Strategic Interaction Between Corrupt Governments in a Growth Model

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Summary

• Unlike most models of corruption, which look only at one country, this paper models corruption as a strategic interaction between governments.

• Concludes that more inter-governmental competition leads to lower corruption.
Assumptions Are Critical

The paper makes the following assumptions, which merit more discussion:

- All corruption is directed from the top.
- Interjurisdictional competition lowers corruption, but does not affect the level of “red tape”.
- There are no economies of scale in public goods provision (two small countries can run a public sector just as efficiently as one large country can).
- The public sector share is fixed (so even in the presence of corruption, the private sector does not take over roadbuilding, schooling, policing).
- The only private sector input into production is capital, which is perfectly mobile across countries (no labor inputs).
- The countries are autocratic (no-one votes out a corrupt leader).
- Both countries’ production is sold into a single market (no trade barriers).
Where’s Charles?

Theory Only

• The paper only presents a theoretical model, without empirical evidence.
• Given the strong assumptions that are necessary to make the model work, it may be desirable to incorporate empirics.
• Testing the model may also raise the odds of publishing it in a top journal.
• Pure theory is becoming harder to publish: we can see this in two ways.
The Decline of Pure Theory - A Theorist’s View

- \( T = f(p) \), \( D = f(c) \)
- \( T + D = 1 \)
- \( \frac{dp}{dT} > 0 \), \( \frac{dc}{dT} > 0 \)

\( T \) = share of top journal pages devoted to pure theory
\( D \) = share of top journal pages devoted to papers with data
\( p \) = number of pencils on desk of typical researcher
\( c \) = computing power on desk of typical researcher

- If \( p \) stays constant and \( c \) rises, \( T \) will fall and \( D \) will rise.
The Decline of Pure Theory - An Empiricist’s View

Share of Articles in Top Economics Journals Containing Data

Source: Coelho & McClure (2005)
So Let’s Test the Theory

• A good natural experiment to test this theory involves:
  (a) Centralisation among nations, or
  (b) Decentralisation among nations.

• In either case, we want a control group that did not experience the policy change.
Testing the Theory

• I identified two possible experiments:
  
  (a) **Centralisation**: Creeping growth of the European Union from 1995-2004. Membership stayed at 15 during this period, but powers were steadily centralised to the EU.
    - Control group: Australia, Canada, US
  
  (b) **Decentralisation**: Breakup of the USSR into 15 “post-Soviet states” in 1991.
    - Control group: Poland, Czech Republic, Hungary

• Dataset: Transparency International’s “corruption perceptions index”.

Andrew Leigh: Discussion of Skladzien
Did European Union Expansion Raise Corruption?

Note: Corruption Perception Indices are the average for the EU-15, sourced from Transparency International. TI scores are higher when corruption is lower, so these scores are rescaled as 10-CPI. Non-EU is the average for Australia, Canada and the US.
Did the Breakup of the USSR Lower Corruption?

Note: Corruption Perception Indices are sourced from Transparency International. TI scores are higher when corruption is lower, so these scores are rescaled as 10-CPI.
Conclusion

• Interesting question, carefully constructed theoretical model.
• Model relies strongly on assumptions.
• Results from theoretical model do not seem to be supported by two natural experiments.
• Maybe the assumptions need to be relaxed
• Or maybe my experiments are flawed.