

Corruption and Networks: Why do firms pay occasional bribes?

Ariane Lambert-Mogiliansky^{*}

November, 2000

Abstract

This paper argues that legal business networks facilitate corruption. When the prospects of future deals fail to provide incentives to comply, bribes can be enforced relying on punishments in the network e.g., exclusion. Network members administer the punishments in the fear that the bureaucrat would retaliate against all of them. The bureaucrat may, for instance, stop revealing his private information to the network.

The analysis predicts that the extent of occasional corruption can be larger when the legal and administrative rules are complex and unstable, and if the market is poorly developed. The paper discusses some policy measures that could reduce corruption.

JEL: L14, L2, K42.

Keywords: corruption, network, enforceability.

^{*}CERAS-ENPC (URA 2036), Ecole Nationale des Ponts et Chaussées, 28 rue des Saints-Pères 75 343 Paris, France. email: ariane.lambert@mail.enpc.fr

[†]I am grateful for helpful comments from Jonas Häckner, Sten Nyberg, Pierre Picard and Hans Wijkander and Philippe Jehiel. Financial support from the Swedish HSFR is gratefully acknowledged.