

**GOVT S-1115: CORRUPTION AND INEQUALITY**  
**7-week session | CRN 33934 | Harvard Summer School**  
**Syllabus DRAFT – June 23, 2017**

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Professor: Viridiana Rios, Ph.D.

Email: [viririos@purdue.edu](mailto:viririos@purdue.edu)

Meetings: Monday/Wednesday 6:30pm - 9:30pm (EST)

Office hours: By appointment

Mandatory on-campus session: July 22-23, 9:00am - 5:00pm (EST)

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### **Course Description**

The standard image of corruption entails wealthy elites in poor countries easily breaking weak laws to increase their wealth. But if the essence of corruption is manipulating public institutions for private gain, aren't there arguably even stronger and more professionalized mechanisms for this in developed countries (such as the lobbying industry in the United States)? Conversely, should we reconsider common notions of corruption in the light of recent studies' findings that corruption has actually decreased inequality in some poor countries? Corruption and inequality share a peculiar and enigmatic dance that is poorly understood and distorted by ideological rhetoric. But with inequality fast becoming the defining issue of our time, and sweeping anti-corruption efforts gaining steam in developing countries (often with questionable political motives, as recently witnessed in Brazil), there is a pressing need to develop a more precise picture of when and how these forces interact.

In this class, we'll answer why corruption sometimes exacerbates inequality, and sometimes does not. We'll examine the conditions under which corruption stifles economic growth, efficiency, and investment; but also the environments in which corruption effectively substitutes for misguided or missing law to "grease the wheels" for investment. We'll compare two different theories that propose "vicious cycle" relationships between corruption and inequality: the "inequality trap" (where inequality creates a lack of trust in institutions, enabling corruption that deepens inequality), and the "fairness perception" theory where if people believe there is already rampant corruption, they behave more corruptly. We'll investigate many peculiar paradoxes of these themes—such as how China has grown rapidly while ranking among the most corrupt countries, and why Latin America is the only region where corruption reduces inequality.

### **Skills to be developed:**

Students will be required to critically engage with qualitative and quantitative academic literature, identifying the implicit assumptions, veiled ideology, or measurement choices that drive different research results. By the end of this course, students will be capable of elucidating scholarly theories underlying today's political debates and policy responses to corruption. Beyond the theory, students will design and conduct their own academic research with the goal of advancing the scientific understanding of corruption and inequality.

### **Requirements**

*Undergraduate students:*

- **Participation (20%)**: Students are expected to complete all assigned readings prior to class, actively engage in discussions, and link assigned materials to relevant debates in media and politics. Readings marked as "further readings" are not required.
- **Project Presentation (30%)**: Project proposals and preliminary findings will be presented by students during the mandatory on-campus session.
- **Research Project (35%)**: Students will be required to conduct original research linking theoretical arguments explored in class with real-world case studies. Research can be delivered

as a written paper (10 pages, single spaced, 12-point font), podcast (10 minutes), or video (10 minutes). The project can be authored individually or co-authored with another student. If the project is co-authored paper should be 20 pages, and the quality of podcast/video is expected to be significantly higher. Quantitative research such as coding quantitative measures or developing original statistical analysis (R, Stata or Python) can also be delivered as final projects as long as visualizations and replicable code are provided.

– Reading quizzes (15%): Students will be given quizzes; dates won't be provided in advance.

*Graduate students*: Same requirements, except participation 15%, research project 40%. The length of the research project is expected to be the same as for undergrads; quality is expected to be significantly higher.

## **Course Materials**

All materials have been uploaded at our website and will remain there for the length of the course. The only book that you need to buy is Atkinson, Anthony B. *Inequality*. Harvard University Press, 2015 (Class 1).

As long as you have finished with all the *essential readings*, you can continue with the *further readings* of each class. An approximation of the number of pages of the essential readings is included in red.

## **Contents**

### **I. The Basics of Inequality**

Class 1. A concrete plan for a fairer society (June 19<sup>th</sup>, 2017)

Required reading:

- Atkinson, Anthony B. *Inequality*. Harvard University Press, 2015 (Chapters 1 to 3. Chapters 4 to 8 will be assigned to different students for discussion). (125 pages)

Total pages: 125

Class 2. Why inequality has declined in Latin America during the last decade? (June 21<sup>st</sup>, 2017)

Required readings:

- Cornia, Giovanni Andrea. *Inequality trends and their determinants: Latin America over 1990-2010*. Oxford University Press, 2013. (40 pages)
- Lustig, Nora, et al. "Deconstructing the decline in inequality in Latin America." *Inequality and Growth: Patterns and Policy*. Palgrave Macmillan UK, 2016. 212-247. (32 pages)

