

Corruption and Managerial Effort: Preliminary Evidence of an Unpleasant Trade-Off Under Imperfect Enforcement

The focus of this talk is on evaluating the current control system of local public expenditure in Brazil. I give an overview of the control apparatus and highlight the difference between detection, prosecution and trial of offenses that occur in local public service delivery. I argue that the prosecution and trial stages play a central role in deterrence and that they merit closer attention than received in the recent literature on corruption so far (Olken 2004, Svensson 2004, Yang 2004, Di Tella and Schargrodski 2004). I then present data on the nature of such offenses, derived from audit reports on federal transfers to local governments. The offenses reported are representative of current deficiencies in public service delivery in Brazil because the sample of audited counties is random. I attempt to classify these offenses into cases of corruption, mismanagement and a large grey zone. In order to assess the effect of prosecution on the incidence of offenses, I exploit variation in the spatial location of prosecutors. I argue that this variation is exogenous conditional on county size. I find that counties where a prosecutor resides exhibit a lower incidence of corruption but a higher incidence of grey zone offenses. This finding is consistent with public managers substituting less obvious for obvious offenses when faced with a higher probability of being prosecuted. Extensions will consider the possibility that enforcement may backfire, i.e. counties where the prosecutor resides may actually exhibit worse local service delivery as a result of agents' substitution efforts.