Corruption

The article define corruption as: “We define government corruption as the sale by government officials of government property for personal gain”

The article discusses two main types of corruption:

- Centralized corruption i.e., there is only one that charge a bribe for each governmental good. And bribes on complimentary goods are coordinated i.e., “the person paying the bribe is assured that he gets the government good that he is paying for, and does not need to pay further bribes in the future.”
- Decentralized corruption i.e., the bribes that are charged are not coordinated. “numerous bureaucrats need to be bribed to get a government permit, and bribing one does not guarantee that some other bureaucrat or even the first one does not demand another bribe.”

Corruption without theft:

- The official selling the government good takes more than the official price to the government: charges an “extra price” to the buyer (the bribe).
- The marginal cost for the official is in this case the official price p.

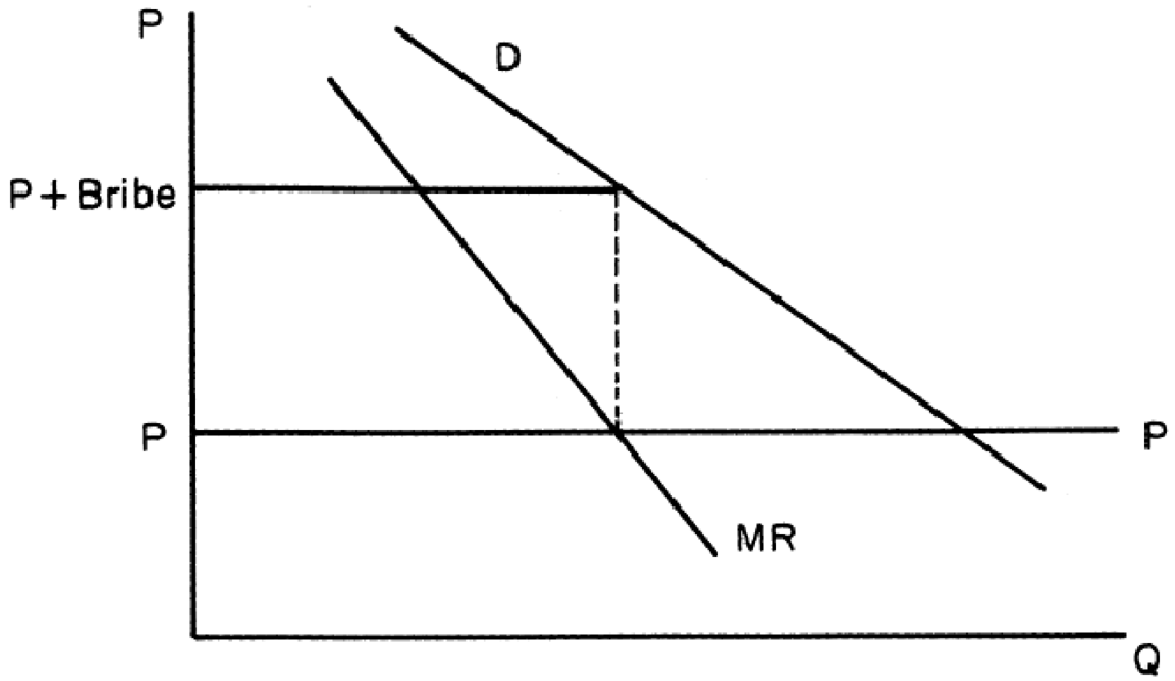

FIGURE Ia
Corruption without Theft

Corruption with theft:

- The official selling the government good doesn't turn over anything to the government.
- The price charged for the good is whatever the official gets, it can even be below the price p.
- The marginal cost for the official is in this case zero.