Total pages: 72

### **II. The Basics of Corruption**

Class 3. What do we know about the causes of corruption? (June 26<sup>th</sup>, 2017)

Required readings:

- Svensson, Jakob. "Eight questions about corruption." *Journal of Economic Perspectives* 19.3 (2005): 19-42. (22 pages)
- Treisman, Daniel. "What have we learned about the causes of corruption from ten years of cross-national empirical research?" *Annual Review of Political Science* 10 (2007): 211-244. (32 pages)
- Treisman, Daniel. "What does cross-national empirical research reveal about the causes of corruption." *Routledge Handbook of Political Corruption* (2015):95-109. (Conclusions) (2 pages)
- Transparency International. *Corruption Perceptions Index* (2017).

Total pages: 56

Further readings:

- Acemoglu, Daron, James A. Robinson and Simon Johnson. "The Colonial Origins of Comparative Development: An Empirical Investigation." *American Economic Review* (2001):1369-401.
- Harstad, Bard and Jakob Svensson. "Bribes, Lobbying and Development." *American Political Science Review* (2011): 46-63.
- Mauro, Paolo. "Corruption and Growth." *Quarterly Journal of Economics* 110 (1995):681-712.

Class 4. Big data to measure corruption (June 28<sup>th</sup>, 2017)

Required readings:

- Serra, Danila, and Leonard Wantchekon. *New Advances in Experimental Research on Corruption*. Emerald Group Publishing Limited, 2012 (Chapter 6 & 8) (65 pages)
- Fazekas, M., Tóth, I. J., & King, L. P. "Anatomy of grand corruption: A composite corruption risk index based on objective data." CRC-WP/2013:02, Budapest: Corruption Research Centre. (2014). (Just skim and scan to know what the author did) (51 pages)

Total pages: 116 pages

Further readings:

- Fazekas, M., Tóth, I. J., & King, L. P. "Corruption manual for beginners: Inventory of elementary "corruption techniques" in public procurement using the case of Hungary." CRC-WP/2013:01, Corruption Research Centre Budapest, Budapest. (2013).
- Seligson, M. A. "The impact of corruption on regime legitimacy: a comparative study of four Latin American countries." *Journal of Politics* 64 (2002): 408-433.
- Becker, G. S., & Stigler, G. J. "Law enforcement, malfeasance, and compensation of enforcers." *Journal of Legal Studies* 3 (1974): 1-18.
- Sequeira, S. "*Displacing corruption*." Mimeo. London School of Economics. (2011).
- Canache, D., & Allison, M. E. "Perceptions of political corruption in Latin American Democracies." *Latin American Politics and Society*, 47(3) (2005): 91-111.

### III. The Economic Impacts of Corruption

Class 5. Corruption as efficient grease in the wheels of deficient institutional framework (July 10<sup>th</sup>, 2017)

Required readings:

- Huntington, Samuel P. "Modernization and corruption," *Political Order in Changing Societies*, New Haven, Conn.: Yale University Press, 1968, pp. 59-71. (11 pages)
- Méon, Pierre-Guillaume, and Laurent Weill. "Is corruption an efficient grease?" *World Development*, 38.3 (2010): 244-259 (only section 2) (2 pages)
- Dreher, Axel, and Martin Gassebner. "Greasing the wheels? The impact of regulations and corruption on firm entry." *Public Choice* (2013): 1-20 (only sections 1, 2, 3 and 6) (16 pages)

Total pages: 29

Further readings:

- De Vaal, Albert, and Wouter Ebben. "Institutions and the relation between corruption and economic growth." *Review of Development Economics* 15.1 (2011): 108-123.
- Aidt, Toke, Jayasri Dutta, and Vania Sena. "Governance Regimes, Corruption and Growth: Theory and Evidence," *Journal of Comparative Economics* 36 (2008):195-220.
- Olson, Mancur. "Dictatorship, Democracy and Development," *American Political Science Review* 87 (1993):567-76.
- Aidt, T. S., Dutta, J., & Sena, V. "Governance regimes, corruption and growth: Theory and evidence." *Journal of Comparative Economics* 36(2) (2008):195-220.

