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# Corruption and decentralization: What economists have to say about it

*Tjasa Bjedov, Thierry Madiès, Simon Schnyder\**

*This paper deals with both theoretical and empirical aspects of the link between corruption and decentralization in both developing and emerging countries. Only mixed results can be drawn from the literature. Decentralization can help discipline “predative” governments, but only under certain conditions. Indeed, it depends on fiscal arrangements and political features that are likely to be different between countries. The way incentives to local governments are designed by the central governments also plays an essential role.*

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*Este artículo trata los aspectos teóricos y empíricos de la relación entre corrupción y descentralización, en los países emergentes y en aquellos en vías de desarrollo. Sólo los resultados conjuntos pueden esbozarse en la literatura. La descentralización, en ocasiones, puede ayudar a limitar el comportamiento “depredador” de los gobiernos, pero sólo bajo ciertas condiciones. De hecho, esta cuestión está estrechamente relacionada con las características fiscales y políticas que, casi siempre son diferentes entre países. Sin duda, los incentivos diseñados por los gobiernos centrales juegan un papel esencial.*

Keywords: decentralization, corruption, developing and emerging countries

JEL classification: D7, H1, H2, H3, O1

## INTRODUCTION

For at least 20 years, decentralization has often been considered a means to improve the governance and efficiency of public spending in developing countries as well as in economies in transition. Furthermore, decentralization deserves some credit for limiting corruption, which remains the endemic evil in most of these countries. Economic literature concerning the question of corruption is excessive and the main branch focuses on the

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effect of corruption on important macroeconomic variables such as public investment, economic growth (Tanzi and Davoodi, 1997) and on the public spending composition (Mauro, 1995; 1998). There are, on the other hand, fewer articles which are interested in the causes (or determiners) of corruption. Research does exist on the linkage between corruption and market structures (Ades and Di Tella, 1995) and also on the relation between natural resources and corruption or on the industrial policies effect on corruption. The study of the link between decentralization and corruption is the object of a relatively recent and expanding literature even though we can already find tracks of this debate in the work of authors such as Brennan and Buchanan (1977; 1980). These two authors do not specifically emphasize the question of corruption but postulate that governments do not behave as “benevolent despots” worried about the well-being of their citizens but rather as Leviathan trying to remove the maximum of advantages from their power and trying to buy favors from a political clientele. Competition between public authorities is then considered as a means to limit the “predation” behavior of elected representatives in power when the electoral penalty is not sufficient to discipline them.

**To study the link between corruption and decentralization is, however, not an easy task to do since these two notions raise redoubtable conceptual and measures problems** (both being strictly connected) – it is not completely surprising given that the notion of corruption defined by the World Bank as the “fact for an elected representative or a public sector agent to use its position in purposes of personal enrichment” presents, effectively, numerous facets and reflects very different realities according to countries and often, we have to concur, to value judgments that economists have difficulties to model. Economic literature (at least its theoretical part) generally favors one or another of these facets. Consequently, it follows that the obtained results are strongly contingent on definitions, and comparisons from one model to another are difficult to make. In numerous models corruption is a synonym of bribery. However, for some authors (see Bardhan and Mookherjee, 2006), the definition of corruption has to be widened so as to take into account the lobbying activities of various interest groups which try to modify the laws and regulations in their favor. Financial contributions to political election campaigns are the most evident example. Authors from the second generation of fiscal federalism<sup>1</sup> suggest widening the question of

<sup>1</sup> See Weingast, 2006

corruption to one of politicians' responsibility ("accountability")<sup>2</sup>. The crucial question is then to define under which conditions (in particular from an incentive point of view) decentralization is a factor that allows the improvement of the efficiency of public spending and the disciplining of the elected representatives.

**However the notion of decentralization also raises redoubtable problems and a clarification effort is necessary** (for more details see Dafflon and Madiès, 2008). Decentralization refers to concepts that are often different but are, in fact, intertwined. The link between decentralization and corruption closely depends on the definition of decentralization that is held and, more precisely, on the relations that exist between various levels of governments. We distinguish several degrees of decentralization: *deconcentration* consists of giving power over certain decisions to agents that exercise their functions in a given territorial district while remaining under the hierarchical authority of the central government and generally aims at improving the operational efficiency of the central government's action within a given administrative district; *delegation* designates the transfer of power and responsibility from the central government often to semi-autonomous entities within a clearly defined field or responsibility. *Devolution* is the most advanced form of decentralization in that it transfers powers and responsibilities to public bodies elected by their constituencies. Responsibilities and resources are transferred to local powers (often local governments) that have considerable autonomy as to how to use these resources in their areas of responsibility and in a legally acknowledged administrative jurisdiction. Devolution goes hand-in-hand with political decentralization when local powers must account for their decision before elected assemblies. Devolution is habitually confused with fiscal decentralization when it comes with a clear assignment of financial relationships and powers to levels of government that have the ability to raise financial resources and have substantial budget autonomy (in regard to spending).

