Red Tape, Corruption, and Distributive Politics

Aditya Dasgupta[1] and Tesalia Rizzo[2]

Word Count:

Abstract

This paper investigates the distributive politics of red tape, the time-consuming bureaucratic hurdles and minutiae attached to the pursuit of government benefits and services. A simple model suggests that red tape has potentially progressive effects when it is utilized as a mechanism to screen out high-income individuals with high opportunity costs of time by a social welfare maximizing social planner. When implemented by a corrupt bureaucrat, however, red tape is also regressive, screening out poorer individuals who may be *willing* to pay but are constrained in their *ability* to pay the bribes required to clear red tape. This provides arbitrage opportunities for clientelist intermediaries who specialize in cutting red tape in exchange for the political loyalty of poor voters.

[1] Assistant Professor of Political Science, University of California, Merced: adasgupta3@ucmerced.edu.
[2] PhD Candidate, Department of Political Science, Massachusetts Institute of Technology: trizzo@mit.edu.

I. Introduction

Red tape – the seemingly arbitrary and time-consuming bureaucratic hurdles and minutiae attached to the pursuit of government benefits and services – is a widespread feature of government bureaucracies. Existing work points out the adverse consequences red tape has for bureaucratic responsiveness (Gupta 2012), as well as the factors responsible for its existence, including a lack of competitive incentives in the public sector (Wilson 1989) This paper takes a different approach, investigating the *distributive politics* surrounding red tape. In particular, we ask: what are the distributive consequences of red tape? Given these consequences, what are the incentives for different actors to manipulate the level of bureaucratic red tape? How will this be reflected in the overall structure of distributive politics in society?

When implemented by a responsible government planner, red tape can, act as a progressive mechanism to screen out high-income individuals with high opportunity costs of time. Indeed, this is often the rationalization for time-consuming procedures, such as paperwork or long queues, attached to the pursuit of government benefits. Because red tape wastes time, it be utilized to screen out wealthier individuals with high opportunity costs of time and lower valuation of access to benefits (Nichols and Zeckhauser 1982; Alatas et al. 2016). While red tape creates deadweight loss, in conditions of low state capacity where bureaucrats lack the capacity to accurately measure objective need it may help target benefits at the poorest individuals.

When implemented by corrupt bureaucrats, however, red tape can also have regressive consequences. Presented with the opportunity to gain rents, corrupt bureaucrats will use their discretion to inflate the level of red tape, either by extending processing time, failing to explain

procedures or overburden citizens with unnecessary paperwork. When faced with little oversight, bureaucrats can use their discretion to eliminate existing or strategically fabricated red tape in order to maximize revenue by demanding 'speed money' for access. This process screens out the poorest individuals, who may be willing to pay but are constrained in their *ability* to pay the bribes required to clear red tape. The net effect is an inverted-U relationship between income and access to welfare benefits, excluding the wealthiest as well as poorest individuals.

Theoretically, we examine the distributive consequences of red tape with and without bureaucratic discretion. We add another layer of analysis, by examining how the combination of red tape with bureaucratic corruption can provide arbitrage opportunities for clientelist intermediaries that specialize in cutting red tape in exchange for political loyalty (Rizzo 2018). The theoretical framework is taken to nationwide household survey data on access to Below Poverty Line (BPL) cards in India. BPL cards are required to access a variety of welfare benefits in India, but are also notoriously difficult to obtain, requiring individuals to clear a number of bureaucratic hurdles; on its own, this red tape ought to screen out wealthier individuals from access to BPL cards. However, Indian states also vary widely in the degree of bureaucratic corruption, which provides opportunities for bureaucrats to trade access for bribes or political influence, perversely disadvantaging the poorest households, who would benefit to the greatest extent from BPL cards, in the competition for obtaining access to them.

The evidence provided shows that independent measures of bureaucratic corruption strongly predict the degree to which the eligible poorest are regressively excluded from access to BPL cards. Consistent with the theoretical argument, in states with high levels of bureaucratic

corruption, there exists a curvilinear relationship between individual income and access to welfare benefits, with access highest among the middle poor but lower among the very poorest and wealthier individuals. In states with low levels of bureaucratic corruption, the distribution of access is more progressive. Qualitative evidence is also provided that clientelist machine politics tends to thrive in states which combine red tape with extensive bureaucratic corruption.

The findings point to the important consequences red tape can have not just on overall bureaucratic efficiency but also for distributive politics. More generally, the theory proposed has important implications for why red tape and bureaucratic discretion is tolerated politically. Red tape permits bureaucrats to collect bribes in exchange for clearing bureaucratic hurdles. Red tape also facilitates the entry and survival of clientelist political intermediaries and machines that specialize in cutting red tape in exchange for votes.

