Strategic Interaction Between Corrupt Governments in a Growth Model

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## Discussant: Andrew Leigh, ANU

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?
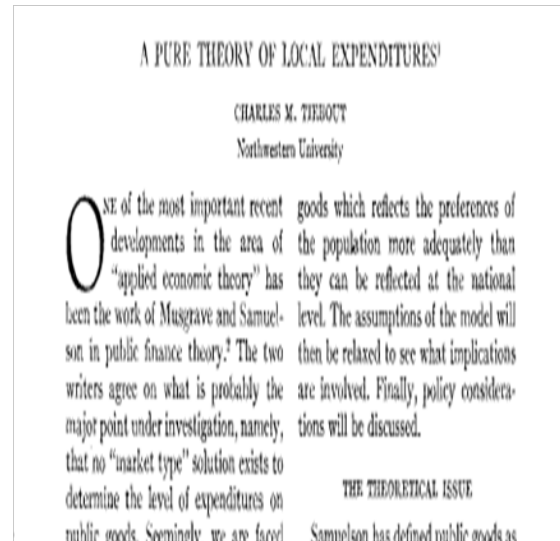
- There is an extensive literature on the benefits of competition between jurisdictions, flowing from: Tiebout, Charles. 1956. "A Pure Theory of Local Expenditures," *Journal of Political Economy* 64(5): 416-24