This brief review of the various definitions of decentralization and corruption shows that there is a large variety of possible situations. It explains the contrasting and even opposite results obtained by the economic literature. To this, the difficulty of simultaneously measuring corruption and decentralization is added, as we shall see. The expected effects of the various forms of decentralization on both corruption and

<sup>2</sup> Qian and Weingast 2005, Bardhan and Mookherjee 2006

the empowerment (“accountability”) of governments are complex to comprehend, both from a theoretical and an empirical point of view, because they are contingent to both institutional and socioeconomic features of each country.

### **DECENTRALISATION AND CORRUPTION: WHAT DOES ECONOMIC THEORY TEACH US?**

Economic literature confers two kinds of virtues to decentralization: the first gives a sense of responsibility to the elected representatives and limits bureaucratic behaviors by introducing competition into the public sector; the second strengthens democratic control over the budgetary choices of the elected representatives namely by allowing citizens (who are also the taxpayers) to make comparisons of performances with the elected representatives of the nearby communities (“yardstick competition”). We discuss these arguments in favor of decentralization in the following paragraphs and show that it is necessary to take them with great precaution. A reason for this is that in economic modeling decentralization often boils down to introducing competition at the decentralized level between local authorities (“horizontal competition”) and to forgetting the strategic “vertical” relations between different levels of the government, which are often the actual source of conflicts.

**Competition between public authorities as a way to discipline governments: an argument that needs to be moderated** – decentralization would have as its main virtue that it introduces competition and thus some discipline into the public sector, in particular between decentralized jurisdictions. This argument has the same notion as the one developed by Brennan and Buchanan (1977, 1980). For them, governments behave as predators once they are in the power and there is a need to discipline them. The possibility of a “fiscal exit” for taxpayers is then a constraint which puts pressure on governments’ choices and reduces the predation behavior. More generally, bad governance which would lead to the generalization of bribes, or to the implementation of regulations designed to serve particular interests to the detriment of productive public investments, can lead to an outflow of mobile factors towards communities where corruption is, in the broad sense, lower. Facing this potential outflow of a taxable base local governments are thus incited to fight against corruption and develop necessary infrastructures for economic growth and development. Still, these local jurisdictions have to

enjoy a sufficient financial autonomy and face adequate incentives so that they can recoup the investments they have realized in order to attract companies and households to their territory. We should add that if a vertical imbalance exists (if own local resources are lower than local expenditures) and if this vertical imbalance is filled by discretionary budgetary transfers from the regional level then it can lead to a loosening of the local authorities' budgetary constraint ("soft budget constraint") especially if these jurisdictions know that they can count on additional funds paid by the region they are a member of. The competition between regions then forces these regions to limit the budgetary transfers to local authorities (some of which may have been granted purely for political reasons); which "disciplines" the whole system.

In reality, advantages coming from competition between decentralized jurisdictions are not that obvious once we explicitly introduce several layers of governments which are predatory and corrupted. Recent work (see for example Keen and Kostogiannis, 2002) shows, indeed, that an increase of fiscal competition at the local level can strengthen predation behavior when local levels of government share their tax base with an upper level of government. The general idea is that competition at the decentralized level leads to a decline in local tax rates for which the upper level of the government is compensated for increasing its own rate which allows the latter to increase its fiscal receipts. The underlying theoretical problem is then similar to the problem of "double marginalization" in industrial economics and is closely-related to the so-called "tragedy of the commons" (Gardner, Verdier and Waller, 2002). By the same token, we show that if several levels of governments are corrupted and accept in a non-cooperative way bribes from a given investor then the amount of bribes that this investor has to pay to the different levels of government is higher than the amount that would be required by a single centralized level of government (each level of government takes, in a way, its "tithe"). On the other hand, the total amount of bribes paid by all the investors would be higher in the case of a single level of government because the amount of the realized investments would be more important than if there were several levels of government (we suppose implicitly that, all things being equal, private investment is an inverse function of the paid bribes)<sup>3</sup>. This result is far from trivial because the obtained results differ completely depending on the amount of private