#### Class 6. Effects of corruption on economic growth (July 12<sup>th</sup>, 2017)

Required readings:

- Gyimah-Brempong, Kwabena. "Corruption, economic growth, and income inequality in Africa." *Economics of Governance* 3.3 (2002): 183-209. (25 pages)
- Ugur, Mehmet and Nandini Dasgupta. "Corruption and economic growth: A meta-analysis of the evidence on low-income countries and beyond." MPRA Working Paper 31226, 2011. (only pgs. 1-10, and sections 4.4.3 and 5) (16 pages)
- Ahmad, Eatzaz, Muhammad Aman Ullah, and Muhammad Irfanullah Arfeen. "Does corruption affect economic growth?" *Latin American Journal of Economics* 49.2 (2012): 277-305 (only sections 1, 2 and 4; no need to read 4.1 or 4.2) (15 pages)

Total pages: 56

Further readings:

- Campos, J. Edgardo, Donald Lien, and Sanjay Pradhan. "The impact of corruption on investment: Predictability matters." *World Development*, 27.6 (1999):1059-1067.
- Drury, A. Copper, Jonathan Kriekhaus, and Micheal Lusztig "Corruption, democracy, and economic growth" *International Political Science Review* 27.2 (2006): 121-136.
- Alesina A., Rodrik, D. "Distributive Politics and Economic Growth." *Quarterly Journal of Economics* 109 (1994):465-490.
- Alesina, A., Weder, B. *Do Corrupt Governments Receive Less Foreign Aid?* NBER Working Paper No. 7108. (1999).
- Dincer, Oguzhan. "Special Interest Groups and Economic Growth in the United States." *Eastern Economic Journal* 38.4 (2012): 434-448.

#### **IV. Preparation for on-campus Presentation** (July 12<sup>th</sup>-19<sup>th</sup>, 2017)

Students need to schedule a one-to-one meeting with the professor to discuss their final project. Project proposals and preliminary findings will be presented on campus. Use this time to read all the required readings for the on-campus session.

## V. The Paradoxes of Corruption and Inequality (on-campus session materials)

### Module 1. Corruption impact in Inequality (July 22<sup>nd</sup>, 2017)

Required readings:

- Li, Hongyi, Lixin Colin Xu, and Heng-fu Zou. "Corruption, income distribution and growth." *Economics and Politics* 12.2: (2000): 155–182. (Section I, II, III.B) (13 pages)
- Gupta, Sanjeev, Hamid Davoodi, and Rosa Alonso-Terme. "Does corruption affect income inequality and poverty?" *Economics of Governance* 3.1 (2002): 23-45. (section 2) (2 pages)

Total pages: 15

Further readings:

- Atkinson, A.B. "Bringing Income Distribution in from the Cold." *Economic Journal: The Journal of the Royal Economic Society* Vol. 107 (1997):297–321
- Dejardin, M., and H. Laurent. "Greasing the wheels of entrepreneurship? A complement according to entrepreneurial motives." *CERPE* (2014) (only section 1, 3.2 and 3.3).
- Murphy, K. M., A. Shleifer, and R.W. Vishny. "Why is Rent-Seeking So Costly to Growth?" *American Economic Review* (1993):409-414.
- Dincer, Oguzhan C., and Burak Gunalp. "Corruption and income inequality in the United States." *Contemporary Economic Policy* 30.2 (2012): 283-292.
- Mandal, Biswajit, and Sugata Marjit. "Corruption and wage inequality?" *International Review of Economics and Finance*, 19.1 (2010): 166–172.

### Module 2. Inequality impact in Corruption (July 23<sup>rd</sup>, 2017)

Required readings:

- You, Jong-Sung and Sanjeev Khagram. "A Comparative Study of Inequality and Corruption" *American Sociological Review* Vol. 70, No. 1 (Feb 2005), pp. 136-157 (20 pages)

Total pages: 31

Further readings:

- Glaeser, Edward, Jose Scheinkman, and Andrei Shleifer. "The Injustice of Inequality." *Journal of Monetary Economics* 50 (2003):199-222.
- Uslaner, Eric M. *Corruption, Inequality, and the Rule of Law*. New York: Cambridge University Press. (2008).
- Ariely, Gal, and Eric M. Uslaner. "Corruption, fairness, and inequality." *International Political Science Review* (2016).

