



## **EXography: Government corruption encourages more state spending on infrastructure, but takes away resources from schools, public health**

By Mark Tapscott  
June 17, 2014

An innovative data analysis finds that states with high levels of public corruption spend less on schools and public health because it's easier for dishonest officials to extract bribes from other activities like construction, road-building, public finance and government employee compensation.

“States with higher levels of corruption tend to spend more on items on which corrupt officials may levy larger bribes at the expense of others,” according to Professors John L. Mikesell of Indiana University and Cheol Liu of the City University of Hong Kong.

The professors estimate that during the period of 1997 to 2008, the 10 most corrupt states could have reduced their total annual expenditures by 5.2 percent “if corruption had been at the average level of the states.”

Their study appears in the current issue of the *Public Administration Review*. In addition to state spending data from the U.S. Census Bureau, the study used Justice Department records on the more than 25,000 public officials convicted for violating federal anti-corruption statutes between 1976 and 2008.

The convictions were for “crimes involving abuses of the public trust” and included federal and state legislators, governors, judges and other officials at all levels of government.

Alaska was the most corrupt state during the decade between 1997 and 2008, according to Mikesell and Liu, followed by Mississippi, Louisiana, North Dakota, South Dakota, Tennessee, Alabama, Illinois, Montana and New York.

The 10 least corrupt states for the same period included Oregon, Washington, Minnesota, New Hampshire, Utah, Iowa, Nebraska, Colorado, Vermont and Wisconsin.

Areas of public spending that are most vulnerable to corruption include those with “greater rent [i.e. amount of potential bribes], higher secrecy and less competitiveness,” the professors said.

Public construction projects, including buildings and roads, exhibit those factors to a greater degree than education and public health.

“Expenditure on highways is one of the major categories state infrastructure spending,” Mikesell and Liu said. “Similar to the cases of capital outlay and construction, states with higher levels of corruption tend to spend more on highways.”

The professors also speculated that states with more corruption tend to borrow greater amounts of money because “corrupt public officials may have stronger incentives to create fiscal illusions to make citizens estimate their fiscal burdens less than the actual by debt financing.”

The negative effect of high levels of corruption on school spending is felt at all levels of education, Mikesell and Liu said, because “expenditures on education do not provide as many ‘lucrative’ opportunities for corrupt officials as other components of spending such as construction.”

State officials should not simply cut spending on areas that invite corruption, the professors said, because “those investments are crucial for the state’s economic growth and development.”

Instead, the professors encouraged that “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.”

That may be easier said than done, though, according to Chris Edwards, director of tax policy at the Cato Institute and editor of the libertarian-oriented think tank's [downsizinggovernment.org](http://downsizinggovernment.org).

“Liu and Mikesell find that more corruption causes higher spending. But it’s also true that more spending — done for the best of intentions — leads to higher corruption as bad actors get their hands on the money pot,” Edwards said.

“Other research finds that windfalls of federal aid — such as federal disaster relief — encourage state and local corruption. The solution here is easy: End the federal aid and require governments to fund activities directly through painful taxes on citizens,” he said.

Similarly, Stephen Moore, chief economist for the conservative Heritage Foundation, said, “the causality runs the other way, too, because when you spend more, the stakes are higher and the incentives for dishonesty are magnified.”

Bob Williams of State Budget Solutions pointed to basic approach states take in budgeting, saying "states should switch to outcome-based budgets and have an aggressive performance audit program. Outcome budgets provide increased transparency and accountability as opposed to the current budgets that just take the current budget and add caseload increases and inflation, then call that the new base budget."

Williams group is a non-profit that focuses primarily on spending issues at the state level.

*Mark Tapscott is executive editor of the Washington Examiner.*