<sup>3</sup> The problem is similar to the overtaxation of a common taxable base by several layers of government (see Dafflon and Madiès 2008)

investment in a given jurisdiction in relation to the amount of bribes by an investment project or the total amount of the bribes paid. Moreover, it remains to be proven that if competition between decentralized communities allows a reduction of bribes taken from each investment project at the local level that the central or federal government will not take advantage of the present situation to increase its bribes (some people assert, however, that central governments are doubtless less subject to “capture” by private interests but this still needs to be demonstrated). There is no theoretical answer to this question because the level of corruption (as well as tax rates in the case of a common base) may be “strategic substitutes” or “strategic complements” (Treisman, 2006).

The beneficial effects from competition between decentralized jurisdictions must be reconsidered as soon as there are huge regional disparities between regions resulting, for example, from differences in human or in natural resources. Cai and Treisman (2004) show that in that case decentralization and competition between regions can drive the “least productive” regions, from the private investors’ point of view, to give up trying to attract investment and on the contrary to extract the maximal “rent” from not- or slightly-mobile bases already present in their jurisdiction. The level of corruption, or more precisely in this model, public resources subtracted for private purposes by the governments (to the detriment of productive infrastructures’ financing) could be higher in a decentralized system in comparison to what it would be in a centralized system, at least for regions that are the least endowed.

We will finally focus on the third argument that also leads to a moderation of the beneficial effect coming from competition in the decentralized layer on the corruption level (Cai and Treisman, 2004). When local authorities are competing in order to attract mobile production factors (think of productive capital or qualified workers), competition may come at the cost of the central State. Indeed, decentralized governments may be tempted to attract or to keep these production factors in their jurisdiction by playing not only on their tax rates and on the quality of local public services (underlying hypothesis is the “vote with their feet” Tiebout model) but also “by protecting” the owners of these production factors against the central authority power. A local government could thereby decide not to apply or could disrupt the central government’s regulations’ application should the latter impose additional costs to companies. This kind of obstruction operation from local governments become a problem only if we consider that the central government action is beneficial in the sense that it supplies public goods and col-

lective services which increase companies' productivity and enhance households' well-being. In a "not cooperative" context all the regions are prompt to take part in this small game to the detriment of the center whose authority and financial resources are being considerably undermined.

**Political behavior and yardstick competition** – another branch of the literature dealing with the links between decentralization and corruption emphasizes electoral control (the "voice" according to Hirshman's definition, 1970) which is exerted by citizens on their elected representatives. When the mobility of individuals is limited (which is often the case) the vote is the main way voters have to make their preferences heard. The heart of the problem obviously concerns information that voters have at their disposal about the government's action. For Seabright (1996) citizens are more capable of judging the performances of local elected representatives in comparison to the performance of a central government, which forces local elected representatives to pay more attention to their management and to conform as much as possible to voters' preferences if they want to be re-elected. The problem, of course, in developing countries is that the vote is often instrumented by local elites or subjected to center pressures (a jurisdiction that would vote "wrong" would be punished by the center, for example). Moreover, electoral competition could give the power to another "clan" whose aim would also be to take control of the rent; which makes the electoral sanction ineffective in the sense that it would not in any way solve the corruption problem. The second advantage conferred to decentralization is that it gives voters the possibility to compare the performance of their elected representatives to that of the nearby elected representatives; which allows them to identify possible opportunist behaviors (comparison of political performance across jurisdictions substituting itself in a way for individuals' "exit" when the latter is not possible). It is the hypothesis of the "yardstick competition" applied to the analysis of the political behavior (Salmon, 1987). Once, the voters have the capacity to look at what is happening in nearby or similar jurisdictions, they can learn from this comparison. Thereby, local officials in power have to take into account not only criticism and promises of their direct challengers, but also performances of the nearby elected representatives<sup>4</sup>. Two theoretical con-

<sup>4</sup> A particular question is raised in the case of developing countries and namely to know if there exist a real alternative or simply parallel groups of predators (direct competitors waiting to be elected before taking advantages at their turn).



clusions appear from this kind of logic. First of all, to avoid the stigmatization elected representatives tend to imitate each other. Secondly, the yardstick competition has the effect of disciplining the elected representatives, who are afraid of being politically punished for underperforming in comparison to the elected representatives of nearby jurisdictions.