### Module 3. Asia Paradox (July 22<sup>nd</sup>, 2017)

Required readings:

- Rock, Micheal T., and Heidi Bonnett. "The comparative politics of corruption: Accounting for the East Asian paradox in empirical studies of corruption, growth and investment." *World Development* 32.6 (2004): 999–1017. (15 pages)

- Rothstein, Bo. "The Chinese paradox of high growth and low quality of government: The cadre organization meets max Weber." *Governance* 28.4 (2015): 533-548 (13 pages)

Total pages: 28

Further readings:

- Zhuang, Juzhong, Emmanuel de Dios, and Anneli Lagman Martin. "Governance and institutional quality and the links with economic growth and income inequality: With special reference to developing Asia." Asian Development Bank Economics Working Paper, No. 193, 2010.
- Dahlström, Carl, Victor Lapuente, and J. Teorell. "The Merit of Meritocratization: Politics, Bureaucracy, and the Institutional Deterrents of Corruption." *Political Research Quarterly* 65(3) (2011): 656-668.
- Persson, Anna, Bo Rothstein, and Jan Teorell. "Why Anti-Corruption Reforms Fail: Systemic Corruption as a Collective Action Problem." *Governance* 25(3) (2013): 449-471.

Module 4. Latin America Paradox (July 23<sup>rd</sup>, 2017)

Required readings:

- Sarte, Pierre-Daniel G. "Informality and rent seeking in a model of long run growth." *Journal of Monetary Economics* 46.1 (2000): 173-197. (21 pages)
- Dobson, Stephen, and Carlyn Ramlogan-Dobson. "Why is corruption less harmful to income inequality in Latin America?" *World Development* 40.8 (2012): 1534-1545. (9 pages)

Total pages: 30

Further readings:

- Apergis, N., Dincer, C. D., & Payne, J. E. "The relationship between corruption and income inequality in US states: Evidence from a panel co-integration and error correction model." *Public Choice*, 145(1) (2010):125-135.

## **VI. Policies to reduce corruption**

Class 7: Answers to reducing corruption and inequality (July 31<sup>th</sup>, 2017)

Required readings:

- Manion, Melanie. "Lessons for Mainland China from Anti-corruption Reform in Hong Kong." *China Review* (2004): 81-97. (13 pages)
- Kolstad, Ivar, and Arne Wiig. "Is transparency the key to reducing corruption in resource-rich countries?" *World Development* 37.3 (2009): 521-532. Sections 1 to 5 (7 pages)
- Mungiu-Pippidi, Alina. "Controlling corruption through collective action." *Journal of Democracy* 24.1 (2013): 101-115. (12 pages)

Total pages: 32

Further readings:

- Andvig, J. C., & Moene, K. O. "How corruption may corrupt." *Journal of Economic Behavior and Organisation* 13 (1990):63-76.

- Bac, M. Corruption, connections and transparency: Does a better screen imply a better scene?. *Public Choice* 107 (2001):87–96.
- Lindstedt, C., & Naurin, D. *Transparency and corruption: The conditional significance of a free press*. QOG Working Paper Series 2005:5. The QOG Institute. Gothenberg: Gothenberg University. (2005).
- Robinson, J. A., Torvik, R., & Verdier, T. “Political foundations of the resource curse.” *Journal of Development Economics* 79 (2006): 447– 468.
- Svensson, J. Foreign aid and rent-seeking. *Journal of International Economics* 51 (2000): 437–461.
- Van Veldhuizen, Roel. "The influence of wages on public officials' corruptibility: A laboratory investigation." *Journal of economic psychology* 39 (2013): 341-356. (13 pages)

Final project due (August 4<sup>th</sup>, 2017)

### **Mandatory on-campus session**

The mandatory on-campus session meets on Saturday-Sunday, July 22-23, 9:00am – 5:00pm (EST) at 1 Story Street 304; Cambridge, MA. Attendance is required at the entire weekend in order to earn credit and pass the course. You cannot arrive late or leave early. If you are traveling from afar, please plan accordingly giving yourself plenty of time to arrive by the start of class. No exceptions can be granted.

### **Accessibility Services**

The Summer School is committed to providing an accessible academic community. The Accessibility Office offers a variety of accommodations and services to students with documented disabilities. Please visit <http://www.summer.harvard.edu/resources/policies/accessibility-services> for more information.

### **Academic Integrity**

You are responsible for understanding Harvard Summer School policies on academic integrity (<http://www.summer.harvard.edu/policies/student-responsibilities>) and how to use sources responsibly. Not knowing the rules, misunderstanding the rules, running out of time, submitting the wrong draft, or being overwhelmed with multiple demands are not acceptable excuses. To support your learning about academic citation rules, please visit the Resources to Support Academic Integrity (<http://www.summer.harvard.edu/resources-policies/resources-support-academic-integrity>) where you will find links to the Harvard Guide to Using Sources and two free online 15-minute tutorials to test your knowledge of academic citation policy. The tutorials are anonymous open-learning tools.