

Luis Gerardo González Morales

# **The Economics of Corruption and Bureaucratic Inefficiency in Weak States**

Theory and Evidence



**PETER LANG**  
Europäischer Verlag der Wissenschaften

# Contents

|  |           |
|--|-----------|
| <b>Introduction</b>  | <b>9</b>  |
| Acknowledgements . . . . .                                     | 12        |
| <b>1 Economics and the theory of the state</b>                 | <b>13</b> |
| 1.1 The social contract . . . . .                              | 14        |
| 1.2 Democracy, liberalism and authority . . . . .              | 15        |
| 1.2.1 Constitutional order and political transitions . . . . . | 18        |
| 1.2.2 The economics of corruption in weak states . . . . .     | 21        |
| 1.3 Microfoundations . . . . .                                 | 26        |
| 1.3.1 Game theory and collective decision making . . . . .     | 28        |
| 1.3.2 Two-candidate electoral competition . . . . .            | 29        |
| <b>2 Political stability and corruption in weak states</b>     | <b>33</b> |
| 2.1 The basic model . . . . .                                  | 36        |
| 2.1.1 Informational structure . . . . .                        | 37        |
| 2.1.2 Commitment . . . . .                                     | 39        |
| 2.2 The optimal social contract . . . . .                      | 39        |
| 2.2.1 Symmetric information with commitment . . . . .          | 42        |
| 2.2.2 Symmetric information without commitment . . . . .       | 43        |
| 2.2.3 Asymmetric information with commitment . . . . .         | 46        |
| 2.2.4 Asymmetric information without commitment . . . . .      | 48        |
| 2.3 Models of corporatism . . . . .                            | 50        |

|          |   |            |
|----------|---|------------|
| 2.3.1    | Uncontested corporatism . . . . .                                 | 50         |
| 2.3.2    | Welfare effects of corruption and corporatism . . . . .           | 55         |
| 2.3.3    | Contested corporatism . . . . .                                   | 56         |
| <b>3</b> | <b>Constitutional order and bureaucratic efficiency</b>           | <b>65</b>  |
| 3.1      | A finite-horizon model . . . . .                                  | 66         |
| 3.2      | The electoral game . . . . .                                      | 69         |
| 3.2.1    | Symmetric information . . . . .                                   | 70         |
| 3.2.2    | Asymmetric information . . . . .                                  | 71         |
| 3.3      | Welfare gains from signaling under Bayesian rationality . . . . . | 80         |
| 3.4      | Constitutional order and efficiency . . . . .                     | 84         |
| 3.4.1    | Exogenous switching costs and dividends . . . . .                 | 85         |
| 3.5      | Conclusions . . . . .   | 86         |
| <b>4</b> | <b>Dynamic aspects of reelection incentives</b>                   | <b>89</b>  |
| 4.1      | An infinite-horizon model . . . . .                               | 90         |
| 4.1.1    | States and political transitions . . . . .                        | 91         |
| 4.2      | The electoral game . . . . .                                      | 94         |
| 4.2.1    | Politicians' choice of effort . . . . .                           | 95         |
| 4.2.2    | Electoral competition . . . . .                                   | 97         |
| 4.3      | Conclusions . . . . .   | 106        |
| <b>5</b> | <b>A theory of Mexico's political history</b>                     | <b>109</b> |
| 5.1      | The Mexican revolutions . . . . .                                 | 111        |
| 5.1.1    | Independence and constitutional experiments . . . . .             | 111        |
| 5.1.2    | From <i>pax porfiriana</i> to revolution . . . . .                | 114        |
| 5.2      | The corporatist equilibrium . . . . .                             | 116        |
| 5.2.1    | From anarchy to stabilizing corporatism . . . . .                 | 116        |
| 5.2.2    | The corporatist regime in crisis . . . . .                        | 119        |
| 5.3      | The democratic alternative . . . . .                              | 123        |
| 5.4      | Final comments . . . . .  | 123        |