There are however arguments going in the opposite direction. For example, Blanchard and Schleifer (2001) show that decentralization can lead to a capture of local governments by well-organized interest groups. This kind of arguments leads Sonin (2003) to the conclusion that decentralization is desirable when it gives more financial autonomy to local governments; however, it should be accompanied by a kind of political centralization so that the central government is capable of imposing necessary reforms on local governments and of punishing those that are too open to corruption. Note that in this we employ the hypothesis that the central government may not itself be the instrument of particular interests (an hypothesis which in some cases may seem heroic!).

As we can see mechanisms allowing an understanding of the link between decentralization and corruption are not yet well established and are strongly contingent to the situation of every country. However, empirical studies exist from which we are going to try to draft some lessons.

## DECENTRALIZATION AND CORRUPTION: WHAT DO EMPIRICAL STUDIES TELL US?

**Empirical studies results are mitigated.** Concentrating on measures of fiscal decentralization, Huther and Shah (1998), De Mello and Barenstein (2001), Fisman and Gatti (2002) or Arikan (2004) show that a greater share of public spending implemented at the regional or local level is associated with a weaker level of the perceived corruption, measured alternately by the following indicators TI, ICRG, or WB<sup>5</sup>. In their work, Enikolopov and Zhuravskaya (2007) show that in developing countries as well as in transition countries, a stable and long-lasting political system together with a low “fragmentation” of national political parties contribute to enhancing the positive effects of decentralization on both the quality of governance of public authorities and the provision of public services and also on the economic growth rate. The authors also find

<sup>5</sup> TI: Transparency International; ICRG International Country Risk Guide; WB: World Bank

that a political system in which national parties are solidly established allows the alignment of local elected representatives' incentives to the objectives of the center, while keeping the local elected representatives accountable before their voters; which is a necessary condition for an effective decentralization.

Goldsmith (1999), Treisman (2000) and Kunicová and Rose-Ackerman (2005) use political decentralization indicators rather than fiscal and find that governments with a federal structure systems are associated to a higher level of perceived corruption. The robustness of these results is, however, questioned by Treisman (2007). Fiscal decentralization's negative impact on perceived corruption is weakened when a country's religious tradition is taken into account; Treisman (2007) finds that the connection between a political arrangement of a federal kind and perceived corruption is weakened when a country's number considered in the sample increases, and disappears for a rather large sample (more than 100 countries).

**Local governments capture: Weakness of the center or socioeconomic weaknesses?** The risk of local governments being captured by private interests, stressed by the theory, seems to be confirmed in several contexts by the empirical literature. We present here some illustrative results concerning particular cases. The first example concerns the instrumentalization of regional governments by industrial interests in Russia. Indeed, efforts of decentralization undertaken at the beginning of the 1990s in Russia strengthened the capacity of regions to set legal standards and companies' regulations. Slinko, Yakovlev and Zhuravskaya (2004) tried to estimate the importance of the regional governments' "capture" by industrial interests in Russia by listing preferential treatments granted to the twenty biggest companies in every region (according to their turnover) over the period 1992-2000. These special treatments consisted of tax abatements, loans at preferential rates, subsidies or in granting the status of "special economic zone" to the territory on which the company was established. The authors put in relation this level of "capture" with regional economic development characteristics. One of their main findings is that the number of special incentives granted by regional governments increased over the period 1992-1999, the period marked by decentralization policies, and decreased by more than a third due to the implementation of recentralization policies started in 1999 by Vladimir Putin.

These data then allowed the authors to build a measure of the regional governments' "capture". This measure is positively correlated with both

the Transparency International and Information for Democracy rankings that measure countries' level of "capture" by private interests. Economic performances (measured by the growth rate of sales, fixed capital, payroll, productivity gains and the profit growth rate) of companies benefiting from a power of lobbying at the political level are compared with those that do not benefit from it. The authors thus show that the power to use political pressure has an important and strong positive effect on the above listed economic performance indicators. Companies enjoying a disproportionate amount of special incentives have better economic performances on average than those companies which do not benefit, or modestly benefit, from special treatments. Slinko et al also show that the development of small- and medium-sized enterprises' is negatively affected by a government's capture's level in a given region. The Russian case shows that in a weak or in a transitional institutional context, decentralization can increase the level of collusion between particular interests and local governments.

