CORRUPTION, STATE CAPACITY, AND 'CLEAN' DELIVERY OF PENSION INCOME

Sarah M. Brooks
Professor, Department of Political Science
Ohio State University, USA

Corruption and Governance

- **Political corruption** - *the misuse of public office or public responsibility for private gain* - has been an important theme in development agenda
  - Social Protection, Governance Agenda

- **Corruption can take many forms**
  - Public officials demanding rents/bribes
  - Theft, misuse, or misallocation of public resources

- **Other impediments to 'clean' service delivery**
  - Poorly designed institutions (create or exacerbate P/A problems)
  - Low state capacity (weak institutions)
  - Weak rule of law and contract enforcement

Some Consensus

- Corruption and malgovernance are detrimental to social welfare and economic development
  - ✓ Slower economic growth & development (Acemoglu and Robinson 2012; Mauro 1995)
  - ✓ Weaker political attachments (Anderson and Tverdova 2003; Chang and Chu 2006; Chong et al. 2015; Della Porta 2000; Seligson 2002)
  - ✓ Lower trust and cooperative social relations (Gachter and Schulz 2016; Herrmann, et al. 2008; Rothstein 2011)

- Conversely: **Good governance** – *high quality public administration* - promotes growth and development (e.g, Kaufmann 2005)

Combatting Corruption: Institutions

- **"Good" institutions** underwrote the rapid development of East Asian economies – Japan, Korea, Singapore, Taiwan (Johnson, Amsden, Wade, Evans)

- Other research tied corruption to authoritarianism, excessive state allocative role
  - Prescription: Structural reform, political and economic liberalization

- **Governance agenda** tied anti-corruption reforms to foreign aid and development lending

What is good governance?

- Foundation of bureaucratic performance: **Principal Agent Problems**
    - If the agent, in deciding how much effort to exert in service of the principal, has a different preference schedule from the principal
    - *Also: Moral Hazard, Adverse Selection problems*

- **Bureaucratic reform**
    - Ideal type: 'Weberian' bureaucracy
    - Professional, hierarchical delegation of tasks to experts, meritocratic, with monitoring

Improving institutional design to address principal-agent problems

- Much research focuses on taking discretion out of the hands of politicians and bureaucrats in resource allocation

- Oversight and monitoring
- Punishment and enforcement
- Performance-based compensation
- Rotation
- Building a bureaucratic culture intolerant of corruption
- Meritocratic recruitment
- Transparency

Interventions: What do the data show?

- **Only limited evidence of effectiveness of institutional changes** (RCTs)
  - Positive evidence for merit/performance pay
  - Mixed evidence on monitoring
  - Negative effects of trials of prominent officials for trust
  - Mixed effects of rotation and reassignment
  - Positive association of liberal political and economic institutions
  - Positive effects of transparency

(Heywood 2018; Hough 2017; Johnston 2018; Meagher 2005; Mungiu-Pippidi 2015; Persson, Rothstein, and Teorell 2013; Svensson 2005)

Problems

- **Complex bureaucracies have overlapping P-A problems** (Dixit 2002)
  - Collective principles
  - Multiple agents
  - Multi-tasking

- Large-scale "anti-corruption" campaigns typically are not effective
  - *May even exacerbate problems* (De Vries and Soaz 2017; Klasjna and Pop-Eleches 2018, Fukuyama and Recanatini, 2018)
  - Reducing trust, allowing election manipulation

Information and Transparency

- P-A problems are defined by asymmetry of information between the principal and agent (Miller 2005)

- **Information asymmetries are a primary obstacle to principals' ability to hold agents accountable**, lowering the information barrier ought to enable scrutiny and monitoring, without which it is impossible to detect and sanction abuses of public power

- **Transparency** is necessary to <u>inform</u> principals of agents' misdeeds

Transparency, in practice

- **World Trade Organization**: ensuring "transparency" in international commercial treaties typically involves three core requirements:
  - (i) to make information on relevant laws, regulations and other policies <u>publicly available</u>,
  - (ii) to <u>notify</u> interested parties of relevant laws and regulations and changes to them; and
  - (iii) to ensure that laws and regulations are <u>administered in a uniform, impartial and reasonable manner</u>.