2. Theoretical Framework

Red Tape as a Progressive Screening Device

Red tape is often rationalized as a screening device. Suppose the government wishes to distribute a welfare benefit, for example health insurance or housing, only to the poorest individuals. The central challenge of targeting is that government cannot observe an individual's type directly, particularly in contexts of low state capacity, resulting in a classic situation of adverse selection; all individuals possess incentives to purport to be deserving types in order to claim the benefit, including underserving types whom the government would prefer to exclude.

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Red tape, defined as time-consuming bureaucratic hurdles, provides a tool to screen out wealthier individuals. Because wealthier individuals are more productive and have higher opportunity costs of time as well as typically lower valuation of the benefit itself, they are unwilling to pay the opportunity cost to apply for a benefit while a poorer individual will be willing. This screening occurs with some deadweight loss (see e.g. Besley and Coate 1992 for a discussion of tradeoffs), as "deserving" poorer individuals are forced to waste their otherwise productive time on red tape as well. But from the perspective of a social welfare-maximizing government planner, this deadweight loss may well be more than offset by the fiscal benefits gained from the exclusion of undeserving wealthier individuals.

A key implication is that red tape, when implemented by a societal welfare maximizing government planner, tends to have *progressive* distributive consequences (Alatas et al. 2016). In Figure 1, let the function mapping an individuals' valuation of the benefit against their income level be represented by a Valuation curve; this slopes downward to capture the idea that poorer individuals attach a higher valuation to the welfare benefit. Let the function mapping the opportunity cost of applying for the benefit, due to the existence of red tape, against income be represented be represented by a Cost curve; this slopes upward since the opportunity cost of applying for the benefit is increasing in an individual's labor market wage potential multiplied by a fixed amount of time that must be wasted in the satisfaction of red tape requirements. For a given level of red tape, all individuals with income on the domain left of the point at which the cost curve intersects with the valuation curve will choose to apply for the welfare benefit, while those on the domain right of this point will be screened out. An increase in red tape, depicted in a transformation

of the cost curve from C1 to C2, tends to increase the degree of screening of wealthier individuals and increasingly restrict the provision of benefits to poorer individuals.
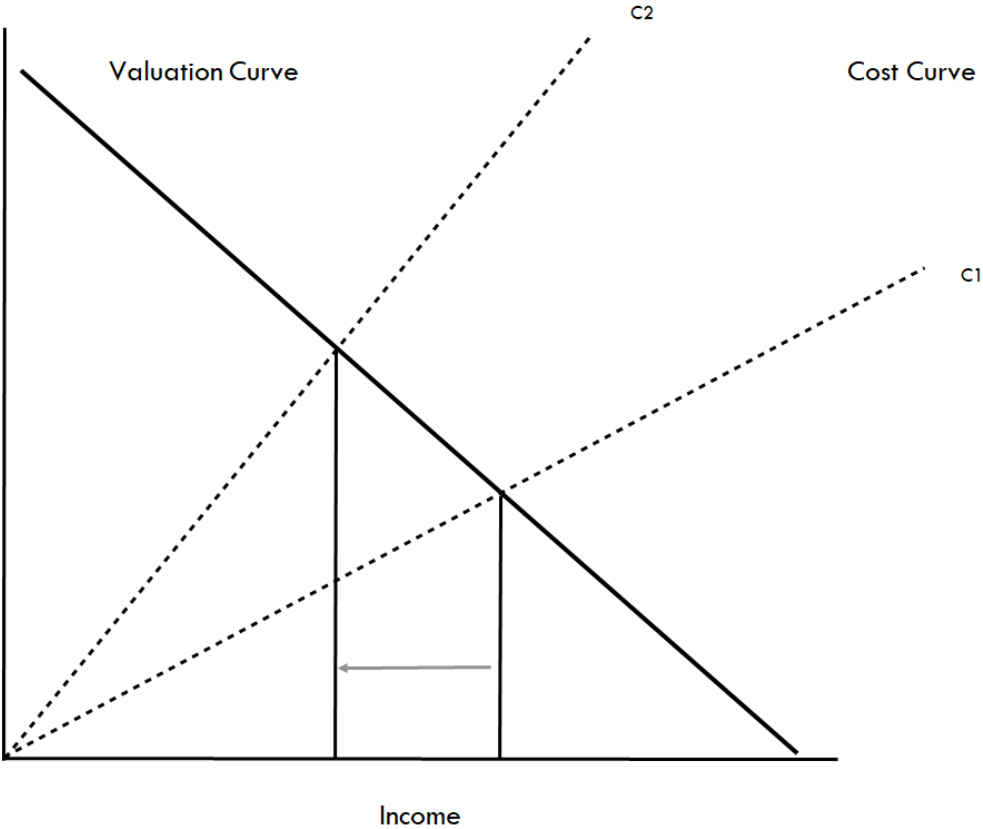

