DEFINING AND MEASURING CORRUPTION AND ITS IMPACT

MANUEL BALÁN
ASSISTANT PROFESSOR
POLITICAL SCIENCE AND INTERNATIONAL DEVELOPMENT
MCGILL UNIVERSITY
MANUEL.BALAN@MCGILL.CA
Objectives

- Defining the problem
- Understanding the different issues within corruption
- How to assess levels of corruption?
- Exploring causes and the impact of corruption
- How do we respond to corruption?
Objectives
What is (and what isn’t) corruption?

- Definition vs. common use of the term
  - Definition: the abuse of entrusted power for private gain (TI)
    - WB definition: abuse of public office for private gain
  - Components:
    - ABUSE (must law be broken?)
    - ENTRUSTED POWER (public only?)
    - PRIVATE GAIN (monetary only?)
  - Common (mis)use of the term?
    - Tax evasion (sometimes)
    - Authoritarian practices
    - Poor performance / policy disagreement
    - What else?
What is (and what isn’t) corruption?

- What are some examples of corruption?
  - Bribery
  - Collusion
  - Conflict of interest
  - Embezzlement
  - Extortion
  - Fraud
  - Money Laundering
  - Nepotism
  - Patronage
  - State capture
Types of Corruption

- Many different ways to categorize types of corruption:
  - By actors involved:
    - Petty corruption vs. Grand corruption
    - Political corruption vs. Bureaucratic corruption
  - By how systematic it is:
    - Organized corruption vs. Roving bandits (chaotic corruption)
  - By “when” it happens in decision-making process
    - Input: interest articulation and aggregation
    - Conversion: policy making
    - Output: policy implementation and adjudication
  - By where it happens (Johnston)
    - 4 syndromes of corruption
Pervasiveness of Corruption

• How much corruption is out there?
  • Hard to know… corruption is meant to be kept a secret
  • Also, “corruption” encompasses many different activities (including many we may not know about), so large variation among regions, countries, sub-national units, etc. is highly likely

• So how can we learn about levels of corruption?
  • The need for measures of corruption
The challenges of measuring corruption

- What are some problems with measuring corruption?
  - Secrecy (similar as measuring crime)
  - Differences in reporting may generate biased results
  - How to compare different types of corruption? What is the metric?
  - How do we assess change over time?
  - Others?
- "Corruption reflects an underlying institutional framework, different forms of corruption are likely to be correlated" Svensson
Existing Measures of Corruption

- Indicators assembled by private risk-assessment firms
  - International Country Risk Guide
- Perception based measures
  - Corruption Perception Index, TI.
  - Governance Indicators/Corruption Control Index, WB
- Experience based measures
  - EBRD-World Bank Business Environment and Enterprise Performance Survey
  - International Crime Victim Surveys
- Measuring integrity rather than corruption
  - Global Integrity Report
Existing Measures of Corruption

Issues to think about when using existing measures:

- Scale and scope of indicator: what is it that they measure or assess?
  - How is the measure defining corruption or governance?
- Rule based vs. outcome based
  - Either existence and quality of institutions, rules, procedures
  - Or what these mechanisms lead to in practice. But governance outputs can only rely on proxies
- Methodology
  - Types of data source used: composite or original data?
  - Scoring criteria
- Internal vs. External Stakeholders and Measures
  - Population or Experts? Local or external?
Causes of Corruption

- Good measures (which many would say we lack) allow us to assess what causes corruption and what are its consequences.
- When it comes to causes, research has established a number of structural causes (low levels of development, historically weak institutions, colonial legacy, religion, ethnic heterogeneity, etc.)
  - Arguably, these are less interesting, as they offer little room for action
- Other causes have to do economic and political institutions (restrictions on market and political competition)
  - Do economic factors shape institutional quality?
- Can we even find global determinants of corruption? Is it useful?
What is the Impact of Corruption?

• All this interest and work assume that corruption has a strong—and negative—impact.
  • Impact on what?

• Economic impact of corruption:
  • Lowers investment, Misallocates talent, Hurts aid, Lowers tax revenues, Lowers quality of infrastructure, Distorts distribution
  • Higher poverty and inequality
  • Less social spending, less growth, less progressive taxation

• Political and Societal Impact:
  • Erodes trust in institutions and inter-personal trust
  • Affects policy process

• Campaign: “Corruption Kills”
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What is the Impact of Corruption?

- Impact on People
  - Lack of quality in services, Lack of proper justice, Chances of unemployment, Poor health, Pollution, Accidents
- Impact on Society
  - Disregard for officials, lack of respect for rules, low trust in government, political disengagement
- Impact on Economy
  - Decrease in FDI, lower growth, etc.
- Campaign: “Corruption Kills”
What is the Impact of Corruption?

• Not all agree
  • Some point out that corruption can be efficiency enhancing (at least in the short run)
  • There is also uneven performance of countries (growth and corruption is some Asian countries). Why?
    • Predictability matters?
    • Highly concentrated corruption is less distortionary than uncontrolled corruption?
    • If rules of the game are known, transaction costs decrease?
    • Unaccounted negative impact on environment and society?
• Yet, there is consensus that corruption is never positive in the long run
Responding to Corruption?

- How can we respond to corruption?
- Klitgaard model: Corruption = Monopoly + Discretion — Accountability
  - Then, to respond:
    - Lower monopoly > improve competition
    - Lower discretion > improve transparency
    - Increase accountability

- Many different corruption problems may require many different solutions
- Inherent problem: practices change faster than regulations
Responding to Corruption?
Conclusion

• Broad concept: Corruption includes many different practices that vary through time and space
• Complex assessment: measuring corruption is essential to understand pervasiveness, causes, consequences
• Multifaceted impact: Corruption has negative and complex economic, political, and social consequences
• Moving target: Addressing and responding to corruption requires broad (and specific) measures, and constant updating
Thanks!

Manuel.balan@mcgill.ca