



CORRUPTION AND PUBLIC PROCUREMENT

FINDINGS AND RECOMMENDATIONS

CAREERS, CONNECTIONS AND CORRUPTION RISKS IN EUROPE

Why do officials in some countries favor entrenched contractors while others assign public contracts more impartially? This paper instead emphasizes the interplay between politics and bureaucracy. It suggests that corruption risks are minimized when the two groups involved in decision-making on public contracts politicians and bureaucrats have known different interests. This is institutionalized when politicians are accountable to the electorate, while bureaucrats are accountable to their peers, and not to politicians. This was tested with a novel experience based measure of career incentives in the public sector utilizing a survey with over 85,000 individuals in 212 European regions and a new objective corruption risk measure including over 1.4 million procurement contracts.

Both approaches show a remarkable sub-national variation across Europe. The study finds corruption risks significantly lower where bureaucrats' careers do not depend on political connections.

Most scholars agree that wealth, health and happiness are highly dependent on institutional quality generally, and on the absence of corruption more specifically. Unconstrained elites have incentives to take advantage of their positions and enrich them-selves and their clique at the expense of general welfare; contemporary and historical examples of this are overwhelming. Those who have the greatest chances for corruption, and whose action might have the most far-reaching consequences, in scale as well as role models, are thus in a constant "moral hazard". However, the large variations in corruption levels and welfare provision worldwide suggest that such moral hazards can be handled under the right circumstances when groups with known different interests are forced to work together,

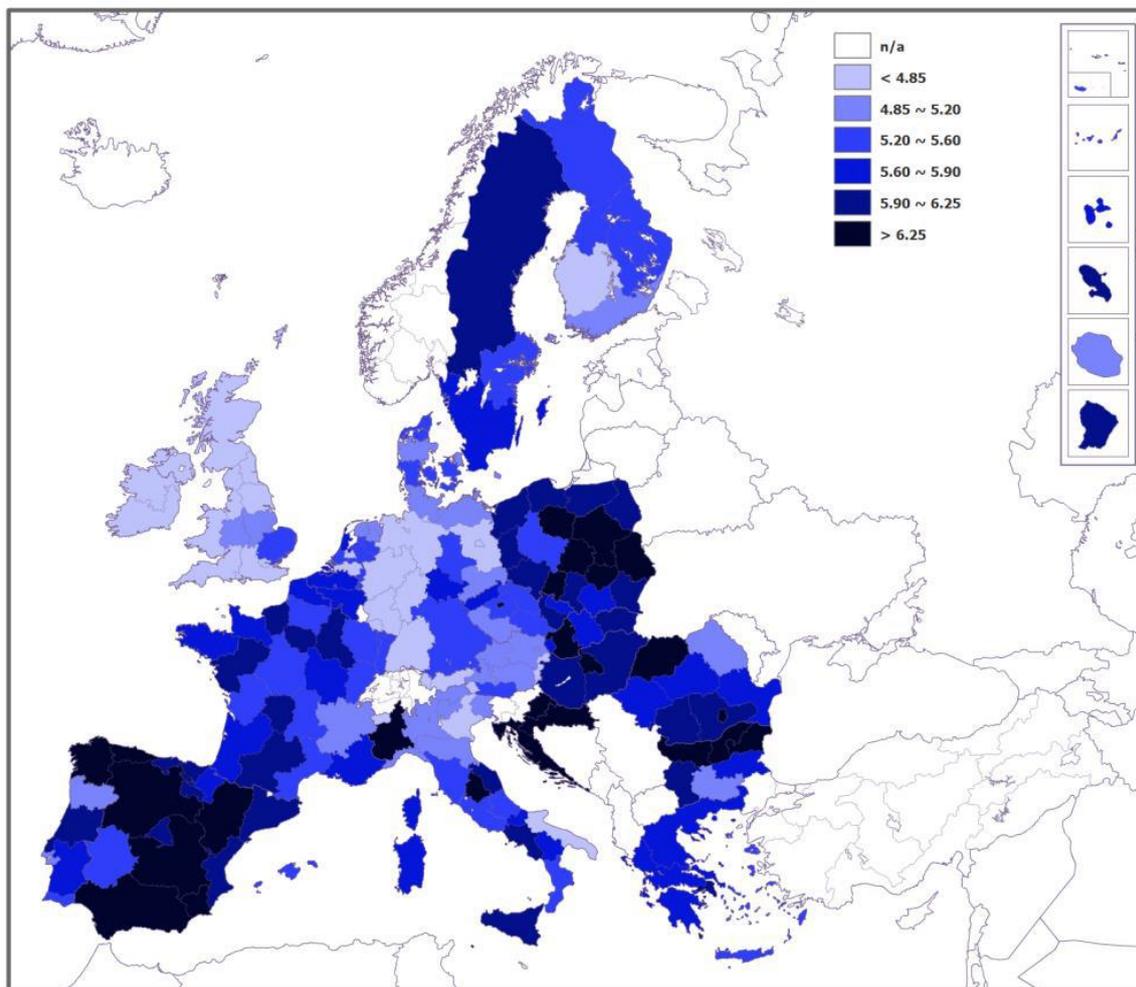
they monitor each other, which pushes both groups away from self-interest towards the common good a way to minimize corruption opportunities is to introduce mechanisms that systematically break down the creation of factions. This can be achieved by separating the career prospects of two types of officials that occupy those positions, that is, politicians and bureaucrats. If the career prospects of politicians and bureaucrats do not depend on each other, they will be less likely to form welfare-diminishing factions. This is in turn possible to achieve if they respond to the political party and their peers, respectively, which in many developed countries are the defining features of the two groups. If the future prospects for bureaucrats depend on their professional status and not on following the instructions of politicians, the chances increase for bureaucrats to expose corrupt acts taken by politicians, and vice versa. In other words, when the career prospects of politicians and bureaucrats are clearly separated, there are thus embedded two-way monitoring mechanisms where politicians watch bureaucrats and bureaucrats watch politicians. If, on the contrary, careers are integrated, so that bureaucrats careers are determined by political connections, for example, they will be more willing to form colluding factions with politicians.

For example, it has been documented that a large number of Spanish politicians received bribes from construction groups, private contractors and all sorts of businesses so regularly that it became a "tradition". Indeed, the treasurer of the conservative party, who had accumulated €38m in Swiss bank accounts, acknowledged that he had been responsible for a scheme of illegal funding of his party from powerful business entrepreneurs in the country. Businessmen offered a sum generally around 3 percent of the public tender to politicians who, in turn, persuaded civil servants to bend the rules of the public tender offering so as to benefit a certain bidder. Judicial investigations have uncovered that the favorable treatment to contractors who had paid a bribe was possible thanks to

the political control of the administration by the ruling party. Bureaucrats testifying in court admitted they were told "...which public contractors must win..." and, if they complained, they were "threatened" with dismissal. On one occasion, they were extremely anxious because the materials used by the private contractor to build a stage for a public event were of such "poor quality" that they feared that a catastrophe could occur; yet the fear of losing their job was so strong that they reported neither to the media nor to judicial authorities.

We find that a min-max change in career independence is associated with almost three times fewer single-bid procurement contracts in a region (0.25 to 0.09). It is possible to turn these results into savings for governments. Three standard deviation increases in career independence (about a 2 point increase) implies a 0.6-1.3% price decrease across Europe: that is a 14-31 billion EUR savings per year for the whole of EU in 2010.

FIGURE 1, CAREER INCENTIVES FOR WORKING HARD IN THE PUBLIC SECTOR BY EUROPEAN REGION



Note: Lighter shades indicate more independence of careers.

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