Figure 1: Red Tape Implemented by Welfare Maximizing Social Planner

Bureaucratic Corruption and Regressiveness

So far, the results have assumed that red tape is imposed and implemented by a responsible government planner. In this case, red tape is set to maximize societal welfare by targeting benefits at the poorest individuals with lower opportunity costs of time, while generating fiscal savings by excluding "undeserving" wealthy individuals from access. But what if red tape is instead

implemented at the discretion of corrupt bureaucrats, who permit the application of not just time but bribes to clearing red tape, with a view to maximizing bribe revenue?

This situation creates two countervailing distributive tendencies. First, 'screening' red tape benefits poorer individuals who have a higher willingness-to-pay, due to their greater valuation of the welfare benefit. Second, however, bureaucratic 'discretionary' red tape weighs heaviest on poorer individuals who are constrained in their ability to pay bribes because they are cash constrained. In this case, as the degree of red tape and the degree of money demanded by bureaucrats in exchange for clearing red tape increases, then not only are the wealthiest individuals screened out, who lack the willingness to pay to apply for benefits, but so, perversely, are the *poorest* individuals, who lack the *ability* to pay.

We visualize this logic in Figure 2, which in addition to a Valuation curve now includes an Ability to Pay curve, which represents an individual's ability to pay a given level of bribes demanded by bureaucrats in exchange for access. The bribe level demanded by bureaucrats is represented by the curve R. While an optimizing bureaucrat may wish to engage in price discrimination, maximizing revenue by charging each individual at the maximum of his willingness and ability to pay (whichever binds at a lower level), the adverse selection problem prevents this; all individuals have an incentive to purport to be the poorest type in order to gain access as cheaply as possible. As a result, the bureaucrat is forced to demand a fixed price for access, which accounts for why the R curve is flat. An increase in the level of R, displayed in a transformation from R1 to R2, tends increasingly to exclude not only the wealthier individuals but also the poorest individuals. A revenue maximizing bureaucrats will set the bribe level not too high, so that not too many

individuals are excluded from being able to pay. Nor would he set the bribe level too low, missing

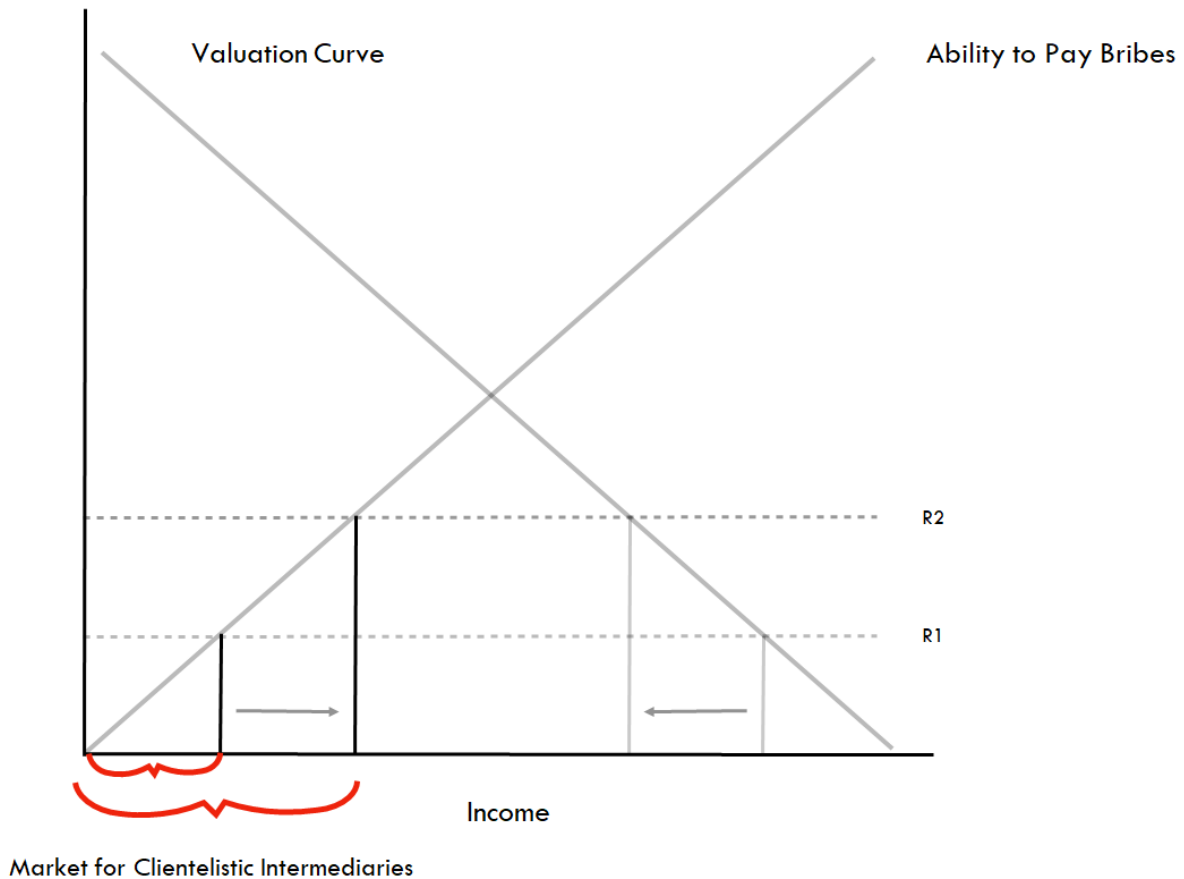out on potential surplus revenue from wealthier individuals.