More generally, empirical literature shows that the "capture" level of authorities at the local level is also connected to socioeconomic variables such as the literacy tuition level, wealth, political participation or the local democracy tradition. The lack of political competition at the decentralized level also seems to have an explanatory role in the level of governments' capture by private interests. For example, Reinikka and Svensson (2004) examine the extent and determinants of the misappropriation by local governments of funds intended for primary education in Uganda. This study shows that, over the considered period (1991-1995), if educational spending represented about 20 % of the total public spending, on average only 13 % of this percentage finally arrived at the intended beneficiaries. On average, 87 % of this educational spending disappeared diverted at the local level. The extent of these diversions seems to be explained, on one hand, by the low level of control from the central government in this domain and, on the other hand, by the payment of educational subsidies to regions in the form of direct financial transfers, and not in the shape of infrastructures or equipment as can be the case in other sectors.

The authors demonstrate that to a large extent differences between jurisdictions (districts) that "capture" the funds intended for schools can be explained by a game of negotiation between the administration or local politicians and the schools. These negotiations are generally controlled by parent committees. The socioeconomic level of the population whose

children attend a given school has a positive impact on the amount of subsidies received by this school, in other words, a negative impact on the level of subsidies “capture” by the local government. The average income level of a jurisdiction also has an important impact on the share of funds actually allocated to schools. Thus, poor jurisdictions suffer more than average from this diversion of funds intended for education. The information level of the population, itself correlated with the education level and with the average income of different populations, is seen by the authors as an important factor to explain the level of “capture” of local governments. Given these results, the Ugandan central government undertook an advertising campaign in the press, aiming at improving the information level of the population regarding the school public funds’ level received by local governments. Reinikka and Svensson (2003) studied the impact of this information campaign and confirmed the intuition according to which information plays a leading role in this phenomenon of “capture”. The authors show that the distance to the closest newspapers’ selling point is negatively correlated to the “capture” level’s reduction of public funds. Dramatically, the average funds’ “capture” level intended for schools decreased from about 80 % in 1995 to less than 20 % in 2001.

A theoretical argument in favor of the delegation of tasks from the center towards regions is that local governments are better informed regarding the needs and particularities of their jurisdiction’s population. In parallel, when the fiscal and budgetary decentralization is accompanied by a political decentralization, it is easier for voters to punish, via elections, local elected representatives when the State’s services’ quality is considered insufficient. This electoral pressure should therefore encourage local elected representatives to serve in the interest of their best voters. This mechanism is based, however, on the hypothesis that citizens possess a sufficient level of information regarding the tasks and means of local governments, which is clearly not the case in the context studied by Reinikka and Svensson (2004).

**Decentralization: local performances and the erosion of the center’s power.** The phenomenon of collusion between local governments and companies, or the “capture” of local governments by particular interests, can lead to a decline of the central government’s fiscal receipts. Such a scenario seems to be verified empirically. Thus, in the Russian case, Slinko, Yakovlev and Zhuravskaya (2004) show that the “capture” level

of local governments (which is measured by the increase in the degree of concentration of special incentives for a small number of companies) is negatively correlated to federal fiscal receipts. More precisely, way, the capture level of the government is positively correlated to federal tax arrears, but is not correlated to regional taxes arrears. This result thus seems to demonstrate that Russian regional governments protect companies present in their jurisdiction from the federal tax system. This is all the more true since regional governments are “captured” by some companies.

This protection behavior of companies by local governments against central government’s fiscal prerogatives is also noted in China by Young (2000). Since the 1980s several episodes of decentralization have led to an important autonomy given to provinces with respect to fiscal and industrial policies. Thereby, provinces have had to maintain their budget balance while the transfers coming from the center in their resources have strongly decreased in the same period. Young (2000) shows that provinces systematically developed tax exemption schemes for new companies, thus allowing them to avoid to paying taxes to the central government. What is noteworthy is that provincial governments then compensated for their own loss of tax revenue by increasing other compulsory taxes and social contributions.

As illustrated with the Russian and Chinese cases, the hypothesis that the central government’s receipts may be eroded by regional governments is more than a simple theoretical possibility, and seems to be a real risk inherent to decentralization. This collusion against the center can be the result of two mechanisms: an effect of a government’s capture by interest groups, or the result of competition between regions, with every region trying to become more attractive by helping companies to evade the central government taxes.

