

The Impact of Corruption on Efficiency

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Abstract:

This paper shows that the mere possibility of corruption creates inefficiency by constructing a game-theoretical model based on political agency and lobbying theories. The political agency models suggest that elections can create incentives for rent-seeking politicians to act in their constituents' interests while the lobbying models argue that the lobbies compete for influence over the politician's policy choice by offering political contributions (or bribes) which are contingent to the policy of the politician. Here, we develop a model which includes homogeneous politicians, a representative consumer who votes in the elections and a firm which is able to offer a bribe to influence the politician's decisions. The interests of the consumer conflict with those of the firm. We demonstrate that the possibility of offering a bribe to the politician leads to inefficiency even the politician does not receive any bribe. That is, the possibility of corruption creates inefficiency even no corruption takes place.

Keywords: Corruption, Bribery, Political Agency, Lobbying

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