Figure 2: Red Tape Implemented by Corrupt Bureaucrat

A precondition for demanding bribes is a high level of red tape. In particular, a bureaucrat must

ensure that red tape is sufficiently high, but not too high so that the cost of the bribe exceeds the

opportunity costs of applying for a benefit among all individuals from whom he wishes to demand

speed money– otherwise individuals would simply invest their time in the clearance of the red tape

rather than pay a bribe. How high will the discretionary red tape be set by a corrupt bureaucrat?

One approach would be to simply set the red tape level just high enough so that the poorest

marginal individual the bureaucrat wishes to demand a bribe from is indifferent between applying time or payment to the clearance of the red tape. In this case, the combination of screening red tape with discretionary red tape does not exclude those who cannot afford to pay the bribe; it simply subjects them to waiting time.

However, in many cases, there are a finite number of benefits to distribute. If the bureaucrat is forced to provide the benefit to any individual that satisfies the red tape requirement through the application of time, this deprives the bureaucrat of some potential revenue earned through the provision of the benefit to someone else willing to pay more speed money. The implication, then, is that bureaucratic corruption tends to result in inflated levels of red tape, so that the only individuals that gain access are those who are able and willing to pay the bribe levels demanded, with the poorest (who lack the ability to pay) and wealthiest individuals (who lack the willingness to pay) screened out altogether.

Arbitrage Opportunities and Political Intermediaries

An important feature to observe in the graph above is that bureaucratic corruption can exclude masses of individuals with extremely high valuation of welfare benefits but who lack the ability to pay bribes imposed by discretionary red tape. This gap in access to benefits provides tremendous opportunities for arbitrage. The poor may lack the ability to pay bribes, but they can pay with political support and loyalty, a currency they are rich in.[3]

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[3] This gap could potentially be filled by credit markets – yet research shows that the poorest individuals are often credit constrained, for a variety of reasons, not least the inability of the poorest individuals to secure loans by providing economic collateral, see e.g. Banerjee and Duflo (2011).

We argue that the combination of red tape and bureaucratic corruption creates ideal conditions for the entry of political intermediaries and machines that specialize in cutting red tape in exchange for political loyalty, especially of the poor. A form of clientelism, political intermediaries and machines procure votes and political loyalty in return for their services. Importantly, the argument provides a different rationalization for the prevalence of intermediaries and political machines than what the literature on clientelism suggests (Stokes et al. 2013). Rather than serving a vote monitoring function, intermediaries help to fill the gap between the poorest individuals' demand for access to government benefits and their ability to obtain them, a gap that exists in the first place because of bureaucratic corruption and red tape. This provides a novel explanation for why red tape is permitted to exist. Red tape provides bureaucrats with the ability to demand bribes for circumventing it. Red tape may also be tolerated politically because it provides arbitrage opportunities and a means for political machines and intermediaries to cultivate a clientele among the poorest voters.