**Decentralization and economic development.** If certain episodes of decentralization seem to have had perverse effects on the corruption level and the governance quality, Jin, Qian and Weingast (2005) show that, in the case of China, important positive effects on development and economic growth at the local level comes from the incentives provided by harder budget constraints at the regional level. The authors studied the effects of various episodes of fiscal decentralization that took place in China over the period 1982-1992. Before 1980, Chinese provinces taxed their residents and the profits of state-owned companies that were located

on their territory for the account of the central government and received from the latter financial transfers corresponding to the planned expenditures. From 1980, reforms allowed provincial governments to keep a fraction of their fiscal receipts coming from the non-state sector. During this period, the retention rates increased and were not allocated evenly across provinces. The authors demonstrated that both the increase in the share of provincial fiscal receipts which are left at the disposal of the provinces' governments (the so-called retention rate) and the level of decentralization (measured as the ratio of local public spending to central expenditures in a given province) have an important and significant effect on the economic development of the non-state sectors and on the reforms undertaken by companies falling under the control of local governments. Subsequently, the Chinese experience illustrates that a combination of fiscal decentralization and a high degree of budgetary autonomy can provide the right incentives to local governments so that they are able to appropriate the results of their economic development. Decentralized governments are thus encouraged to improve their infrastructures and to decrease corruption that discourages private investment, as the latter is able to move between provinces. As well, the budgetary constraint imposed on provinces dissuades regional governments from supporting ineffective companies and encourages them to carry out reforms.

China is therefore one example of a country in which the combination of both decentralization and fiscal autonomy has produced beneficial incentives on local governments and has allowed a sustained economic growth since the 1980s. These tax incentives seem to have compensated for the negative effects resulting from the collusion against the center and from the potential government capture decentralized by private interests. It is exactly this phenomenon of capture that seems to largely explain the relatively weak economic growth in Russia after the decentralization policies since local governments do not benefit from sufficient incentives for good governance.

## CONCLUSION

There is a large variety of possible situations in terms of decentralization and corruption. This explains contrasting and even opposite results obtained in the economic literature, both theoretical and empirical. If in certain cases decentralization allows the disciplining of governments, the result may be opposite when certain institutional and political constraints are not respected. In particular, incentives supplied to local governments

play an essential role. Aligning the interest of local governments with the voters' interests leads to a decentralization that will be effective in terms of quality of governance. However, this also calls for an informed electorate as well as for a stable and sustainable political system.

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## Corruption and decentralisation: Empirical Evidence

Authors	Data/Period/Estimation	Corruption Index/ Control Variables	Main Results
Huther and Shah (1998)	<ul style="list-style-type: none"> <li>• 80 Countries</li> <li>• Period 1980-1983 and 1990-1993</li> </ul>	<p>A constructed index of governance quality (as corruption index). It includes 4 components:</p> <p>(1) Citizen Participation index, (2) Government Orientation index, (3) Social Development index, (4) Economic Management index</p>	<p>Net positive effects of fiscal decentralization on public sector performance in a majority of countries.</p>
Goldsmith (1999)	<ul style="list-style-type: none"> <li>• 34 low-income and middle-income countries.</li> <li>• GNP data are used to estimate the benchmark regression.</li> <li>• Cross-section</li> </ul>	<p>Corruption index: Transparency International (TI) index of perceived corruption (1996) Derbyshire and Derbyshire (1996) list nations as federal states or unitary states. This feature of political systems is captured with a dummy variable, coded 1 for federal systems, 0.5 for unitary systems with significant decentralized features, and 0 otherwise.</p>	<ol style="list-style-type: none"> <li>1) Strong and positive relationship between per capita income and the TI Index.</li> <li>2) Economic freedom reforms curb corruption.</li> <li>3) Political freedom leads to better TI scores.</li> <li>4) Federalism is associated with more perceived corruption.</li> </ol>
Treisman (2000)	<ul style="list-style-type: none"> <li>• Period: 1996, 1997, and 1998 for the TI index</li> <li>• Early 1980s (1980-3) for the BI index.</li> <li>• 54, 52 and 85 countries are respectively taken into account in 1996, 1997 and 1998.</li> </ul>	<p>Corruption index:</p> <ul style="list-style-type: none"> <li>• Transparency International (TI) index</li> <li>• Business International index</li> </ul> <p>The definition of federalism used: A federal constitution has at least two levels of government governing the same land and people, each level of government has at least one area of action in which it is autonomous and this autonomy must be guaranteed in the constitution.</p>	<ol style="list-style-type: none"> <li>1) Federal states are more corrupt.</li> <li>2) While the current degree of democracy is not significant, long exposure to democracy predicted lower corruption.</li> </ol>