- Part (iii) is a core element of rule of law

Transparency

- Kaufmann's (2005) definition - transparency involves the flow of timely and reliable economic, social and political information, which is accessible to all relevant stakeholders

- **Principals** may include <u>government institutions</u>– e.g. offices of internal oversight, elected assemblies, the judiciary – as well as <u>non-state actors</u>, i.e. citizens, civil society associations, and the media

- Yet, if corruption is endemic, will principals be 'principled' to hold bureaucrats and politicians accountable? (Besley)

Transparency

- Collecting, compiling, computing and publishing reliable information in a timely manner requires a certain type and level of institutional capacity (along with political will)

- State capacity extends far beyond this, including **coercive, fiscal and administrative capacity**

- Transparency is crucial, but it is part of a bigger phenomenon of **state capacity**

- Requires accountability

Accountability

- Accountability involves at least three components:

1) that an agent provides – routinely or upon demand – an account to principals regarding activities related to a specific domain

2) that the agent justify/explain decisions and

3) that the principal has the authority and the means to sanction the agent effectively

Transparency only relates to the first of these

Mechanisms of Accountability

- **Getting the institutions right is only the *first* step**
  - Institutions must be embedded in broader social and political structures to permit accountability

- Accountability requires that citizens are empowered and capable of mobilization

  - ✓Civil society organizations

  - ✓Free media

  - ✓Active citizen participation

  - ✓Democratic elections

Strengthening Civil Society Organizations and Empowering Citizens

- Feedback mechanisms: from welfare to active citizen participation (Soss, Pierson, Skocpol)
  - Positive, (and some negative) consequences