The distributive consequences of clientelist intermediation are less straight forward. Most argue that clientelist intermediaries overwhelmingly target the poor (Stokes et al. 2013; Keefer 2007). However a review of the evidence shows mixed results on the economic characteristics of those who engage in clientelist exchanges (see Hicken 2011). In our framework, anyone with the inability to pay bribes imposed by discretionary red tape is a potential target for clientelist actors. Yet the economic characteristic of these individuals will be determined by the bribe level, R, set by corrupt bureaucrats, as well as the broker's targeting strategy.[4]

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[4] If, for example, we follow Stokes et al. (2013), then the broker's utility function will depend on the probability of the broker's politics party winning office (and thus assure her future flow of rents) as well as the endogenous rents

The theoretical framework yields the following predictions. First, in the absence of bureaucratic corruption, red tape ought to have progressive distributive consequences, screening out wealthy individuals. Second, in the presence of bureaucratic corruption, red tape ought to have progressive as well as regressive distributive consequences, screening out both the wealthiest individuals who lack the willingness to pay as well as the poorest individuals who lack the ability to pay. Moreover, the combination of screening and discretionary red tape ought to provide opportunities for clientelist intermediation and machine politics. The distributive impacts of clientelism could have a progressive effect for those brokers who target the poor. However, this might not be the case if the bribe level is significantly high or the political targeting strategies of brokers target a different profile of voters.

These predictions are consistent with comparative stylized facts, in particular the tendency of bureaucratic corruption, high levels of red tape, clientelist electoral politics, and regressive distributive outcomes to cluster together across countries (see e.g. Shefter 1977). In the following section, we examine whether the predictions of the theory hold using subnational household data on bureaucratic corruption and access to welfare benefits across states in India.

3. Evidence from Below Poverty Line Cards in India

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derived from their political networks. Poor voters are, everything else constant, 'cheaper to buy', given their diminishing marginal utility of income. However, the good exchanged in this case is a government benefit, which means that the economic composition of the demand (and potential 'clients') will also be determined by the good itself.

A quintessential example of the argument at work is the case of Below Poverty Line (BPL) cards in India. BPL cards are a physical document that poor households must obtain in order to obtain access to a wide range of welfare programs in India. BPL cards are highly valuable, especially to poor families. They entitle a family to buy food at heavily subsidized rates from Public Distribution System (PDS) ration shops along with subsidized cooking oil and cooking fuel. BPL cards are less attractive to wealthier households, since the grain sold on the public distribution system is typically of a poor quality. However, BPL cards hold value for the non-poor as well, especially since the grain and oil obtained at subsidized rates can be resold on the market (or used for other purposes, including feeding livestock).

Spending on the PDS system represent approximately 5 percent of India's annual budget, and therefore represents one of the largest forms of welfare spending in the country. To contain costs, several time-consuming bureaucratic hurdles have been put in place to deter non-deserving wealthier households from obtaining access to BPL cards. BPL households are identified on the basis of a period nationwide BPL survey, which measures household assets and income. To obtain a BPL card, households must file an application with local officials, providing their identity cards as well as proofs of residency, paperwork that is not necessarily easy to obtain. They must also provide evidence that their names are on a BPL list, which depends upon being identified by the BPL survey and, typically, being approved by village level officials. After filing an application, they must wait and visit the bureaucratic office periodically in order to obtain their card, if it has been approved – a process that can take months or years.

If implemented by a responsible government planner, red tape ought to ensure that the distribution of access to BPL cards should be highly progressive; indeed, under perfect targeting, all individuals falling objectively below the poverty line ought to possess a BPL card while those above the poverty line ought to be excluded. In practice, however, bureaucratic corruption, can results in a manipulation of the level of red tape and demands of bribe money for gaining access to BPL cards, disadvantaging the poorest households in the competition for access to a finite number of BPL cards. A 2005 survey by Transparency International India (2005) revealed that 47 percent of households in India report having to pay a bribe to obtain a ration card (one subtype of which is the BPL card).

The implication of the theoretical framework applied to the Indian case suggests that the distribution of access to BPL cards therefore depends on the level of bureaucratic corruption. In states with low levels of bureaucratic corruption, the extensive red tape required to obtain a BPL card, combined with the relatively higher valuation of the card among poor families relative to wealthier ones, ought to imply a high degree of progressivism in the distribution of BPL cards, with the probability of possessing a BPL card increasing sharply as income falls. In states with high levels of bureaucratic corruption, however, red tape may be manipulated by local officials in order to demand bribes or political influence in order to obtain access scarce BPL cards. This would tend to screen out not only the wealthier households with lower willingness to pay but also the poorest households without the ability to pay. The following section investigate this implication through a comparison of two neighboring states, Kerala and Tamil Nadu, that vary drastically in the level of bureaucratic corruption.

