

CORRUPTION (WITH A HIERARCHY)

Raúl Sánchez de la Sierra, Kristof Titeca, Jolino A. Malukisa,
Aimable A. Lameke*

July 20, 2020

Abstract

We gain access inside a traffic police battalion to analyze the economics of corruption organized in a hierarchy. We show that the hierarchical component of corruption determines the scope of corruption, mitigates the effect of state officials' changes in income on corruption, and is costly for society. Corruption is vertically organized as follows: the commanders enable street-level agents to collect bribes as private revenue. In exchange, the agents occasionally make financial transfers and, most importantly, escort an agreed number of drivers every day to the police station for the commanders to take bribes—a system they refer to as the “quota system.” The bribes collected by commanders through this quota system constitute 75% of total bribe revenue. Using a simple contracting model, we confirm that this quota system is consistent with corruption profit maximization, and examine two predictions. First, vertically organized corruption mitigates the effect of income shocks: experimentally doubling the transitory income of street-level police agents, we find that commanders take 29% of their extra income, dampening the effect of extra income in half. Second, the quota system—the central tool of vertically organized corruption in this context—reduces public service and driver welfare, which we find by experimentally reducing the daily quotas across intersection/days. The findings emphasize the scope of the vertical organization of corruption, suggest that changing the income of state officials to curb corruption could potentially be ineffective in the presence of a corrupt hierarchy, and that the main cost of corruption for society may stem from the contracts that sustain its vertical organization. **JEL Codes:** D23, O1, K42, L33, D73

*Sanchez de la Sierra: University of Chicago and NBER (corresponding author, email: raul@uchicago.edu). Malukisa: Université Catholique du Congo. The Harris School of Public Policy. Lameke: Marakuja Kivu Research. This project was supported by PEDL, University of Antwerp, the Research Fund - Flanders (Fonds voor Wetenschappelijk Onderzoek), and the IGC. We are thankful to anonymous data collectors, and, in chronological order, to Louise Auffray, Anna Dagherret, David Ifkovitz, Yasir Khan, Franziska Schwingeler, Petr Martynov, Henrik Sigstad, Nikita Jain, Vincent Tanutama, Stan Xie, Jose Miguel Pascual, Lucina Rodriguez Guillen, Avi Ahuja, Yuting Chen for excellent research assistance. We thank Daron Acemoglu, Matilde Bombardini, Michael Callen, Kate Casey, Donald Davis, James Fearon, Federico Finan, Avner Greif, Leander Heldring, Saumitra Jha, Joel Mokyr, Nathan Nunn, Suresh Naidu, Benjamin Olken, Shanker Satyanath, Reed Walker, and participants of the Canadian Institute For Advanced Research IOG of Fall 2016, Princeton CHW/RPDS seminar, MIT OE seminar, PSE applied seminar, Aix-Marseille School of Economics applied seminar, Harvard-MIT development seminar, Harvard PPE seminar, Stanford GSB PE seminar, UCLA CP seminar, Kellogg MEDS seminar, Barcelona Summer Forum, Oxford development seminar, Stockholm School of Economics seminar, Bocconi development seminar, WZB IPI group in Berlin, LSE/Stanford Long-Run Economic Development Conference, Political Economy conference at Polytechnique, the Chicago Harris conference on conflict, Yale development seminar, NES seminar, USC development seminar, U Chicago Development Seminar, LSE PE seminar, UCL PE seminar, NYU development seminar, and the Berkeley development and Williamson seminars, and the NBER PE/DEV/ORGECON meetings for invaluable comments. IRB approval from Antwerp University, UC Berkeley, and Harvard.