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
- dp/dT>0, 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
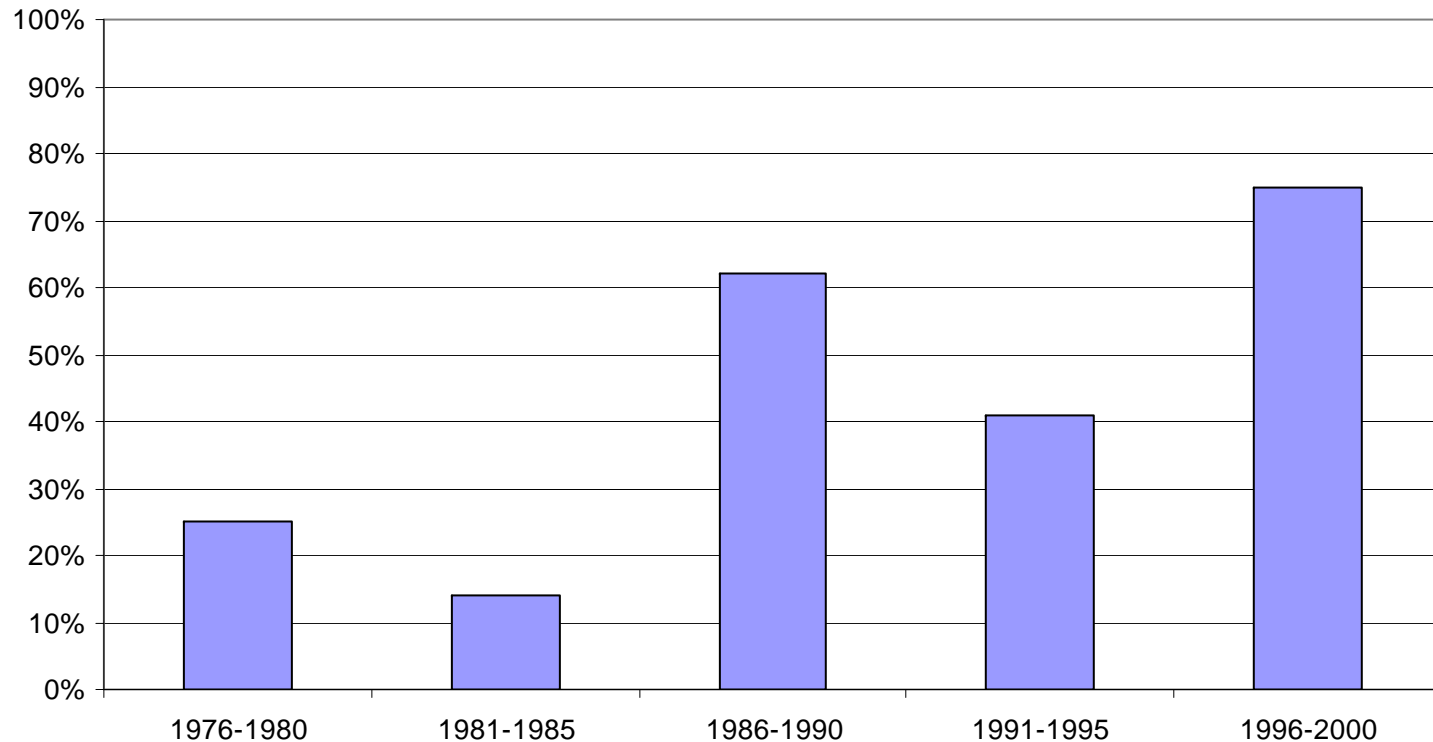
Source: Coelho & McClure (2005)
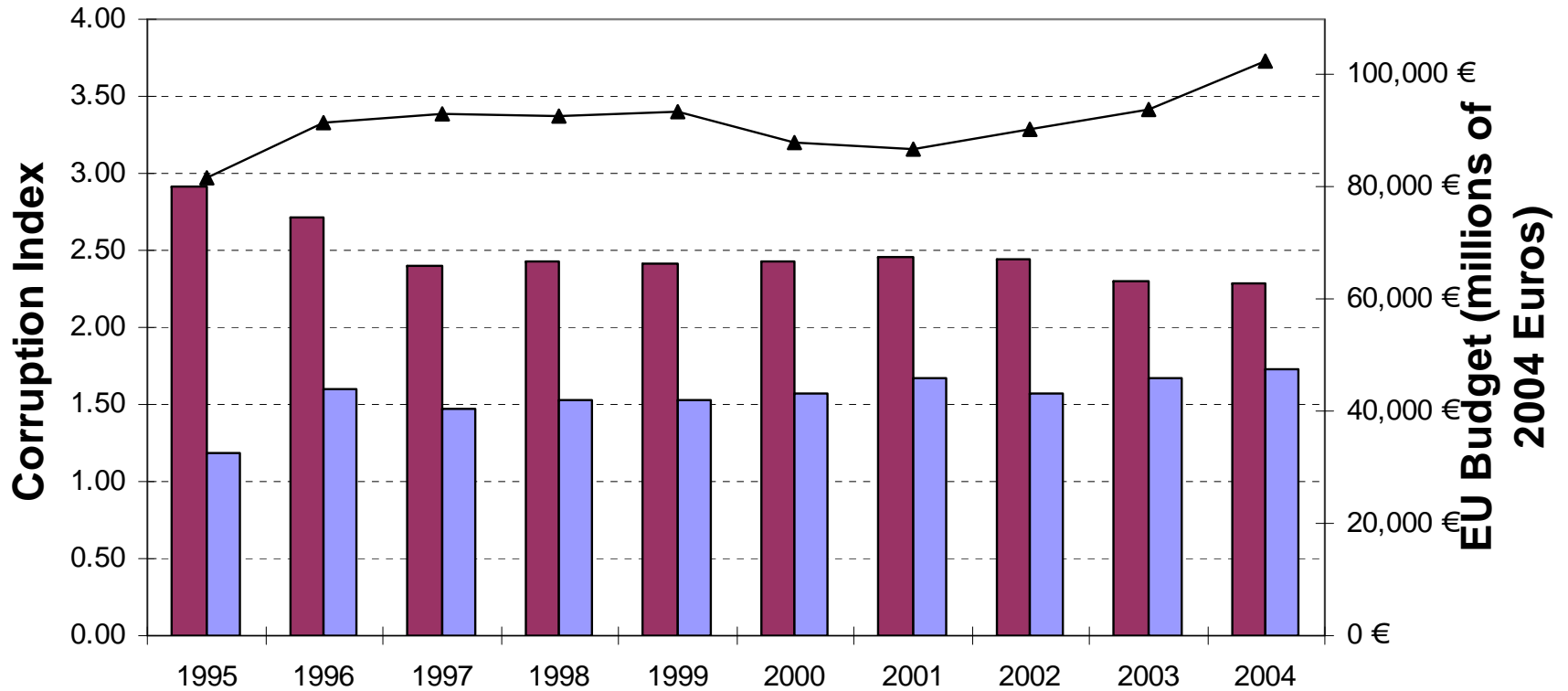
Andrew Leigh: Discussion of Skladzien

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".

