

On the Macroeconomics of Corruption

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Corruption: Definition

- Wikipedia: A form of dishonesty or criminal activity undertaken by a person or organization entrusted with a position of **authority**, often to acquire illicit benefit. ... May include bribery and embezzlement, ... it may also involve practices that are **legal** in many countries. Political corruption: office-holder or other governmental employee acts in an official capacity for personal gain. Petty corruption, small favors. Grand corruption: affecting government on a large scale ... and corruption so prevalent, part of the everyday structure of society, including ... organized crime. Corruption and crime: endemic social occurrences ... with regular frequency in virtually all countries, varying degree and scale.

What we do:

Paper **motivates** corruption regarding **enforcement of property rights** over legitimate income: **rent-seekers** prey on incomes, are pursued by cops. Some of the cops may choose to **go rogue**, appropriate what belongs to the treasury. Corruption is **dereliction** of duty by enforcers pursuing rent seekers and **appropriation** of ill-gotten gains of rent seekers caught.

Corruption, Rent-seeking: \Rightarrow misallocation \Rightarrow stunts development.

Key features of A&I, Cont'd: Culture and Institutions

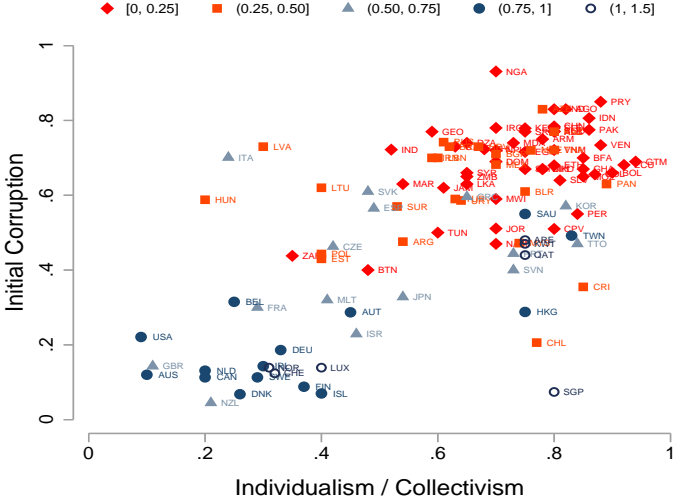
- $0 = \text{individualism} < \sigma [\text{culture}] < 1 = \text{collectivism}$ [**Hofstede**]

Greif (1994): “Cultural beliefs are the ideas and thoughts common to several people that govern **interaction** — between these people and among them, ... which capture people’s expectations with respect to actions that others ...”

- Hofstede
 - **Individualism**: signals greater importance placed on attaining personal goals; self-image “**I.**”
 - **Collectivism**: indicates greater importance placed on goals and well-being of group; self-image “**We.**”
- Institutions North (1990): “the humanly devised **constraints** that structure human interactions ... rules, laws, constitutions,... and their **enforcement** characteristics.”

Culture and Initial Corruption: Explain this chart?

Culture (Hofstede) vs Initial Corruption (CPI)
by relative GDP per capita



A&I: World without Corruption

Utopia benchmark: no corruptible humans or externalities

- No wastage on enforcement. \mathcal{J} nations, 1 unit labor each, saves fraction β of total gross wage.
- Equilibrium: world saving = world capital

$$k_t : \text{capital p.c. } k_{t+1} = \beta(1 - \alpha)k_t^\alpha, \quad k_t \equiv K_t/\epsilon\mathcal{J}$$

- World capital accumulation unaffected by social interactions!

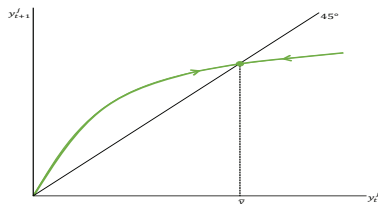


Figure 2: Growth without corruption

Capital mobility: \Rightarrow GDP per capita differences **disappear** at $t = 0$

Corruption Dynamics, given institutions: Law of motion

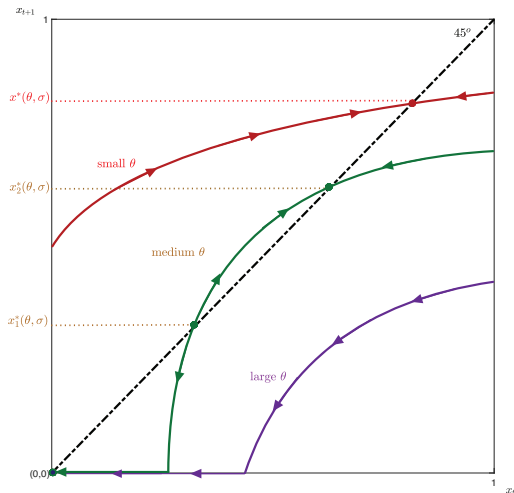


Figure 3: Corruption Dynamics for θ : small, medium, large

Corruption Dynamics, given institutions (θ): individualistic ($\sigma = 0$) vs. collectivist ($\sigma = 1$)

