

Ajit Mishra. *The Economics of Corruption*. New Delhi: Oxford University Press. 2005. 336 pages. Hardbound. Indian Rs 650.00.

The Economics of Corruption is a collection of papers covering both the theoretical as well as the empirical perspectives on corruption. It deals with various aspects of corruption and provides a well-integrated framework for research in this growing and active area of inquiry.

Besides the first chapter, "Corruption: An Overview", written by Ajit Mishra, which is an excellent review of the existing literature in the field, the book consists of ten articles divided by three themes.

"Corruption as phenomena [sic] is always associated with an agency structure" writes Ajit in the introductory chapter of the book (p. 5). Corruption arises when the principal and agent have conflicting objectives and the principal fails to design the comprehensive enforceable contract due to lack of information. It becomes complicated when the principal puts an incentive scheme in place so as to induce optimal action by the agent and hires another agent to implement this incentive scheme, referred to as Supervisor. Ajit classifies this Principal-Supervisor-Agent problem, broadly, into three different types of relationships according to the powers and responsibilities enjoyed by the Supervisor.

The first theme entitled "Perspective on Corruption" consists of five articles. Chapter 2 of the book is an article titled "Corruption: Its Causes and Effects" by Gunnar Myrdal, written in the context of the South Asian economies. According to him, it is the existence of imperfect markets and less profit motives in the economic sphere which are the causes of corruption. Moreover, the loyalties, in South Asia, to less inclusive groups such as family, caste, religious or linguistic community causes another type of corruption called nepotism.

Chapters 3, 4, and 5 discuss the three different types of relationship between Principal, Supervisor and Agent. First, the supervisor has only an information gathering role and he has the power to manipulate this information. Enforcement problems like tax enforcement and policing are the practical examples of this relationship. Jean Triotle in his article titled "Hierarchies and Bureaucracies: On the Role of Collusion in Organisation" analyses the possibilities of collusion between the Supervisor and the Agent in this framework. He views the organisation as a network of contracts, and according to his model, there exists a natural coalition between the Supervisor and the Agent.

The second type of relationship emerges when the Supervisor has the power to choose the exact mechanism for the Agent. Chapter 4 is an article by Abhijit V. Banerjee. This article, titled "A Theory of Misgovernance", seems to model this type of relationship and explains why government bureaucracies are associated with corruption. According to him the culture of corruption is partly explained because of underdeveloped institutions.

The third type of relationship is the situation when the principal transfers all the power to the Supervisor and he enjoys a monopoly. Practical examples are the issuing of permits and licences, etc. The situation leads to output distortion as well, since the Supervisor has an incentive to create a shortage so that he can charge the higher price. The fifth chapter, titled "Pervasive Shortages under Socialism", by Andrei Shleifer and

Robert Vishny, examines the shortage under socialism and attributes it to the bribe-seeking behaviour of the self-interested planners.

Chapter 6 of the book is devoted to the empirical evidence, provided by Paulo Mauro in his article titled "Corruption and Growth". He uses different indices on corruption as provided by *Business International* (BI) for the period 1980-83 and quantifies the magnitude of the effects of institutional variables on growth. He confirms a negative relationship between growth and corruption and the main channel, through bad institutions affect growth, is by lowering the investment rate.

"Design of Incentives and Organisation", the second theme of the book, consists of two articles and covers the issues related to the choice of incentive instruments, like wages, fines, commission, or performance pay, faced by the principal for supervisor to avoid the collusion between them, and the role of organisational structure in the implementation of these incentive schemes.

Dilip Mookherjee and I.P.L. Png address the complicated issue of compensation policies in their article entitled "Corruptible Law Enforcers: How should they be Compensated?". According to their analysis, high penalties for bribery and the commission schemes are helpful to reduce corruption, but it is optimal to reduce it through a commission rate. Moreover, they discuss the issues related to these commission schemes. As, the implementation of the incentive schemes and corruption is very much related to the organisational structure, Kaushik Basu, Sudipto Bhattacharya and Ajit Mishra discuss the structure of organisation and analyse some conditions for the control of corruption in their article titled "Notes on Bribery and Control of Corruption", which is Chapter 8 of this book.

The third theme is "Government, Markets, and Competition", where three articles analyse the relationship between corruption and government interventions and the role of special interest groups in the political process.

Chapter 9, "The Choice between Market Failures and Corruption" by Daron Acemoglu and Thierry Verdier, analyses the link between government interventions and corruption. It is market failure which creates the room for government interventions and which, in turn, is associated with inefficiencies. With the help of a number of comparative static results they analyse the trade-off between market failure and government interventions. Their analysis shows that, as long as the government interventions require bureaucrats to implement policies and at least some of them are corrupt, there exists some heterogeneity among bureaucrats, the optimal government intervention aimed at correcting important market failure will be associated with government failure.

The relationship between corruption and market structure is empirically observed by Alberto Ales and Rafael Di Tella in Chapter 10. Their results show that corruption is higher in countries where firms have higher rents and where domestic firms are sheltered from foreign competition. It can be inferred from their analysis that competitive market policy can play a significant role in combating corruption.

And it is not only the market structure which matters. The degree of political competition is also important to the level of corruption. The last chapter, "Electoral Competition and Special Interest Groups", by Gene M. Grossman and Elhanan Helpman, examines how interest groups use campaign contributions, which may be in the form of

cash or in kind subsidy, to influence public policy. They conclude that “the party that is expected to win a majority of seats caters more to the special interests” [p. 291].

The selection of articles conducts the discussion in a coherent manner and the book provides a deep insight into the issues related to corruption. Institutions, throughout the book, are assumed as an exogenous factor. The canvas of the book can be further broadened with the inclusion of some literature on the topic of endogenous institutions.

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