor is negatively affected by corruption
- So: Corruption is regressive

# TODAY

- Effect of corruption on business
- Effect of corruption on individuals
- Effect of corruption on society

# TRUST IN GOVERNMENT

- Widespread corruption might erode legitimacy of regime, make people lose faith in political institutions and democracy

# TRUST IN GOVERNMENT

## Does Corruption Information Inspire the Fight or Quash the Hope? A Field Experiment in Mexico on Voter Turnout, Choice, and Party Identification

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**Alberto Chong**, University of Ottawa

**Ana L. De La O**, Yale University

**Dean Karlan**, Yale University

**Leonard Wantchekon**, Princeton University

- 2009 municipal elections in Mexico
- Distribution of flyers in certain precincts
- Experiment
  - Control districts: nothing
  - Placebo districts: Information on mayor's responsibilities, funds available to him/her
  - Treatment districts: Same information + percentage of resources mayor spent in corrupt way

# TRUST IN GOVERNMENT

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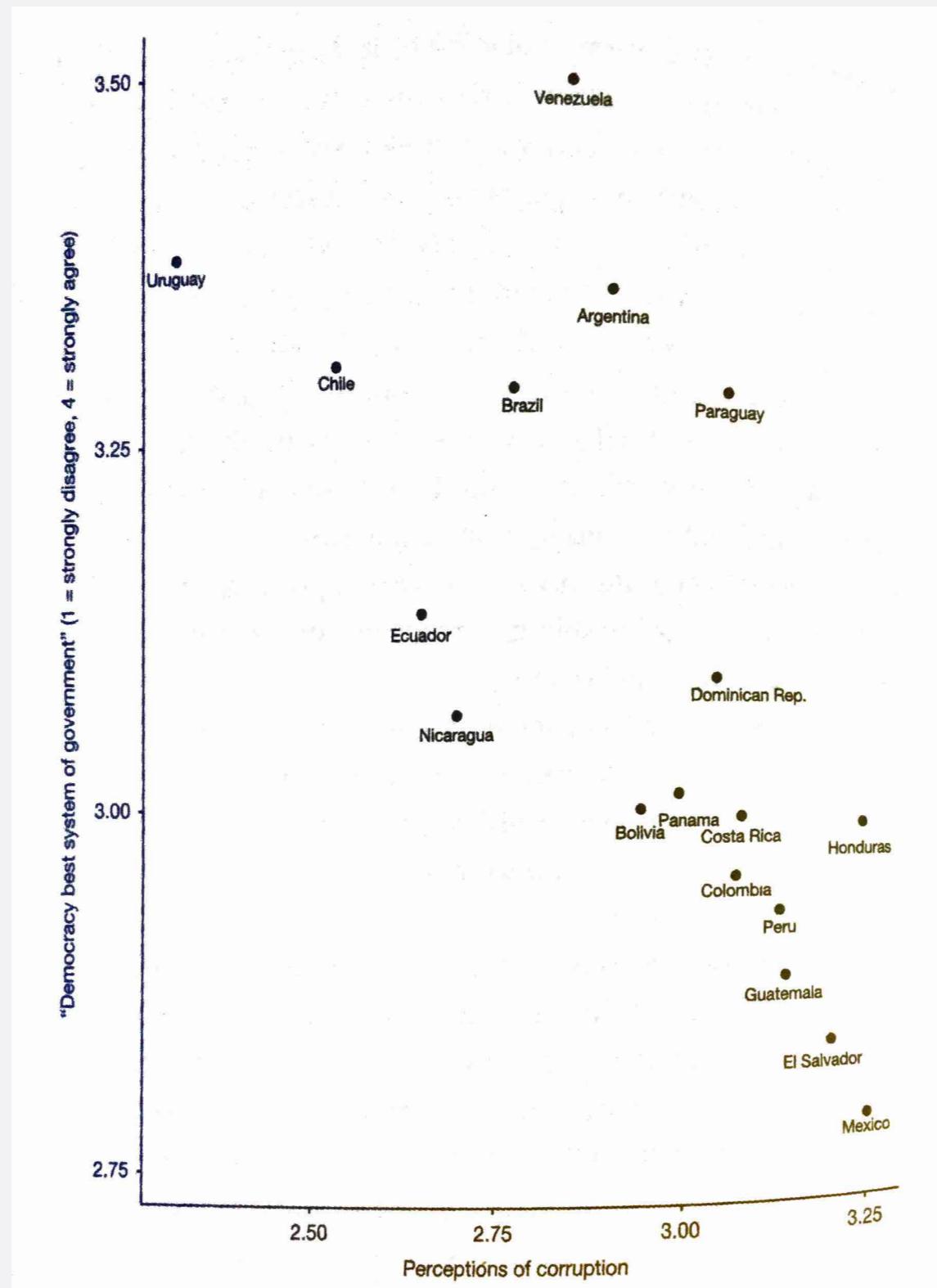
**Ana L. De La O**, Yale University

**Dean Karlan**, Yale University

**Leonard Wantchekon**, Princeton University

- **Electoral results at precinct level**
  - **Corruption treatment lead to:**
  - **2.5% decrease in votes for incumbent party**
  - **2.5% decrease in turnout**

# TRUST IN GOVERNMENT



# TRUST IN GOVERNMENT

- What is the role of corruption in rejection of establishment parties/politicians?

## Corruption, fake news, and WhatsApp: how Bolsonaro won Brazil

Explaining the appeal of the far-right president-elect.

But his promises to restore security amid endemic violent crime and to stamp out the country's rampant political corruption won him support among voters looking for a change.

Many in Brazil have grown frustrated with the status quo due to a slew of political and economic crises that have gripped the country in recent years. The current center-right president, Michel Temer, **is deeply unpopular** in the wake of a **struggling economy** and a massive corruption scandal that has engulfed **all levels of government**.

Temer took over for former leftist President Dilma Rousseff, **who was impeached** in 2016. Her leftist predecessor, Luiz Inácio "Lula" da Silva, **is serving a 12-year sentence for corruption charges**. But while Lula himself is still very popular in Brazil, his handpicked successor Fernando Haddad was soundly defeated by Bolsonaro.

# ECONOMIC GROWTH

CORRUPTION AND GROWTH\*

PAOLO MAURO

- 68 countries
- Dependent variables: Investment in country, average GDP per capita growth (1960-1985)
- Independent variables: Various indicators of corruption (by Economist Intelligence Unit), put into "bureaucratic inefficiency" index
- Findings:
  - More corruption = less investment
  - More corruption = less growth

# WHAT'S NEXT?

- Does money in politics have an effect on policy?