

Corrupt Hierarchies

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Abstract

On the one hand, economists' view of corruption suggests that the income of state officials can be leveraged to decrease corruption. On the other hand, however, corruption is often vertically organized and governed by rent-sharing agreements involving individuals in the hierarchy and civilians. How does the hierarchical nature of corruption interact with typical anti-corruption policy? We experimentally increase compensation of traffic police officers in the DR Congo, and find that higher income mildly reduces petty corruption through an income effect channel. We then allow informal contracts between police officers and drivers to govern corrupt transactions and effort. Accounting for this part of the hierarchy, we find that higher officer compensation induces absenteeism, reducing extortion bribes but also traffic management (and increasing the prevalence of traffic jams). We then also account for informal contracts between officers and their supervisors that are prevalent in our context: monetary transfers and number of drivers escorted to the police station. To observe these contracts, we hire 160 individuals including individuals inside the police hierarchy from different state agencies. We find suggestive evidence that increasing the income of officers corrects informal contracting frictions in the hierarchy, leading revenue from bribes to increase in some locations. Thus, optimal policy may target the supervisor's incentives. Finally, we experimentally provide incentives to supervisors to reduce the quotas of drivers they request to officers. Reducing the quotas decreases traffic jams. These findings suggest that organized corruption can undo the effects of typical anti-corruption policy and that, in some cases, vertical corruption can be socially costly on some tasks, but productive in others.

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