Practitioners in the public integrity arena are invariably busy managing the constant daily demands of investigations, prosecutions, and new matters. We need to set them aside periodically and focus on a larger picture, assess our impact, and explore new ideas to improve our effectiveness. In my previous post as commissioner of the New York City Department of Investigation (DOI), I found that our discussions and conferences bringing together scholars, civil society activists, and thoughtful practitioners were transformative. The studies and presentations offered fresh ideas, stimulated discussion, and encouraged innovation. In that spirit, I am grateful for this opportunity to review a thought-provoking new article by Cheol Liu and John L. Mikesell.

The article, “The Impact of Public Officials’ Corruption on the Size and Allocation of U.S. State Spending,” draws a strong connection between a state’s level of public corruption and its spending. The study suggests that in nine of the United States’ 10 most corrupt states, as measured by the authors, public corruption drove annual spending upward by an average of $1,308 for each person residing in the state, compared with per capita spending in a state with only an average level of corruption. The authors also find that the most corrupt states tend to favor capital construction, highways, total salaries and wages, borrowing, correction, and police protection, at the expense of social sectors such as total education, elementary and secondary education, health, and hospitals.

Measuring corruption is a challenge for practitioners and international organizations. Transparency International compiles the well-known Corruption Perceptions Index, which ranks 177 countries and territories based on “a combination of surveys and assessments … by a variety of reputable institutions.” Transparency International explains the difficulty: “Corruption generally comprises illegal activities, which are deliberately hidden and only come to light through scandals, investigations or prosecutions. There is no meaningful way to assess absolute levels of corruption in countries or territories on the basis of hard empirical data.”

Liu and Mikesell rank the U.S. states for corruption based on the number of public officials in each state convicted of federal corruption-related crimes during a 33-year period (1976–2008), as reported by the Public Integrity Section of the U.S. Department of Justice. The total number of such convictions exceeds 25,000, according to the authors, who opine that they provide “a more objective, concrete, and consistent measure of cross-state variations in corruption” than perception-oriented corruption indexes.

To account for variations in size among the 50 states, Liu and Mikesell measure each state’s convictions...
against their respective populations and public workforces. Their corruption index is based on the number of convictions per 10,000 public employees in the state. Using that index, the authors rank the 50 states and display their relative degrees of public corruption on a map. Other scholars have used the Justice Department’s data to assess the relative corruption among U.S. states, with similar, although not identical, results.²

Liu and Mikesell cite previous studies of corruption and its economic impacts at the national and international levels to hypothesize that, all other things being equal, U.S. states with higher levels of public corruption are likely to (1) have larger total expenditures and (2) spend more on capital, construction, highways, debt financing, wages, and salaries and less on education, welfare, health, and hospitals, which the authors suspect “provide fewer opportunities … to collect bribes.” Liu and Mikesell develop an econometric model to test their hypotheses. They account for a number of different factors that drive state spending to isolate the particular effect of corruption. The results of their testing support their hypotheses.

The authors adopt other scholars’ hypotheses that public officials, out of self-interest, may be motivated to increase their budgets, leading to “excessive” government expenditures, a tendency that the authors suspect is “exacerbated” by corrupt officials’ “predatory” (illegal) behavior. The authors observe that state budget deficits have been increasing despite efforts to balance state budgets.

Liu and Mikesell conclude that their findings suggest that “preventing public officials’ corruption and restraining spending induced by public corruption should accompany other efforts at fiscal constraint.” While capital investments and borrowing are “crucial for the state’s economic growth and development … policy makers should pay close attention that public resources are not used for private gains of the few but rather distributed effectively and fairly for various purposes.”

The study offers several insights for practitioners. The authors identify the budgeting process, particularly relating to capital and construction, as vulnerable to serious public corruption. And they support a proactive approach, emphasizing corruption prevention.

Practitioners recognize that large construction projects are often targets for fraud and corruption. Significant public sums are spent on them, with numerous opportunities for self-enrichment involving public officials, consultants, developers, contractors, subcontractors, suppliers, and labor organizations. Integrity agencies, including the DOI, have increasingly used proactive strategies to prevent, rather than respond to, corruption and fraud on large infrastructure and disaster recovery projects, deploying integrity monitors to scrutinize the ongoing construction and billing as they occur. Integrity practitioners have also formed specialized units and task forces to investigate public construction projects. Indeed, the DOI participated in a number of multiagency investigations with law enforcement partners that uncovered construction-related fraud and corruption.

The article indicates that integrity practitioners would also be well advised to monitor budget-making exercises in the governments they oversee for earlier indicators of potential fraud, waste, and corruption.

At the DOI, we found several instances of corruption involving discretionary budget allocations by city and state legislators to nonprofit organizations, an exception within the procurement rules, which otherwise would require competition for public contracts. Although most nonprofits provide valuable services honestly, we found cases in which the public official directed public funds to a nonprofit agency controlled by that official, where the funds were then stolen or used for unauthorized purposes, such as the official’s political campaign. As a result of our investigations of publicly funded nonprofits, a new unit was established to focus on this area, and more than 50 arrests were made and new governance measures for tax-funded nonprofits were imposed.

In this regard, it can be noted, without disagreeing with the authors’ conclusions, that where public funds are flowing, whether through construction projects or publicly funded programs, there is unfortunately no shortage of individuals who will find ways to turn those funding streams, illegally, to their personal advantage.

Takeaway: Liu and Mikesell have made a valuable contribution to the public integrity field, offering food for thought to practitioners and public officials interested in providing value and service to the people residing, doing business, and paying taxes in their jurisdictions.

Notes
2. Liu and Mikesell cite Glaeser and Saks (2006); see also Simpson et al. (2012). The latter study adds the District of Columbia to its index and includes in its top 10 seven of the 10 states that Liu and Mikesell identify as the most corrupt.

References