Tamil Nadu Versus Kerala

Consider first a natural experiment of sorts – the comparison of two of India's neighboring southernmost states, Kerala and Tamil Nadu. Both are characterized by relatively similar per productivity levels, ranking ninth and eighth, respectively, in India. However, the two states differ drastically in levels of bureaucratic corruption. According to the 2005 survey by Transparency International India (2005), Tamil Nadu earned a 5.09 on a corruption index, ranking fifth-highest among India's major states, while in Kerala the score was just 2.40, ranking lowest in the level of corruption among India's major states. Kerala's exceptionally meritocratic and professionalized bureaucracy has deep historical roots, originating in inclusive institutions established by the region's colonial-era princely rulers (Sen 1991), a long history of leftist social mobilization (Heller 2000), as well as high levels of social solidarity and sub-nationalism in the state (Singh 2011). Tamil Nadu, by contrast, is famed for the degree of politicization and corruption in its bureaucracy, originating historically in the bitter and highly populist competition between the state's two major parties, the DMK and ADMK.

Figure 3 provides a plot of the share of households possessing a BPL card by asset level, on a scale ranging from 1 to 26, in each state, according to a survey carried out by the India Human Development Survey (2005). The 2005 IHDS survey took a stratified random sample of 2098 and 1731 households in Tamil Nadu and Kerala, respectively. In Kerala, the distribution of BPL card possession is highly progressive, with the probability of possessing a card increasing sharply as income levels (as proxied by assets) falls. In Tamil Nadu, by contrast, at the bottom of the income distribution the probability of possessing a BPL card actually starts to fall, consistent with the

curvilinear predictions of the model in a context of bureaucratic corruption. The very poorest households in Tamil Nadu have a just 30-50 percent chance of possessing a BPL card while in Kerala the equivalent figure is 100 percent.
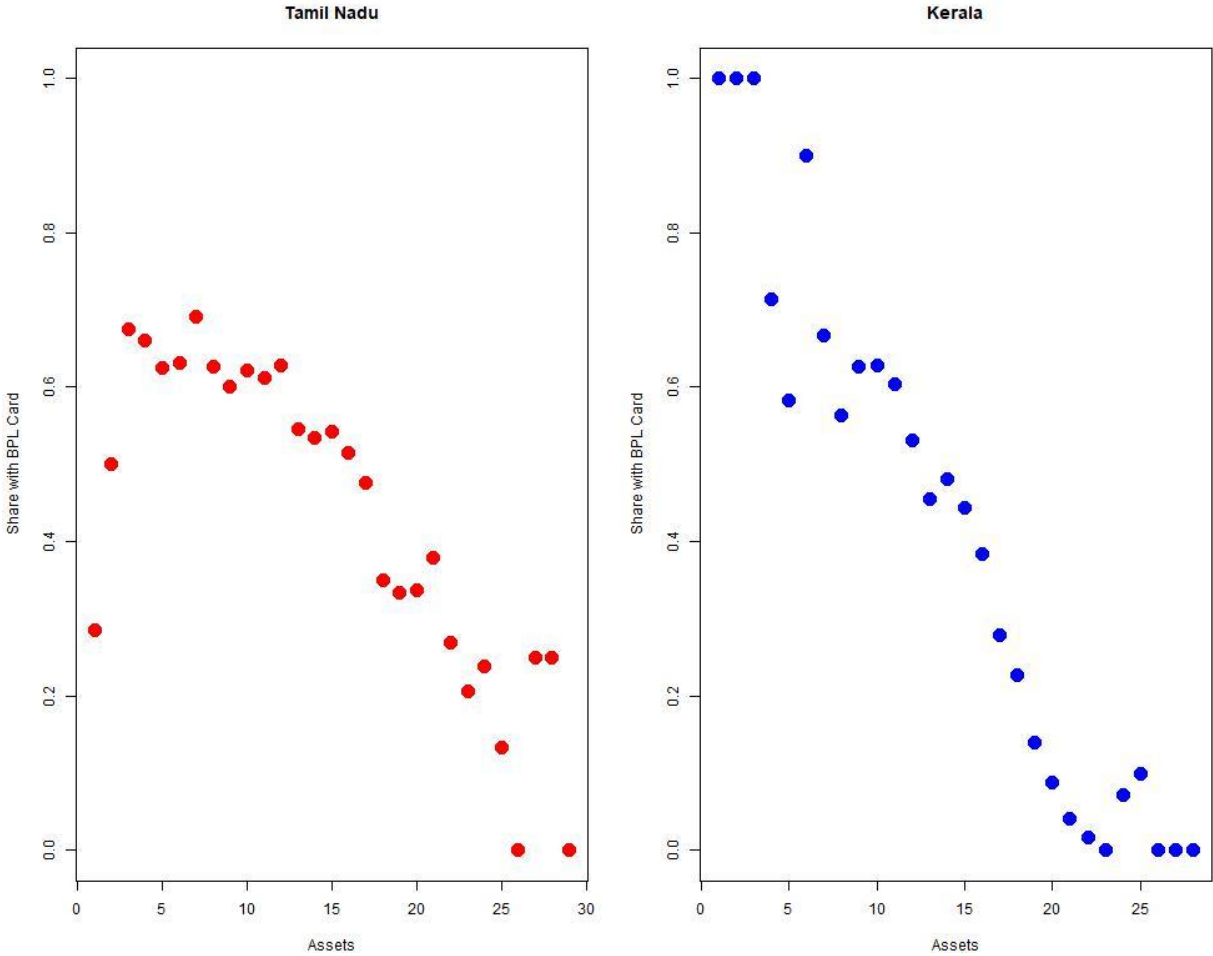