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.

- EU Corruption (left scale)
- Non-EU Corruption (left scale)
- EU Budget (right scale)

Did the Breakup of the USSR Lower Corruption?

Legend:
- USSR/CIS
- Average of Poland, Czech Republic & Hungary

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.
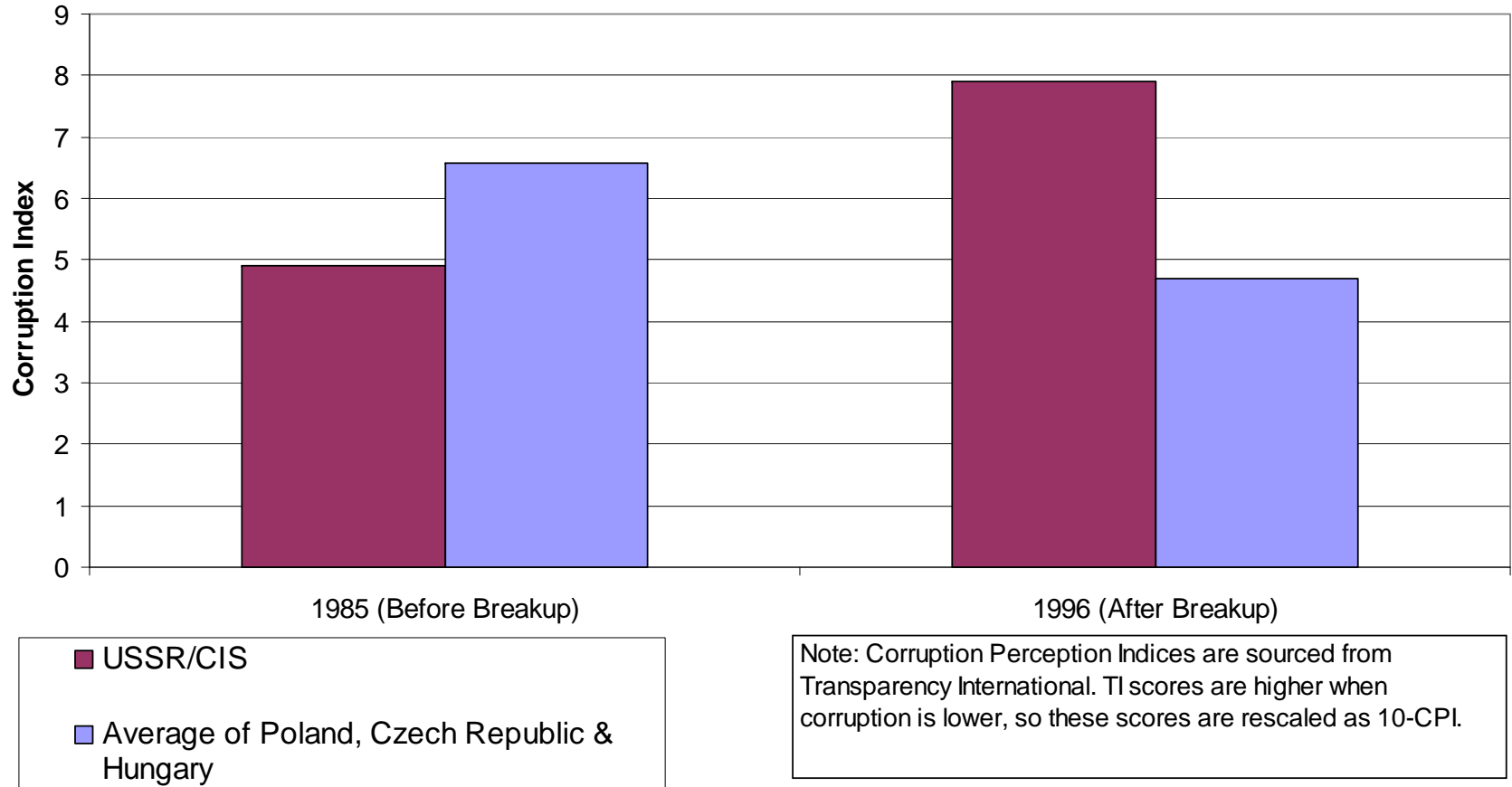
Conclusion

- 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.