- Key finding of research on CCTs and social protection:
  - Economic security leads to empowerment and greater citizen engagement and participation
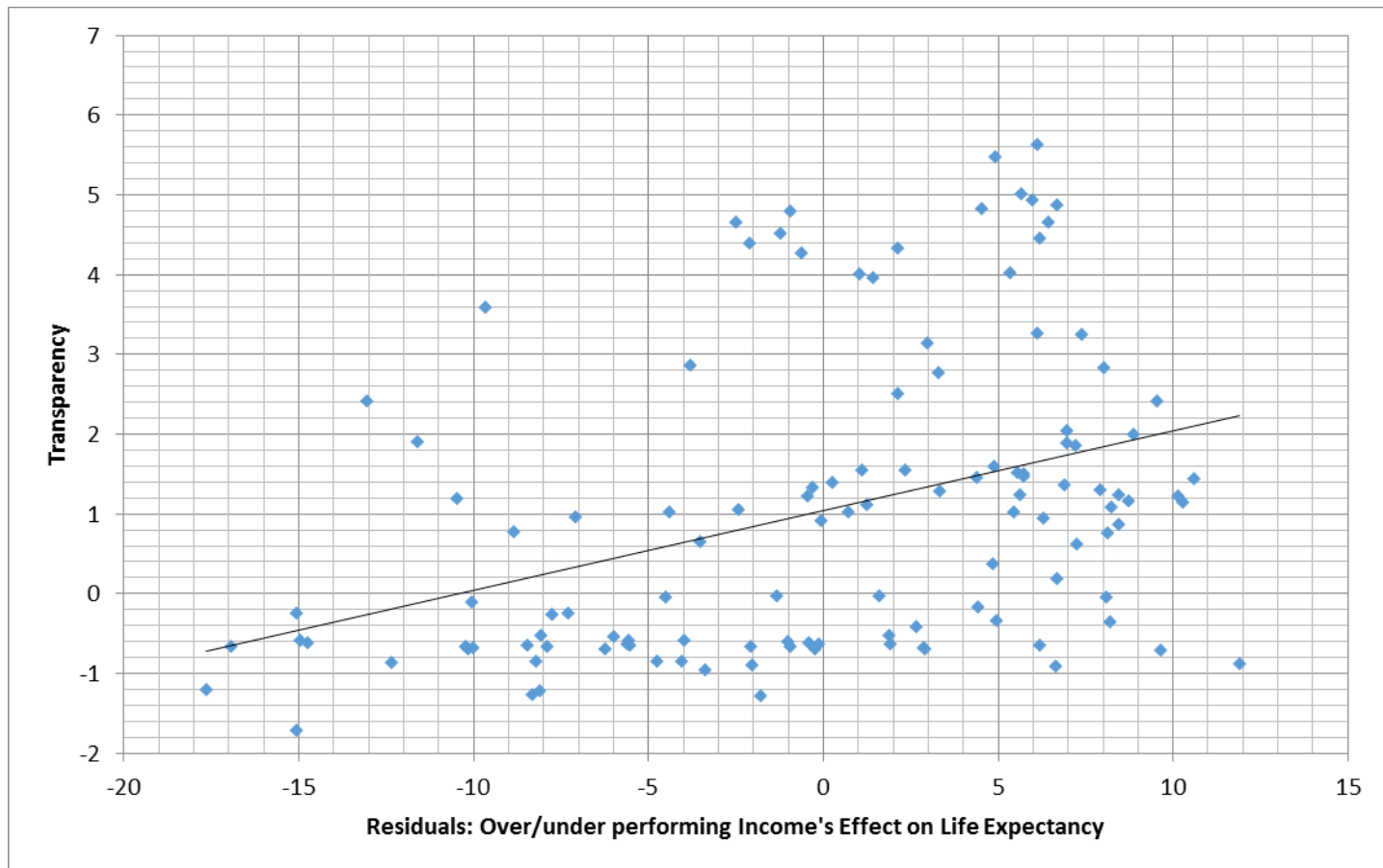
Is Good Institutional Design Enough?
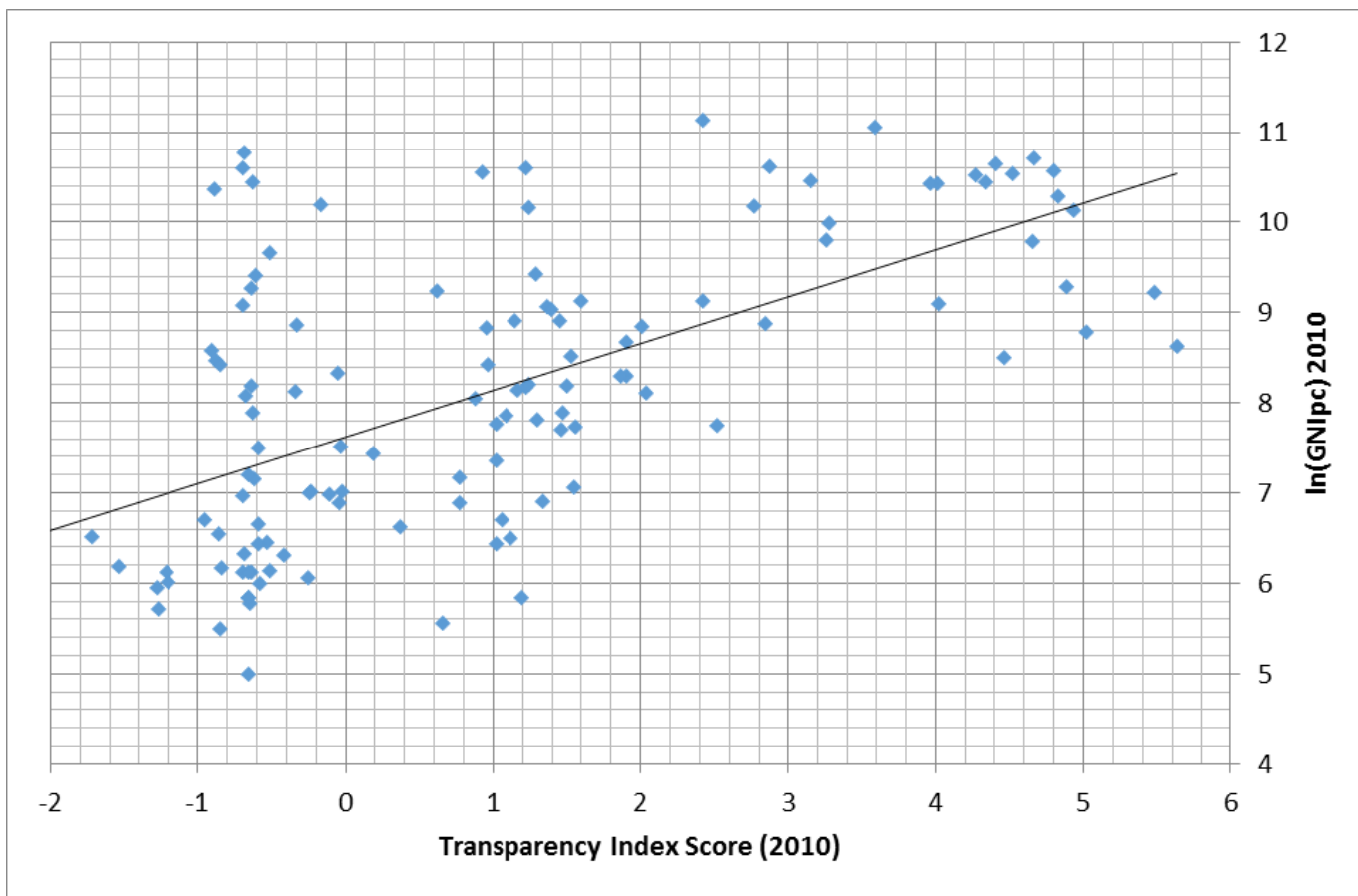
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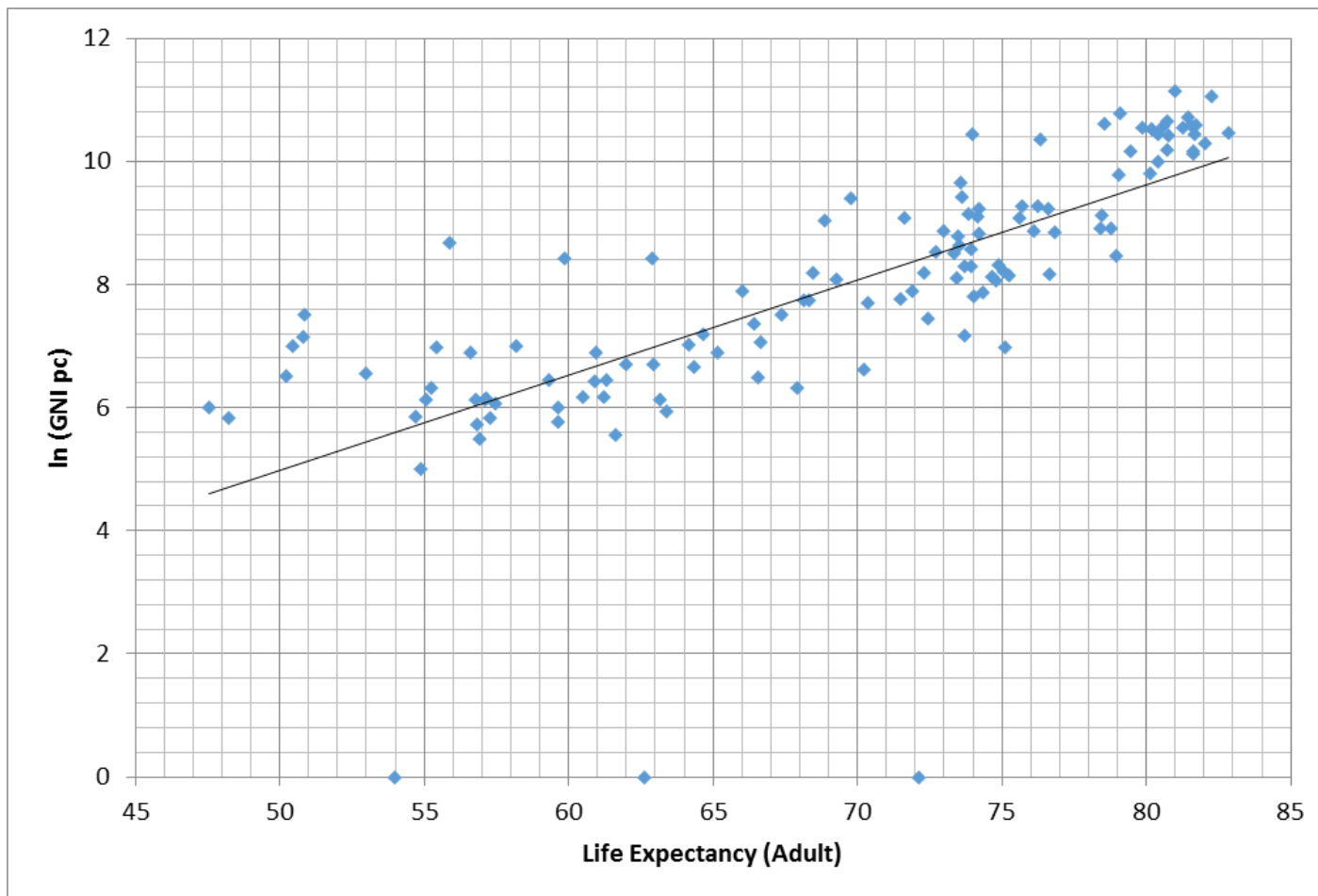
Institutions can help predict welfare outcomes

Why don't we know more?

- **Problems of measurement, conceptualization**
  - Perceptions-based measures (e.g., Kaufmann 2005, Transparency International) have come under criticism
  - Biases, conflating performance for institutional design, little predictive capacity for development (Kurtz and Schrank 2007)

- Recent efforts focus on more objective measures of **transparency** (e.g., Hollyer, Rosendorff & Vreeland 2018)
  - Focus on data reporting on World Development Indicators

Where does this leave us?

- Institutions do matter. Good design is necessary, but not sufficient

  - Liberal political and economic institutions are an important start

- We need to better understand the foundations of state capacity

- Empowered civil society reinforces governance, accountability

- Along with institutional reform, democracy & economic security are crucial ingredients for 'clean' public service provision