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Bureaucratic delays and bribe-taking

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Abstract

Bureaucrats in LDCs are known to often elicit bribes by delaying the processing of documents (“applications”) submitted by private agents. This paper models this practice and discusses two procedures to control the consequent social welfare loss. We show that, compared to the situation with no sanctions on bribe-taking, imperfect vigilance coupled with penalties for bribe-taking leads to more frequent delays and a pareto-inferior solution. A superior governance mechanism involves a reward/penalty scheme based upon the average time taken to clear applications. An efficiency wage may have to be paid to implement this solution.

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In many less-developed countries, one often finds it necessary to pay a bribe to obtain a routine service from a government office, even when no laws are broken in the course of obtaining the service. Indeed, it may be the case that a private citizen has to pay a bribe in order to be able to discharge an obligation. Thus a cashier at the electricity office may not accept payment on a bill (perhaps citing some “irregularity”), or a clerk at the Department of Motor Vehicles may refuse to renew one’s driving license unless a bribe is paid. Even if outright refusal may not be sustainable, processing can be significantly delayed, and citizens may find it convenient to pay the required “tip” instead of suffering the inconvenience of delay and risking possible fines. In case of businessmen, the delay may mean loss of revenue or penalties for failing to comply with laws.

Admittedly, corruption is far from unknown in developed economies. However, in LDCs it is often an everyday and commonplace occurrence, frequently cited as primary among

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the factors which impede the effectiveness and functioning of the institutional structure.¹ Studies have shown that the extent of corruption is significantly linked to the paucity of GDP growth (Mauro, 1995), and international businesses frequently report it as a principal factor obstructing the development of commerce. There is reason to believe that it is also a causal factor in restricting development (see, for example, Wade, 1985). In Hong Kong, for example, the elimination of corruption in the system of assessment and collection of taxes (and in other aspects of government) occurred during the 1970s (Klitgaard, 1988), and was likely a critical ingredient in the city's meteoric rise to maturity.

The examples in the opening paragraph above refer to a particular type of corruption—one in which officials responsible for dispensing a legal service to legitimate recipients threaten to withhold or delay the service unless a bribe is paid. This institution is often referred to as “speed-money”.² Since even the humblest official has the power to slow down processes under his supervision, speed-money is ubiquitous and its presence has been widely noted.³ However, it has received relatively less attention in the analytical literature that focuses predominantly on bribes paid by law-breakers to corrupt officials—income-tax evasion being the archetypal case.

This paper presents a simple model of speed-money, based on a bureaucrat's ability to delay processes. I consider a single bureaucrat (‘clerk’) who has the job of assessing applications and can delay an application even if it complies with all rules. He uses this power of delay to extract a bribe in exchange for normal processing. To keep the model simple and maintain focus on the institution of “speed-money,” I have assumed that the clerk is unable to approve incomplete applications. Applicants vary in their valuation of time, so some are willing to pay the bribe while others are delayed. The cost of time is used as a measure of welfare loss; transfers from applicants to the clerk are welfare-neutral.

I discuss the effect of an increase in government vigilance coupled with punishments on the welfare loss induced by this kind of corruption. The main result is that as long as monitoring is imperfect, imposing a penalty directly on bribe-taking actually increases the welfare loss. The optimal governance mechanism is a reward/penalty structure defined directly with respect to the delay. Accordingly, anti-corruption activity in Section 2 consists only of identifying incidents of bribe-taking, while in Section 3 attention is focused on the rate of approvals (or rejections) made by the clerk. The distinction is important because the knee-jerk response to corruption is to institute a vigilance force to catch dishonest officials in the act. This paper shows that this is the wrong approach; in the effective policy acts of corruption do not directly come to light.

The key results are sensitive to the assumption that the clerk cannot distinguish between clients who value time differently. Thus this is a pooling model. In a separating model, the

¹ See Bardhan (1997) for a recent survey that also includes a discussion of aspects that this paper does not address. The website of Transparency International has a wealth of detail, as well as a “corruption-ranking” of countries. The classic reference on corruption is Rose-Ackerman (1978).

² Marjit et al. (2000) study a case where government officials threaten to “harrass” citizens unless paid a bribe. Their focus is on tax-collection and the determination of government revenues in equilibrium, but they do provide examples and a discussion of this rather wide practice.

³ Basu (2000) cites an unnamed New Delhi official who reportedly professed that he could not ensure the progress of a file through the bureaucracy, but could certainly *stop* its progress if he wanted to.

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