

CORRUPTION AND BUREAUCRACY: EVIDENCE FROM FRONT-RUNNING PUBLIC PROJECT ANNOUNCEMENT

Tomasz Piskorski

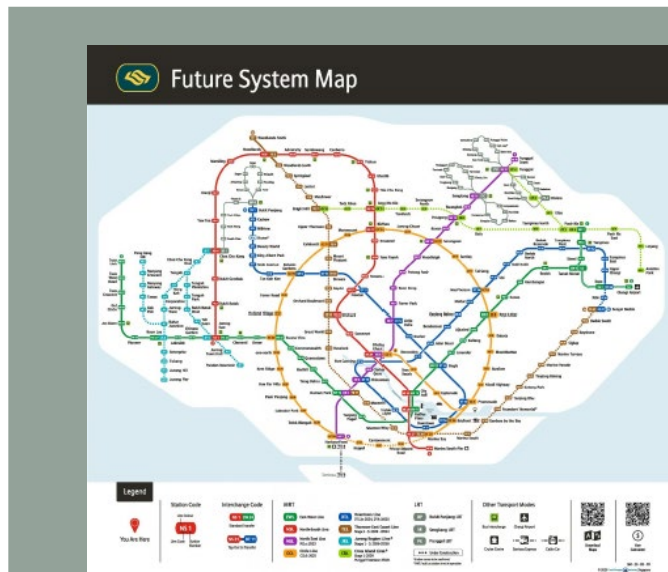
Amit Seru

Jian Zhang

A discussion by Paola Sapienza

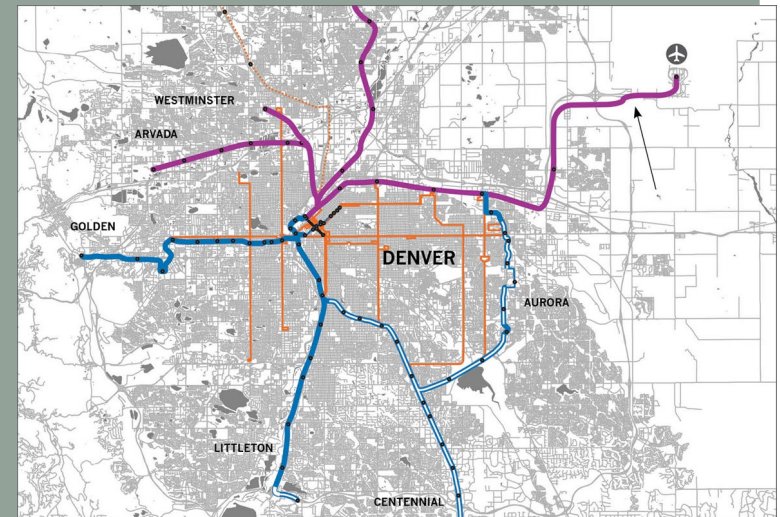
Summary of the results (1)

- A mass rapid transit (MRT) project is built in Singapore over time
- Planning civil servant involved in the location (at least they know)
- It is done quite competently (the station locations not placed in inefficient areas)



Compare it to
Denver:

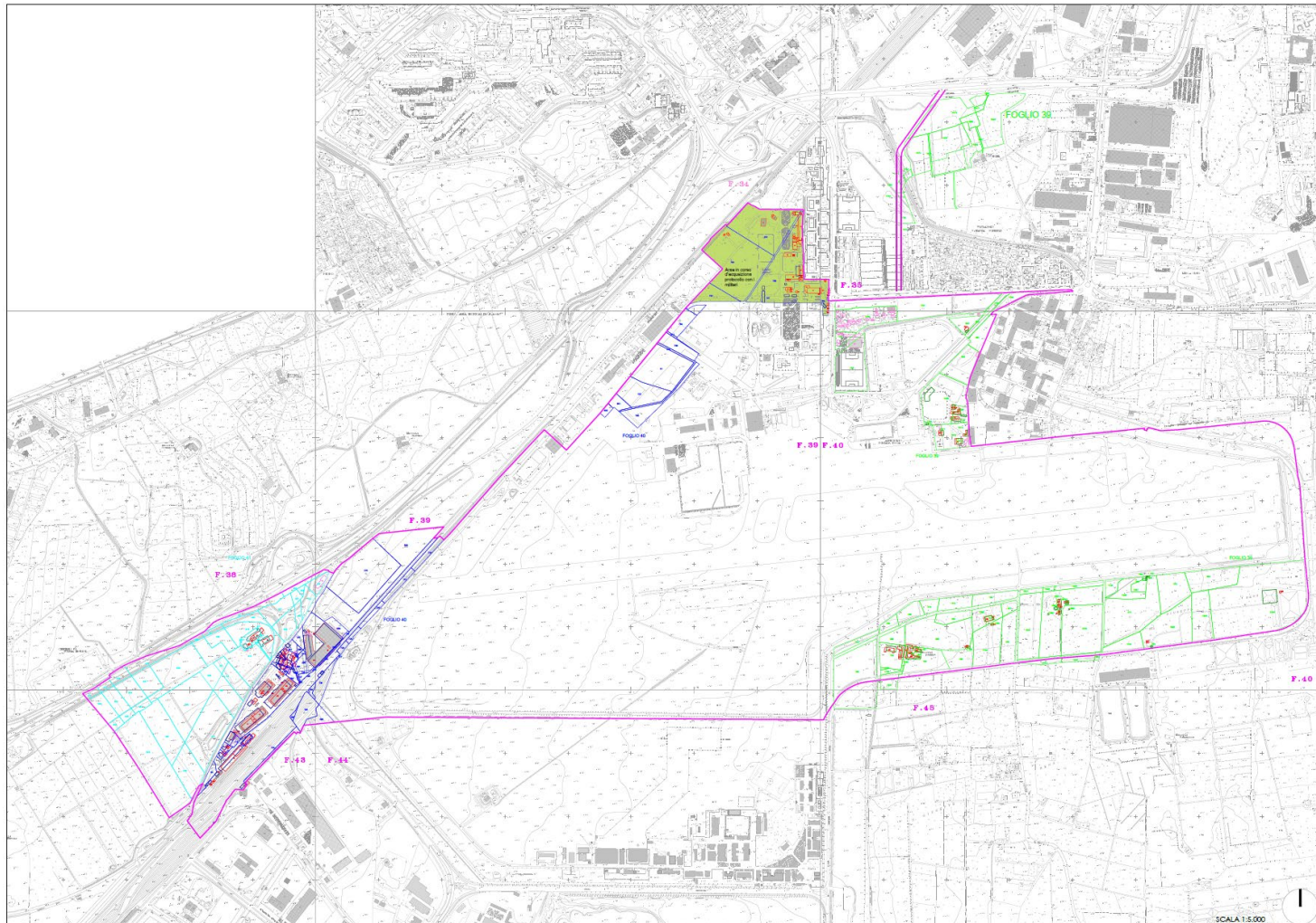
“Denver’s
Buses and
Trains Are Not
Useful to Most
People”
Cristof Spieler