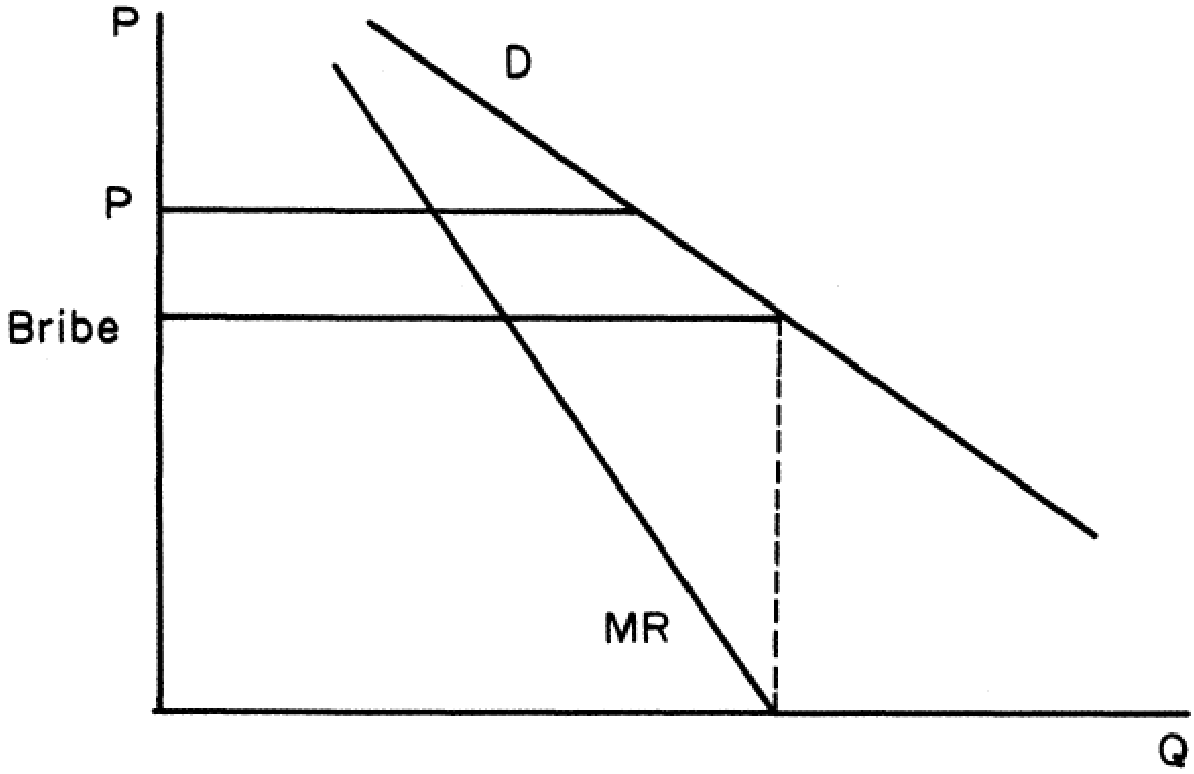

FIGURE Ib
Corruption with Theft

Competition

- Shleifer and Vishny stress the effect of competition, they argue that: "…corruption spreads because of competition both between the officials and between the consumers." What they mean by this is that if there is competition for getting a job, *the person that pay the most gets the job.* Than the result can be that the person that are best at collecting bribes get the job.
- Competition between the buyers in the case with theft: if it is possible for A to pay less than B for the same government service, then A can outcompete buyer B in the product market.

  Example:

  In the article two examples of this:

  i) "If all real estate owners in a city can bribe their way out of paying taxes, then those who pay them will not survive."

  ii) "If some trucks carry goods across a border after paying a small bribe instead of the official customs duty, the importers who pay the duty will not survive."
- Effects of competition

  i) Competition among buyers will thus not help spread of corruption without theft.

  ii) "Because corruption with theft aligns the interests of the buyers and sellers, it will be more persistent than corruption without theft, which pits buyers against sellers."

  iii) When there are several providers of the same good, there will be competition between the providers and revenue of corruption will be driven to zero. "Bertrand competition in bribes will force the equilibrium bribe on each permit down to zero."
- What can be done to reduce corruption?

  i) Accounting system that prevents theft from the government.

Corruption and goods that are complements

- This is charging bribes on different types of permits that are needed for completing a project, i.e. different permits for building a house or driving a distance on a road.
    i) Centralization is important
    ii) Centralization corruption is not that damaging for the economy. The reason for this is that it is always clear who needs to be bribed and by how much.
    iii) If not centralization, it is not always possible to know how much and who to bribe. Not always possible to calculate in advance how much a project will cost.

Is corruption more hurtfully for the economy than taxes?

This is stated in the article:

> "Taxes are the markup on the price that goes into the treasury, and bribes are the markup that goes into the pocket of the monopolist. When the treasury and the pocket are one and the same, as in the case of kings and Marcos, taxes and bribes are exactly the same. With multiple monopolists, bribes are also similar to taxes, except that tax rates on different activities are set by independent agencies. In setting tax rates in this way, the agencies maximize their own tax revenues rather than the aggregate tax revenue. Because they ignore the cross elasticities of demand, the aggregate tax revenues are lower in this case. Finally, the case of competing monopolists corresponds to the federalist ideal of competing jurisdictions. In this case as well, bribes are similar to taxes."

Is this true?

I believe this is true in a simple economic model but not true in the real world.

i) There need not be any retribution of the tax money here, so in an macro/growth model where tax money are supposed not invested back in the economy this is true.

ii) Taxation is arbitrary, since cross elasticities of demand aren't considered when bribes are set, government usually consider them.