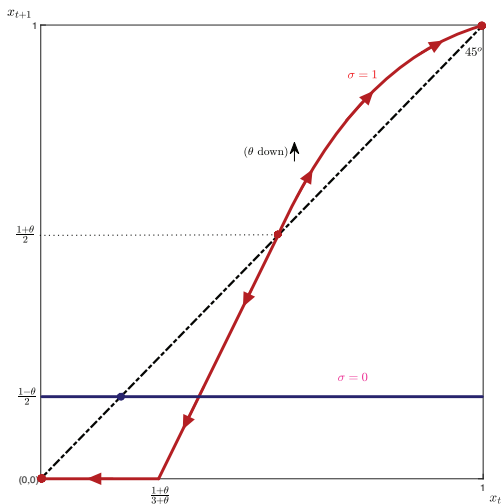


Figure 4: Corruption Dynamics for $\sigma = 0, 1$

Corruption dynamics: endogenous institutions

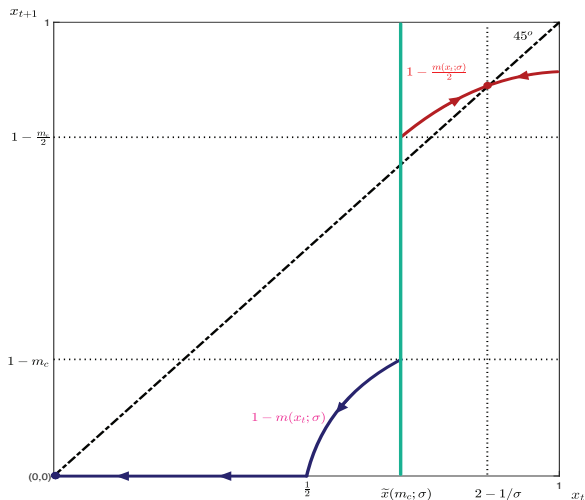


Figure 6: Corruption Dynamics: Endogenous Institutions, High σ

Culture and Initial Corruption Perception Index

Culture (Hofstede) vs Initial Corruption (CPI) by relative GDP per capita

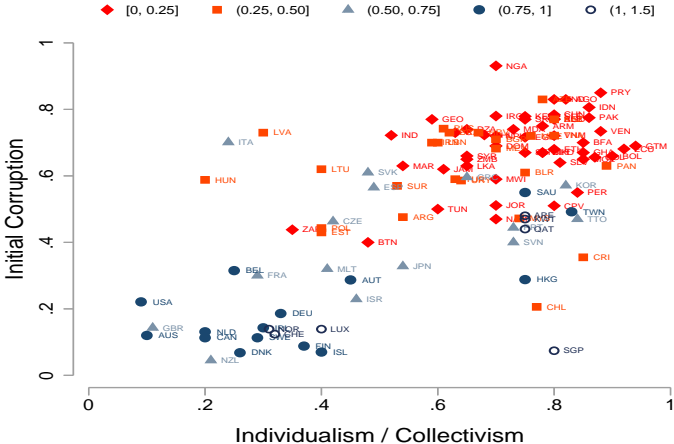


Figure 10: Culture (Hofstede) and Initial Corruption (CPI)

Culture and Initial Corruption Perception Index

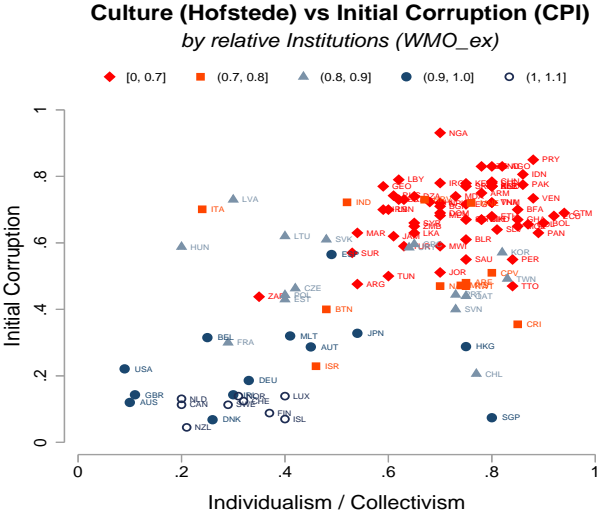


Figure 11: Culture (Hofstede) and Initial Corruption Index (CPI) by Institutions (WMO_ex) Relative to the US. Higher values imply lower risk of expropriation

Culture (Hofstede) vs Initial Corruption (CCI) by relative Institutions (ICRG_lo)

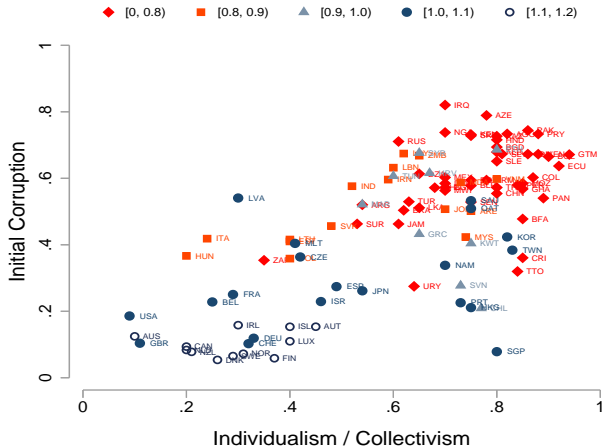


Figure 12: Culture (Hofstede) and Initial Corruption Index (CPI) by Institutions (ICRG_lo) Relative to the US. Higher values imply better law and order.

Extensions: realism and policy options

- economic fundamentals do vary across nations;
institutional choice does affect factor prices;
institutional innovations cross borders;
punishment of corruption varies.
- Political structures vary; majority or supermajority?
- Interest groups, veto power?
- Most vexing issue this paper raises: economic policy:
how does one deal with ingrained corruption in collectivist societies?
How does a community limb over underdevelopment barrier?
Could temporary improvement in fundamentals (saving, controlling
population growth, foreign investment)
Can culture change? How?
Singapore, South Korea?
Whistleblowers, unfettered press, draconian punishment of
perpetrators, higher pay for civil servants?

Thank you!