Summary of the results (2)

- Front-running evidence: Civil servants probably involved in the project (planning) purchased houses situated close to the new stations 1-2 years before the stations were announced
- They make an estimate of 26K USD dollar, roughly median of their income ~100K USD
- Results are very believable, authors study all the possible other interpretations, including excluding much more inefficient outcomes (manipulations of routes, etc...).

I am (sort of) an expert on the matter



My main point

- Paper is great, documents well an important fact
- Consider many alternative hypothesis
- I will not waste your time summarizing it or challenge the conclusions

It forced me to think harder

- In several places, the paper points out that Singapore is a model country in terms of public procurement:
 - “One of the most developed and least corrupt countries globally” (pg 4)
 - “public service lean but efficient” “Singapore's government workforce share (4%) is comparatively lower than ...many OECD countries” (Japan 6.7%, Germany 9.6%, the United States at 14.6%) (pg 9)
- And even (I believe this was my suggestion):
 - “we find little evidence to support the hypothesis that civil servant manipulate the station location ex-ante” (pg.30)

Then I began to wonder ...

- In a general equilibrium sense, could this be just a great achievement for Singapore and the best we can aspire to, so Singapore MRT does not end up like Denver?
- To answer this question, I (re)read three very important papers that may change the way you think about the results.
 - Bansfield E., 1975 “Corruption as a Feature of Governmental Organization” *The Journal of Law & Economics*, Vol. 18, No. 3.
 - Bandiera, O., Prat, A., Valletti, T., 2009. “Active and passive waste in government spending: evidence from a policy experiment” *American Economic Review*, 99 (4), 1278-1308.
 - Finan F., Olken B., Pande R., 2017, *The Personnel Economics of the Developing State*, in *Handbook of Field Experiments*

Bansfield's critical insights

- Making corruption equal to zero may require to eliminate discretion and innovation by agents (in this case planning specialists)
- Attracting talent that can figure out to place stations close to people may require high(er) compensation and bonuses that are often not possible per government rules.
- Restrictive controls can stifle innovation
- Discretion allows agents to experiment
- Discretion requires information. Information may be abused for private benefit.
- We can call it terrible corruption or the extra bonus for a job well done.

Bandiera et al.

- Study procurement outcomes (efficiency) in the context of the theory of allocation of authority (Bolton and Dewatripont (2013); Gibbons and Roberts (2013)).
- Their tasks are much simpler than in the setting of this paper.
- Field experiment (with severe limitations)
- Giving autonomy increases efficiency ...
- ... and they do not measure potential effects of attracting talents due to an organizational structure that allows them to think

What to make of all this

- Most planning departments in the US have produced terrible public transit outcomes ... Singapore system is among the best in the world
- Singapore median salary is 100K, the “front running” gives workers an additional 25K
- Denver planning department salary is roughly 80K (based on Glassdoor). Is 45K justifiable?
- Amit and coauthors suggest that after the government cracks down the behavior goes away... then 45K would not be justifiable ...
- ... but what are the consequences of the crack down on decisions/recruitment/efficiency?

Conclusions

- Great paper...
- I would reframe it to ask a more general economic question
 - What is needed for efficient government decisions?
 - This is a problem of information, incentives, and delegation of authority
 - It is also a problem of pay structure and government constraints
 - Indisputable transfer of wealth of 25K (a quarter of an annual salary). How do we evaluate that cost against the benefits? And what are the benefits?
 - Hiring talented people who know how to do planning
 - What happens to hiring and planning decisions after the crack down? Is the crack down without consequences?