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Bribery, inefficiency, and bureaucratic delay

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Abstract

We examine bribery in a dynamic setting with a partially honest bureaucracy. The presence of honest officials lowers the bribe that a corrupt official can extract from efficient applicants. Consequently, efficient applicants may face delays in receiving licenses, or may never receive licenses, as inefficient applicants are serviced ahead of them. An increase in the proportion of honest officials, while directly increasing the incidence of socially optimal decisions, can also induce greater inefficiencies (misallocation and delay) from corrupt officials. As a result, social welfare may be non-monotonic in the proportion of honest officials, and small differences in monitoring costs may lead to very different levels of corruption. Competition between officials can hurt efficiency; its desirability depends on the prevalence of applicants' ability to pay bribes.

JEL classification: D61; D73; H11; O17

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1. Introduction

In many developing economies, business ventures require official sanction, in the form of licenses or permits, to operate.[1] If bureaucrats maximize personal gain and are not sufficiently monitored, as is often the case, their discretionary power in awarding licenses gives them the opportunity to extract bribes. This raises important questions. What is the impact on efficiency? Who ends up with licenses? How is timeliness of bureaucratic service affected? How can

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[1] For evidence, see de Soto (1989), Shleifer (1997), Berkowitz and Li (2000), and Djankov et al. (2002), among many others.

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licensing be set up in order to maximize efficiency? To what extent should officials be monitored or trained to be honest?

One strand of the literature has defended bribery as a mechanism that ensures both allocative efficiency and punctuality in official decisions. For example, it is argued that the most productive applicant will be served since she is willing to pay the highest bribe.[2] Similarly, it is argued that bribes can provide bureaucrats with the incentive to "speed up", and that the one with the highest value on time will be willing to pay most to move ahead in the queue.[3] In short, allowing bribery may both improve and speed up the allocation of goods and services.

A counterargument is that the obstacles to business–red tape, required permits, and slow service–are not exogenous barriers, but bureaucratic actions designed to raise revenue. If the existence of these barriers is endogenized, bribery may no longer be efficient.[4]

While this argument is undoubtedly important, we take a different approach here. We employ a standard bribery model in which the licensing requirements–the barriers, so to speak–are perfectly in line with efficiency. Further, the socially efficient candidates are the ones to whom the license is worth most.[5] We augment this standard model in two basic ways. First, we extend it to be dynamic. Licenses are distributed over two periods. Applicants can re-apply to a new official in the second period if denied a license in the first period. Second, some officials are honest and act in the interest of efficiency. This assumption may be less standard, but can be motivated by assuming these agents are either intrinsically motivated or externally monitored. Intrinsically motivated agents, via a sense of identification with the organization or its goals, have recently received greater theoretical attention.[6] They are arguably as relevant in the study of corruption as anywhere else.

These two additional features overturn both types of efficiency results. Rather than speeding up licensing, bribery can give corrupt officials incentive to delay disbursal. It also may result in the inefficient producers being licensed ahead of, or instead of, the efficient ones. Bribery may, therefore, result in the inefficiencies of misallocation and delays that are frequently, in popular perception, regarded as the twin vices of a corrupt bureaucracy.

Inefficiencies arise for the following reasons. Productive applicants are rationally searching for conscientious service that will recognize the merits of their petition. In contrast, less deserving applicants do not anticipate gains from searching for honest officials and can be more ready to bribe. Necessary for this is sufficient prevalence of *honest* officials, paradoxically. Past some threshold of bureaucratic honesty, efficient applicants' value of waiting is elevated to the extent that they are no longer willing to pay the most for licenses. Consequently, inefficient applicants can be serviced while efficient applicants are delayed service or denied it altogether.

[2] Beck and Maher (1986) and Lien (1986) formalize this idea in the context of N agents bidding or bribing for a single government contract. This same model has been expanded to show conditions under which allocative efficiency may not hold. It may not if bidders have differing views on the corruptibility of the official (Lien, 1987); if the official discriminates between bidders (Lien, 1990); if the bidders' types are drawn from different distributions and bribes are not refunded to losers (Clark and Riis, 2000); and if the bidders' moves are sequential rather than simultaneous (Lien, 2002).

[3] See Lui (1985).

[4] Banerjee (1997) and Guriev (2004) endogenize the amount of red tape that can be circumvented via bribery and find it is typically higher than optimal. Acemoglu and Verdier (2000) show how corruption can arise in equilibrium even when the degree of government intervention is optimally chosen.

[5] In this we are similar to Banerjee (1997) but different from Guriev (2004), who analyzes the case in which the socially efficient applicants profit less from getting a license than socially inefficient applicants.

[6] See Besley and Ghatak (2005) and Akerlof and Kranton (2005). Tirole (1996) also assumes the existence of exogenously honest and dishonest bureaucrats. We discuss this issue in more detail in Section 2.