Figure 3: Distribution of BPL Cards by Asset Decile in Tamil Nadu and Kerala

The theoretical argument has suggested that the combination of bureaucratic corruption with red tape provides opportunities for arbitrage by clientelist intermediaries which specialize in cutting red tape in exchange for providing access to poorer individuals. Qualitative evidence strongly

suggests that clientelist machine politics is far more prevalent in Tamil Nadu, which is famed for the exchange of gifts and access to public service for votes, than it is in Kerala, where clientelist electoral mobilization tend to be much weaker. Tamil Nadu's two major regional parties, the DMK and ADMK, are renowned for the degree to which they have mastered the art of mass, top-down election mobilization through the distribution of gifts (such as saris and bicycles), cash (infamously tucked into morning newspapers), and selective promises of access to public benefits and services (e.g. Ziegfeld 2016). In Kerala, citizens engage with the state and bureaucracy on much more autonomous terms, as reflected in the state's vibrant associational life and robust levels of political competition (see e.g. Heller 2000). While it is difficult to tell which came first, it is certainly the case that there appears to be an "elective affinity" in Tamil Nadu between clientelistic electoral mobilization and bureaucratic corruption, which creates a market for political machines and intermediaries to provide services for voters. In Kerala, where voters can reliably expect to obtain benefits from the bureaucracy on rule-based terms, the arbitrage opportunities for clientelist machine politics are far weaker.

Comparing Across Indian States

Do the patterns hold up in the full sample of Indian states? To test the argument, this paper estimates a simple regression of the degree to which the eligible poor are possess access to BPL cards on the Transparency International measure of state-level corruption in public services. Access is measured in two ways. The first is simply the share of the bottom decile of households in terms of assets that possess a BPL card. The bottom decile is computed from the national distribution, including households with an asset score between 1 and 4, so that the very poorest

households, measured on the same scale, are compared across states. A second measure is a direct measure of whether a household falls below the state level poverty line computed from the 2005 IHDS survey, and the share of these below poverty lines households that have a BPL card.

The theory suggests that higher levels of bureaucratic corruption, as measured Transparency International India (2005) report, should be associated with lower levels of access among poor households, whether measured in terms of assets or below poverty line status. By contrast, it should have limited impact on access to BPL cards among the wealthier households; as discussed, red tape screens out wealthier individuals with or without bureaucratic corruption, since wealthier households possess low willingness to pay, either in terms of waiting time or bribe level. The primary effect of the combination of bureaucratic corruption with red tape is to screen out the poorest individuals, who lack the ability to pay the demanded bribe level. The results therefore investigate the association of bureaucratic corruption with access to BPL cards among the poor (which is expected to decrease) and access to BPL cards among the wealthy (which is expected to display a null relationship).