<p>De Mello and Barenstein (2001)</p> <ul style="list-style-type: none"> <li>• 1980-1998</li> <li>• Cross-country data</li> <li>• 78 countries.</li> </ul>	<p>Governance (corruption) indicators:</p> <ul style="list-style-type: none"> <li>• ICRG corruption index and GRAFT</li> <li>• Government effectiveness, voice and accountability, rule of law, regulatory burden political instability and violence</li> </ul> <p>Control variables:</p> <ul style="list-style-type: none"> <li>• GDP per capita, Population and land area</li> <li>• GASTIL civil liberties index</li> </ul> <p>Decentralization indicators</p> <ul style="list-style-type: none"> <li>• Expenditure share</li> <li>• Vertical imbalances</li> <li>• Tax autonomy</li> <li>• Nontax autonomy</li> </ul>	<p>1) Public expenditure decentralization improves local governance.</p> <p>2) The higher the share of subnational spending in total government expenditures, the stronger the positive association between decentralization and better governance.</p>
<p>Fisman and Gatti (2002)</p> <ul style="list-style-type: none"> <li>• 59 countries</li> <li>• 1980 -1995</li> </ul>	<p>Corruption indexes:</p> <ul style="list-style-type: none"> <li>• International Country Risk Guide's corruption index</li> <li>• The German Exporter corruption index (GCI)</li> <li>• The World Competitiveness Report's corruption index (WCR)</li> <li>• Transparency International index (TI)</li> <li>• The Business International corruption index (BI)</li> <li>• The Global Competitiveness Survey index (GCS)</li> </ul> <p>Control variables:</p> <ul style="list-style-type: none"> <li>• GDP, country size, openness to trade and civil liberties</li> <li>• Ethnic fractionalization and respect of property rights</li> </ul>	<p>Public expenditure decentralization is strongly and significantly associated with lower corruption.</p>

- Regional and colonial dummies
  - A dummy indicating the presence of federal constitution
- Decentralization measure: Subnational (state and local) share of total government expenditures. Data come from the IMF's Government Finance Statistics (GFS) for the years 1980-95.

<p>Reinikka and Svensson (2003)</p>	<ul style="list-style-type: none"> <li>• A repeat public expenditure tracking survey (PETS)</li> <li>• Carried out in 2002</li> <li>• 218 Ugandan schools</li> </ul>	<p>A policy experiment (newspaper campaign in 1990s) is run to evaluate the effects of increased public access to information. Distance (and average distance) in km to the nearest newspaper outlet is used as an instrument for exposure to the campaign.</p> <p>Control variables:</p> <ul style="list-style-type: none"> <li>• School size, income and share of qualified teachers</li> <li>• Newspaper readership (frequency, time spent, etc.)</li> </ul>	<ol style="list-style-type: none"> <li>1) Capture of public funds by local governments (municipalities) is reduced from 80% in 1995 to less than 20% in 2001.</li> <li>2) A strong relationship exists between proximity to a newspaper outlet and reduction in capture of school funds.</li> </ol>
<p>Arikan (2004)</p>	<ul style="list-style-type: none"> <li>• 40 countries</li> <li>• Cross section</li> <li>• 1998</li> </ul>	<p>Corruption index: Transparency International 1998 corruption perceptions index</p> <p>Control variables:</p> <ul style="list-style-type: none"> <li>• Relative wages in the public sector</li> <li>• Ethnolinguistic fractionalization and press freedom</li> <li>• Level of education, GNP, openness to trade and land area</li> </ul>	<p>Weak positive relationship between decentralization and corruption</p>
<p>Decentralization is modeled as an increase in the number of competing jurisdictions within a tax competition model.</p>			

