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

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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 inform 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 government institutions– e.g. offices of internal oversight, elected assemblies, the judiciary – as well as non-state actors, 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
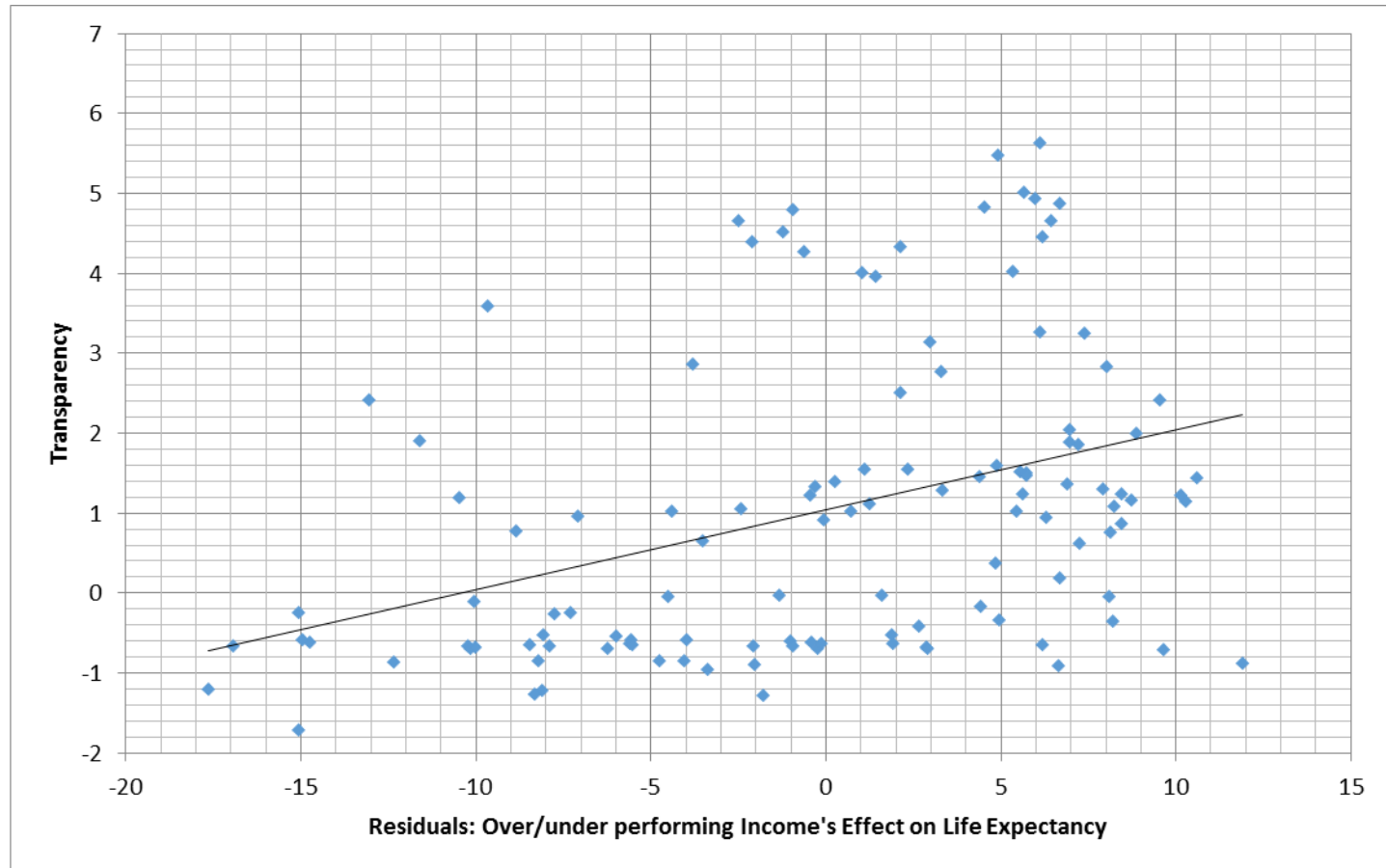
Is Good Institutional Design Enough?
