

Sheheryar Banuri
Research Statement

My research focuses on the micro foundations of corrupt behavior using laboratory experiments across cultures. I address two central questions: First, how do policies impact individual corrupt behavior, and second, how do policies interacting with high societal levels of corruption yield differential outcomes. My first two papers focus on bribery and the effects of punishment, and my third paper focuses on the behavioral determinants of nepotism and the impact of anti-nepotism policy on trust and reciprocity within social groups. Behavioral determinants are observed and policy mechanisms are tested in two corruption games specifically designed to elicit corrupt transactions in the lab, across two different cultures (US and Pakistan). The findings of my research have significant implications for designing future development programs that seek to reduce corruption and foster economic and political growth.

At the macro level, corruption is clearly an impediment to political and economic growth, significantly reduces the welfare of societies, increases income inequality, and reduces trust in political institutions. However, at the micro level there are clear incentives to engage in corruption that benefit all parties to the transaction. Corruption at this level encompasses a number of behaviors that constitute “abuse of public office,” namely, bribery, extortion, patronage, embezzlement, graft, nepotism, among others. While corruption is individually rational, the benefits gained from corruption are overshadowed by the welfare costs on third parties. However, developing policies that deter corruption is difficult.

Anti-corruption policies generally aim at changing the incentives for actors to engage in corrupt transactions. However, constructing and assessing successful anti-corruption policies suffers three important problems. First, corruption is difficult to measure given its clandestine nature. Most of the empirical work in this area has resorted to survey data on the perceptions of corruption, arguing that it is a close approximation of the overall level of corruption. Since these observational studies are not constructed as panels, changes in the levels of corruption (or even, in the perceptions of corruption) are difficult to pinpoint. This makes it difficult to accurately measure the level of corruption and consequently it is difficult to measure the effectiveness of anti-corruption policies. Second, since individual-level corrupt behavior is difficult to observe, it is also difficult to observe how anti-corruption policies affect individuals. Third, individuals may respond differently to identical policy measures based on the existent level of corruption in their society. Interaction of specific policy programs with the underlying cultural milieu is an important factor that dictates how identical policies succeed in some areas but fail in others. To the extent to which an anti-corruption policy is generalizable is another important aspect to development.

My research directly deals with the above issues. The degree of control offered by lab experiments allows me to mitigate the problems associated with measurement and observability. I observe how anti-corruption policies (broadly conceived) change behavior. Experiments also allow implementation of identical policies in cultures with differing levels of exposure to corruption. I study the mediating role of entrenched corruption on anti-corruption policies by conducting this research across cultures with different corruption levels. Utilizing low and high corruption cultures as venues for my data collection, I have designed two specific games that

capture bribery and nepotism. I seek to further understanding of individual corrupt behavior in these two settings, and the impact of mechanisms to combat this phenomenon.

Bribery (with Catherine Eckel). I model bribery as a three-person finitely repeated game to study the impact of strategic punishment on corrupt behavior. This research asks two major questions: given that subjects are willing to engage in costly punishment in order to reinforce norms, how is punishment allocated between the two parties of a bribe event. That is to say, are subjects more likely to punish bribe initiators or bribe acceptors? Secondly, what impact does punishment have on pulling individuals away from the “corrupt” equilibrium both when the punishment institution is available, and when it is not? I implement this game in two countries on opposing ends of the corruption perceptions index, the US and Pakistan. I ask: are individuals less likely to punish government officials due to previous (real-world) experience with corruption, and how this punishment allocation impacts bribing behavior. My second paper addresses the impact of an anti-corruption policy shock in driving individuals away from the corrupt equilibrium using a within subjects design.

Nepotism (with Catherine Eckel and Rick Wilson). I use experiments to test whether the ability to choose a partner in Berg et al.’s trust game (1995) affects individual levels of trust and reciprocity. The innovation in my game is the ability for *trustors* to select the group that their counterpart is drawn from. They can select a member of their primary group or a member from the general population as the *trustee*. In-group members are less productive by design. I test the relative strength of two possible motives for engaging in nepotism: First, partnering with an in-group member is less risky, and beliefs regarding group member reciprocal behavior may be high enough to offset the costs of lowered productivity. Second, individuals with a strong sense of group identity may be more likely to partner with their group members. Furthermore, *trustees* may reciprocate more due to a strong group identity. In addition to testing these motivations, I address the impact on efficiency when implementing a basic anti-nepotism policy: the inability to choose your group members. I conduct this experiment across two cultures in order to address the variation in motives on a relatively egalitarian population with low corruption (the US) versus a traditionalist or familial population with high corruption (Pakistan).

My research makes three major contributions. First, I extend the previous experimental work to investigate other aspects of corruption. I add to this literature by conducting a repeated bribery game with strategic punishment, and introduce a new game to address another aspect of corruption, nepotism. Second, I examine two different remedies for corruption. For bribery, I examine third-party punishment of both governments and firms who engage in corrupt activities. For nepotism, I test a basic anti-nepotism policy in the removal of the option to engage in nepotism. Third, the experiments investigate the mediating role of entrenched corruption on policy. By utilizing samples from two cultures at opposite ends of the corruption spectrum, I can address how individual behavior interacts with policy mechanisms to yield differential outcomes in two countries with varying levels of exposure to corruption (US and Pakistan).

Future Research. As extensions of my research on corruption, I am introducing the impact of third party externalities on nepotism. I seek to address whether awareness of externalities reduces the propensity to engage in nepotism. I am also interested in the impact of group membership on bribery. This project will investigate whether individuals belonging to close-knit social groups are more likely to engage in bribing behavior, and whether punishment of such behavior is impacted by members of social groups. In addition to these projects, I am also

interested in the variance of policy selection across societies. I seek to investigate whether individuals are more likely to select different policies based on their experience with corruption, and how effective these policies are in constraining behavior. Finally, I am also currently developing a protocol addressing the impact of transparency on the provision of political patronage.

I believe that these projects will further our understanding of how policies impact individual behavior in the corruption context. The results of this research help inform policy-makers to design and implement anti-corruption policies with the best possibility of success, which would then impact corruption on the macro-level and serve to reduce income inequality, increase political access, and improve development. This research also provides an inexpensive alternative for developmental agencies to estimate the effectiveness of anti-corruption reforms prior to the implementation phase. By accounting for interactions between institutional change and social histories, this approach allows development agencies to have the best possible chance at a successful intervention in developing countries.