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Effects of Legalizing Bribe Giving and Returning Bribes

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Under what **conditions** different anti-corruption **incentive measures** work **better**?

- What are *conditions*?
- What are *incentive measures*?
 - Traditional measures (fines, imprisonment, efficiency wages)
 - Provocation of a bribe
 - Basu proposal
- What is *better*?

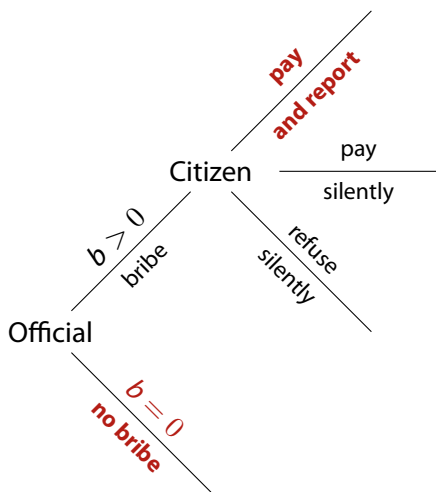


- How to model corruption? (Rose-Ackerman, 1978 etc.)
- Optimal institutional design? (Shleifer & Vishny, 1993 etc.)
- How recent proposals work? (Basu, 2011 etc.)
↑ **Fedorovykh, 2014** by game theory



Basu, Kaushik (2011). “Why, for a Class of Bribes, the Act of Giving a Bribe should be Treated as Legal”:

- Consider *harassment bribes* (citizen has to pay for what he is supposed to get for free)
- Legalize bribe-giving
- Double the fine for bribe-taking
- Return bribe to the bribe-giver



(No bribe;
Pay and report) is SPNE



Jean Drèze (2011). “The bribing game”:

- Legalization can make corruption morally acceptable
- Hard to prove when reporting
- Imperfect law enforcement (corrupt judges)

M. Dufwenberg and G. Spagnolo (2012).

“Legalizing Bribe Giving”:

- Formal game-theoretic models
- Immunity is conditional on reporting
- (Unsurprisingly) Works better with better law enforcement
- (Surprisingly) Works well for bribes *with theft* (not harassment) under compensation.



M. Oak (2013).

“Oak M. Legalization of Bribe Giving when Bribe Type is Endogenous”:

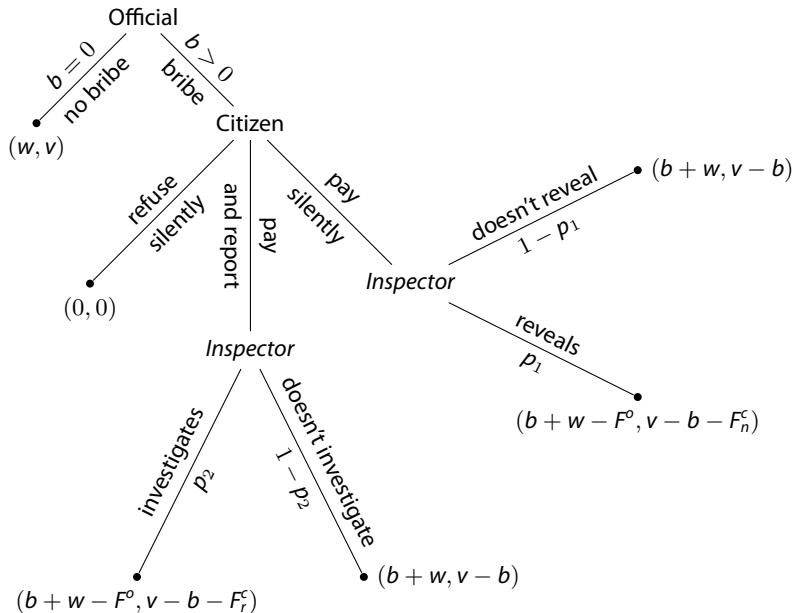
- Type of bribe is endogenous – determined after test
- Basu approach decreases corruption *without theft* and increases corruption *with theft*
- The official has no incentive to provide any services legally
- Citizens lose incentives to prepare for the test

K. Abbink et al. (2013). “Letting the Briber Go Free: an Experiment on Mitigating Harassment Bribes”

- Lab experiments
- Possibility of revenge by official
- Basu approach works better if revenge is limited and law enforcement is good

- Harassment bribe
- **Actors:** Official, Citizen, *Inspector* (nature)
- Official's legal wage is $w > 0$, bribe $b \geq 0$, fine (if caught) F^0
- Citizen's gain is v (known to Official), fine F_r^c if reports, F_n^c if doesn't report
- All are risk neutral
- $Pr(\text{caught}|\text{silent}) = p_1, Pr(\text{caught}|\text{reports}) = p_2,$
 $0 < p_1 < p_2 < 1$
- $F_r^c \leq 0, F_n^c \geq F_r^c$ (Basu style)
- Let $F_r^c = -\alpha b, \alpha \in [0; 1]$
(Negative α – positive fine in case of report)

Approach	Conditions	Parameters
No excuse	The C. is punished	$F_r^c, F_n^c > 0, \alpha = 0$
Basu (2011)	The C. is excused and gets b back	$F_r^c = F_c^c = -b,$ $\alpha = 1$
Dufwenberg and Spagnolo (2012)	The C. is excused and gets b back only if reported	$F_n^c > 0, F_r^c = -b,$ $\alpha = 1$
Criminal Code of Russia	The C. is excused (and does not get b back) only if reported	$F_n^c > 0, F_r^c = 0,$ $\alpha = 0$





- Citizen never stays silent – either pays or pays and reports
- Optimal bribe for the official:

$$b^* = \frac{v}{1 - p_2\alpha}$$

- Min. fine for no corruption:

$$F^o \geq \frac{v}{(1 - p_2\alpha)p_2}$$

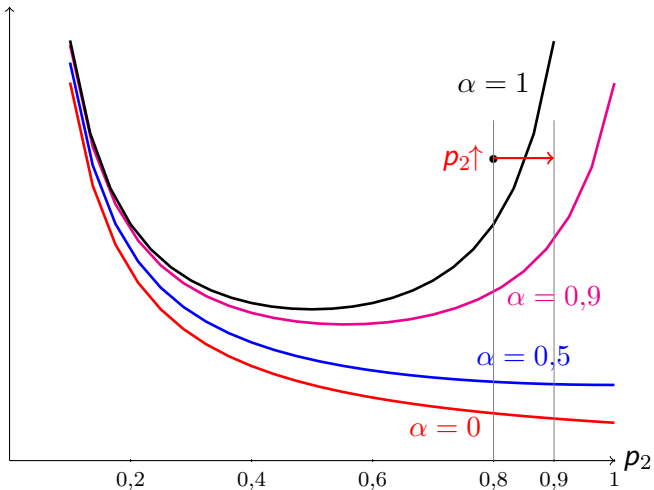
The Model

some first findings



Quality of law enforcement and min. fine for no corruption

$F^o(p_2)$





- If $\alpha > 0.5$, the function $F^o(p_2)$ has the minimum.
If quality of law enforcement increased,
 - corrupt officials are happy,
 - more officials become corrupt.

Why? Better law enforcement causes 2 effects:

- bribe acceptable by the citizen \uparrow (bribe more likely to be returned);
 - the official pays fine with greater probability.
- Min. fine \uparrow in α with any law enforcement.
(Together with immunity, one must increase fines or improve law enforcement)

One must use Basu proposal with care



- Build new models (heterogeneous agents, asymmetric information etc.)
- Test them somehow
 - Lab experiments?



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