<p>Slinko, Yakovlev and Zhuravskaya (2004)</p>	<p>Measures of the political power of firms and regional regulatory capture are constructed using micro-level data on the preferential treatment of firms through regional laws and regulations in Russia.</p> <p>Control variables:</p> <ul style="list-style-type: none"> <li>• Region fixed effect</li> <li>• Population and population with higher education</li> <li>• New and State enterprises dummies</li> <li>• Share of oil and gas in regional industrial production</li> <li>• Initial market size, per capita investment and national market share</li> </ul>	<ul style="list-style-type: none"> <li>• 978 firms up to the 20 largest firms in each of 73 regions</li> <li>• 1992-2000</li> </ul>	<p>1) A high level of “regulatory capture” hurts the performance of firms that have no political connections and boosts the performance of politically connected firms.</p> <p>2) Capture adversely affects small business growth and tax capacity of the State.</p> <p>3) There is no evidence that capture affects regional economic growth.</p>
<p>Reinikka and Swensson (2004)</p>	<p>School-specific measure of capture is: Capitation grants received / Intended capitation grants from the center</p> <p>Dependent variable: the share of intended capitation grant received</p> <p>Explanatory variables: income and district dummies.</p> <p>Control variables: school size and school quality.</p>	<ul style="list-style-type: none"> <li>• 1991-1995</li> <li>• Panel data</li> </ul>	<p>1) On average the intended end-user receive only 13% of the grants. Most schools receive nothing. The bulk of the school grant is captured by local officials (and politicians).</p> <p>2) Schools in better-off communities manage to claim a higher share of their central government funds.</p>
<p>Jin, Qian and Weingast (2005)</p>	<p>Control variable:</p> <ul style="list-style-type: none"> <li>• Provincial inherent characteristics</li> <li>• Nationwide changes over time</li> </ul>	<ul style="list-style-type: none"> <li>• Panel data</li> <li>• 29 provinces</li> <li>• 1970-1999</li> </ul>	<p>1) For central-provincial relations in China, the “soft budget constraint” problem is a greater problem than the “predation” problem.</p>

<ul style="list-style-type: none"> <li>• Particular focus on 1982-1992</li> <li>• Analysis of the ex post and ex ante marginal fiscal incentives reform</li> </ul>	<ul style="list-style-type: none"> <li>• Conventional measurement of fiscal decentralization</li> <li>• Lagged per capita GDP</li> </ul>	<p>2) Provincial governments face stronger ex post fiscal incentives after reform.</p>
<p>Treisman (2007)</p> <ul style="list-style-type: none"> <li>• TI annual ratings since 1995; covers 159 countries since 2005.</li> <li>• Biannual WB group indexes from 1996 to 2002. Since 2002 only yearly. 204 countries covered.</li> <li>• 1995-2006</li> </ul>	<p>Corruption index:</p> <ul style="list-style-type: none"> <li>• Transparency International (TI) corruption perceptions index</li> <li>• A rating of control of corruption published by the World Bank.</li> </ul>	<p>Weak effect of decentralization on corruption once some control variables are taken into account (highly developed, long-established liberal democracies, with a free and widely read press, a high share of women in government, openness to trade).</p>
<p>Enikolopov and Zhuravskaya (2007)</p> <ul style="list-style-type: none"> <li>• Cross-section</li> <li>• Panel data</li> <li>• 75 developing and transition countries</li> <li>• 1975-2000</li> </ul>	<p>Dependant variables:</p> <ul style="list-style-type: none"> <li>• Index of corruption (TI Corruption Perceptions for 2000 and 2001)</li> <li>• Government quality in 2001</li> <li>• Change in GDP per capita at PPP 2000 - 1975</li> <li>• Average measure of public goods for 1975-2000.</li> </ul> <p>Other and control variables:</p> <ul style="list-style-type: none"> <li>• Measure of political institutions and fiscal decentralization</li> <li>• GDP, population and share of protestants</li> <li>• Ethno linguistic fractionalization</li> <li>• Latitude and legal origin</li> <li>• Initial democratic traditions and current democracy level</li> <li>• Dummy variables for electoral rule and government system</li> <li>• Fixed investments, openness to trade and log of fertility</li> </ul> <p>Decentralization is defined as devolution of authority over public revenue and expenditure to lower-level government.</p>	<p>1) The strength of national political parties significantly improves the effects of fiscal decentralization on the economic growth rate, the quality of government, and public good provision.</p> <p>2) Deconcentration (i.e., appointing local politicians rather than electing them) does not improve the results of fiscal decentralization.</p>