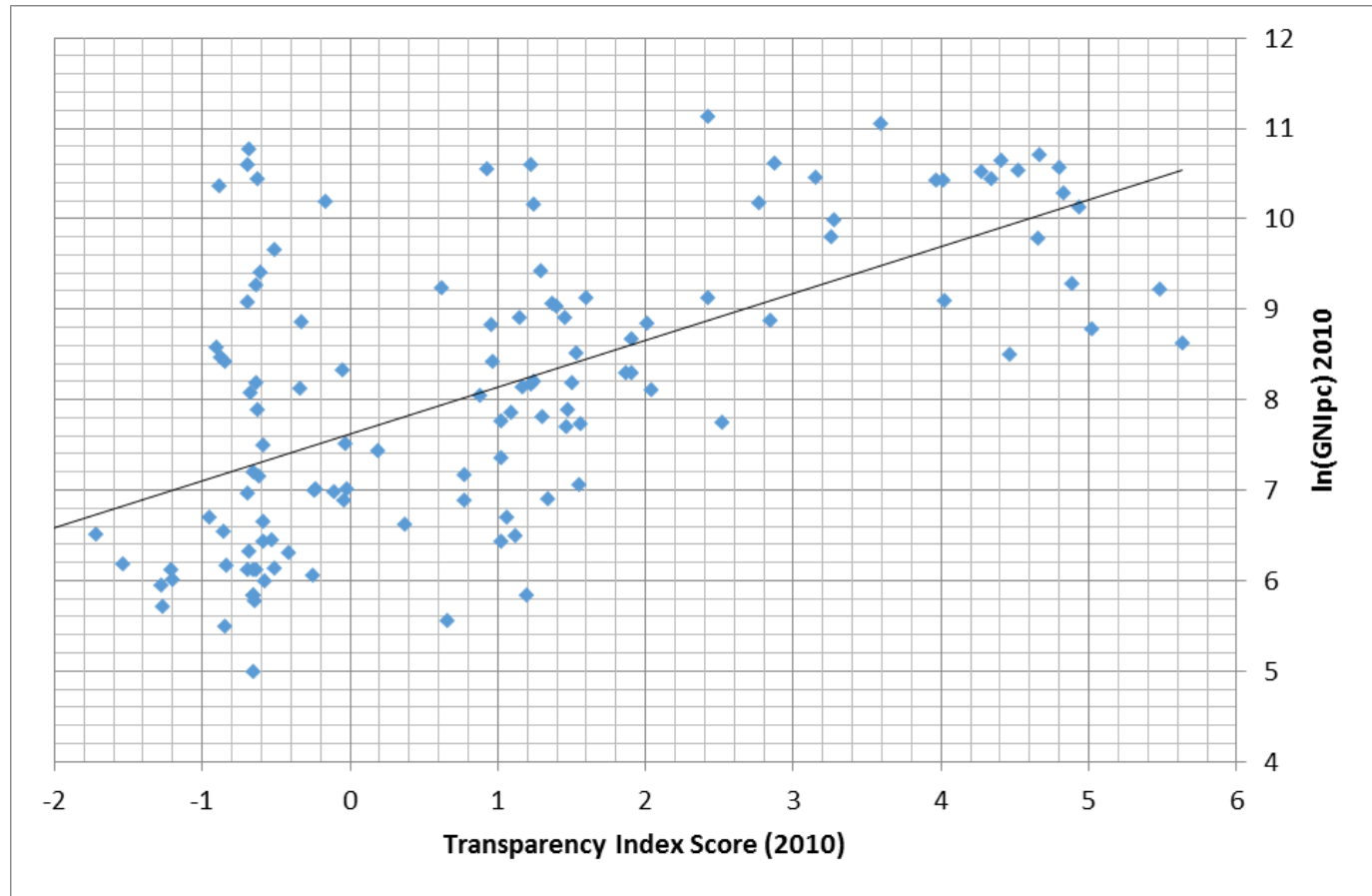
Income and life expectancy
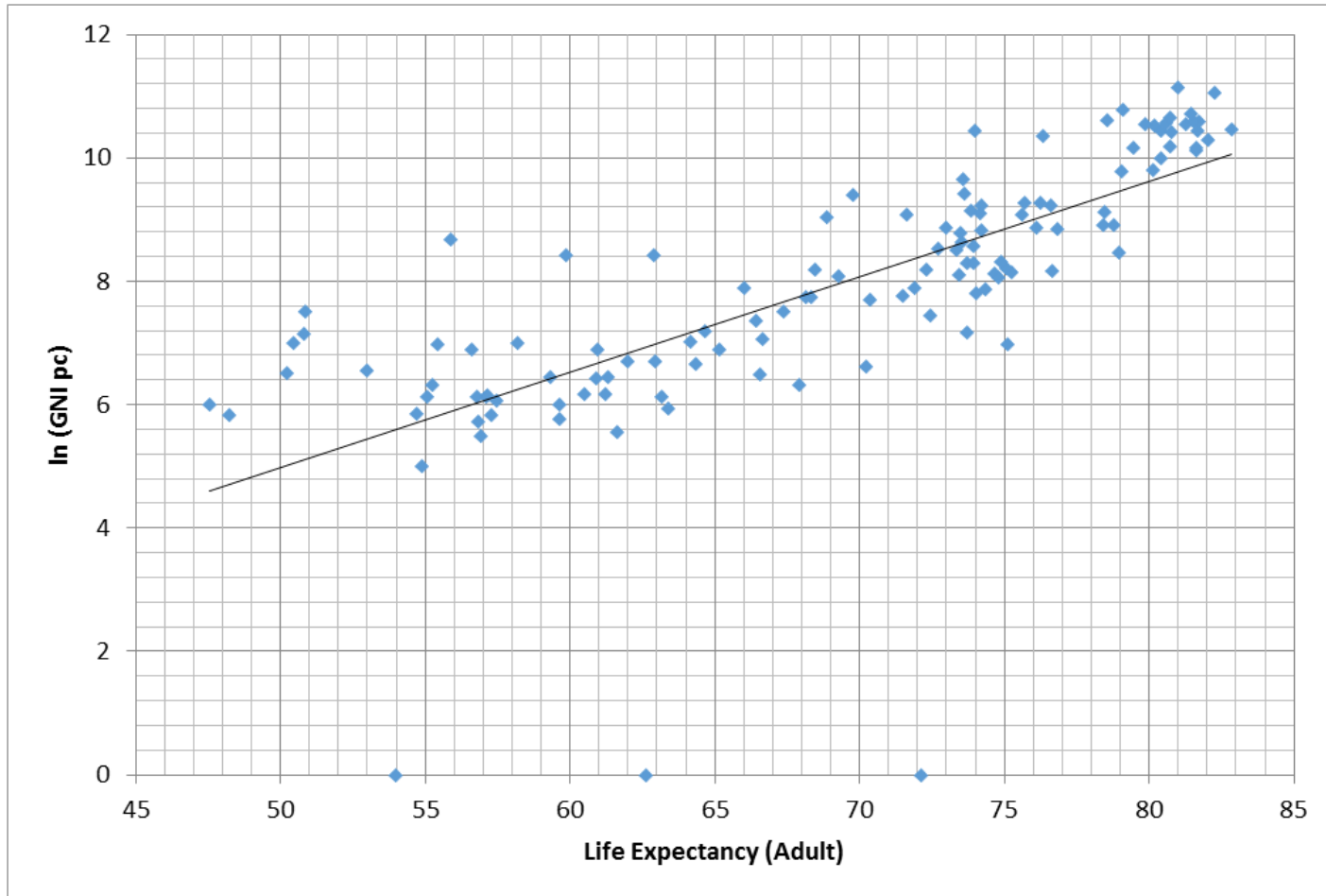
Institutions can help predict welfare outcomes

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