The top-left and bottom-left panel of Figure 4 confirm the existence of a negative association between bureaucratic corruption and access to BPL cards among poor households. The top-right and bottom-right panels demonstrate that bureaucratic corruption has a limited impact on access among wealthier households, who are screened out by red tape with or without bureaucratic corruption. These correlations suggest that the combination of bureaucratic corruption with red tape tends to have regressive distributive consequences, screening out not only the wealthy but additionally also the very poorest individuals.
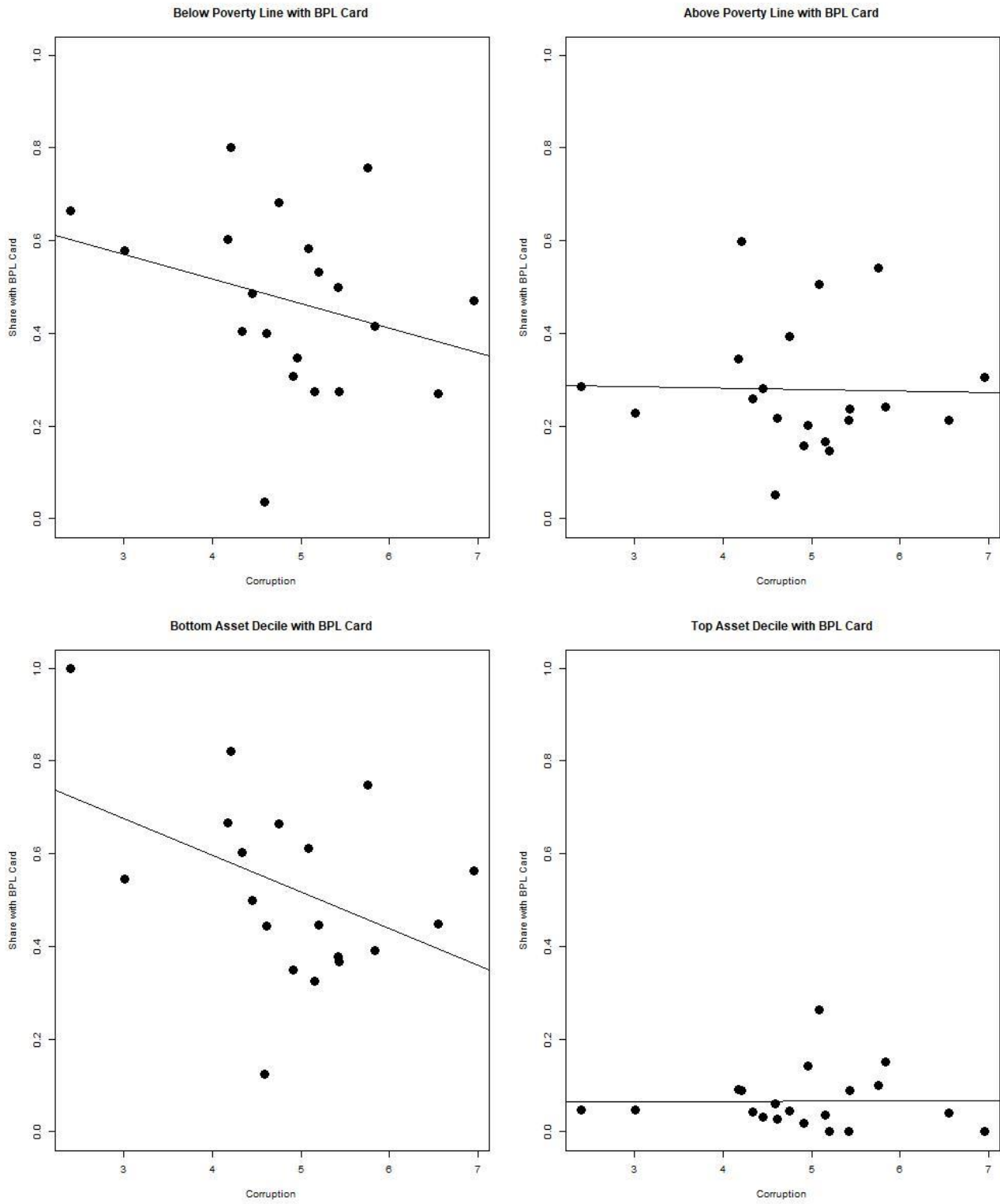
Figure 4: Bureacratic Corruption and Distribution of Access to BPL Cards

Conclusion

Red tape has important distributive consequences. When implemented by a responsible government planer, it serves a potentially progressive function, screening out the wealthier individuals with high opportunity costs of time. When implemented by corrupt bureaucrats, however, red tape can also screen out poorer individuals who lack the resources required to pay the costs of access.

The theory and results suggest new explanations for why red tape exists and is tolerated politically in the first place. It is probably widely accepted that high levels of red tape enable corrupt bureaucrats to collect bribes. The connection between red tape and clientelist intermediation is less widely recognized. The exclusion of the very poorest individuals with the highest willingness to pay provides arbitrage opportunities for parties, political machines, and intermediaries who specialize in exchanging access for the votes of the poor. This may account for why red tape and bureaucratic corruption, and the regressive distributive consequences it can have, is tolerated by political parties.

Overall, the central implication is that red tape is not simply bureaucratic arbitrariness and inefficiency. It is an active instrument of distributive politics, which may be manipulated by bureaucrats and politicians to serve their strategic interests. For advocates of pro-poor policies, red tape and bureaucratic corruption should be seen as a source of distributive regressivism, and a target for reform.

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