Does bureaucracy attract more corrupt people? An experimental evidence from India

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Abstract

Do corrupt people self select themselves in professions where the scope of corruption is high? We conduct a uniquely designed experimental corruption game modeling embezzlement of resources among private sector job aspirants and among students aspiring to join Indian bureaucracy at the highest echelons. We find that at the intensive margin aspirant civil servants indulge in corruption more than private sector aspirants. Subjects are asked to evaluate the performance of a group of students and then pay them by claiming the required number of tokens. We find that the public sector aspirants underpay the students more. Further, they also overreport the number of tokens required more than their private sector counterparts. On the extensive margin, we find that while public sector aspirants are more likely to be corrupt, the difference is not statistically significant. The findings suggest that, contrary to the widely held view, bureaucracy in India attracts more corrupt people possibly due to the corrupt rent seeking potential therein.

Keywords: Corruption, Experiments, Treatment Group Effects, Bureaucracy

JEL Classification: C91 D73 O12 K42

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1 Introduction

> *"Just as it is not possible, not to taste honey or poison put on the surface of the tongue, so it is not possible for the Government servants dealing with money not to taste it in however small quantities."*
>
> *- Kautilya in Arthashastra (circa 300BC).*

This rather insightful surmise, whose provenance may be found in the ancient Indian political economy treatise - *Arthashastra,* authored more than 2300 years ago by *Kautilya*, finds more resonance today than ever before. However in the developing countries with a large, inefficient and corrupt government, the question is whether it is the surface of the tongue which is in the lookout for honey. In other words, are more corrupt people self selecting into professions where the possibilities of corruption are high.

The preordained narrative which governed public sector corruption was the following - the public office embedded in itself systemic corruption such that even honest people turned corrupt once they entered it. There are several reasons why that might be the case. An honest person may join the government and recalibrate his ex ante prior of monitoring and inspection downwards . It may as well be that rampant corruption among peers may lower his moral cost. In both cases corruption becomes an ex post equilrium strategy. However if corruption is an equilibrium strategy for most people in a sector for a sufficiently long time, then that sector may begin to attract corrupt people.

The rich literature on labor market sorting which has evolved in the recent past indicates that the dimensions of sorting are indeed numerous. Abowd et al. (1999) show that more productive firms employ more productive employees while Krueger and Schkade (2007) conclude gregarious workers flock towards jobs with higher social interaction. Women with same abilities as men have been found to self select themselves out of competitive enviornment (Niederle and Vesterlund (2007)). One of the few papers that looks at the interaction between ethicality, changes in the economic incentives and sorting is Ferraz and Finan (2011). They find that greater public monitoring of federal funds in Brazil attract better politicians. But the paper which comes closest to our study is Alatas et al. (2009) who examine corruption propensities of Indonesian Bureacrats and schools students and find that the experience effect dominates the selection effect.

However selection effect is difficult to identify in the settings discussed above for several reasons. The bureacrats or politicians are typically observed only after they have joined the public service. Thus at the time of the experiment it is very plausible they have internalised the norms of the professions they are

already in. And the fact that it is difficult to collect data on bureaucrats and politicians before they join the public office does not help either. Moreover, many policies that are designed to attract a better pool of applicants such as higher wages also give rise to career concerns. This makes it difficult to separate selection from the effects of increased monitoring incentives.

Our contribution to the literature are two fold. One, we attempt to clearly identify selection effects vis-a-vis corruption with aspirant bureacrats as opposed to bureacrats themselves by playing a uniquely designed corruption game on two distinct treatment groups - students who aspire to join the Indian bureacracy at the highest echelons and students who aspire for a job in the private corporate sector. Two, as opposed to the petty corruption games prevalent in the literature related to corruption, we introduce a new corruption game which attempts to model embezzlement rather than bribery.

In our study we find that corruption is farely high among both groups. On average 66% subjects opt for corrupt strategies. The results further suggest the public sector aspirants are systematically more corrupt on the intensive margin than their private sector counterparts. Controlling for other variables, corrupt earnings increase the conditional probability of choosing the public sector. However we find no statistical difference in the extent of corruption in the two sectors. Contrary to prevalent belief, our finding suggests that while people with lower moral cost of corruption are attracted to bureaucracy but private sector aspirants are not necessarily honest.

The rest of the paper is divided into the following sections. Section 2 describes the experiment with the identification strategy in Section 2.1, design of the experiment in Section 2.2 and the experimental procedure in Section 2.3. The results are given in Section 3 while Section 4 offers the concluding remarks.

2 The Experiment

Shleifer and Vishny (1993) make a crucial distinction between two types of corruption - petty corruption which does not entail theft of government resources and embezzlement which involves direct theft of government resources. Though petty corruption is the most commonly visible face of corruption, it is the latter, the authors argue, which spreads rampantly due to the assymetric opportunity cost faced by the corrupt agent under the two scenarios. Furthermore it is not difficult to imagine why an embezzlement of public resources meant for the citizenry, causes enormous loss of welfare. Typically, the beneficiearies of these public entitlements are the poorer sections of the population and any siphoning off of the public resource causes a far higher welfare depletion than petty corruption does. Also, there has been some

justification of petty bribery as "speed money" and thus efficiency improving[1], no such rationale exists for embezzlement though the scale of misappropriation under the latter is humongous.

In the recent past several studies have attempted to measure embezzlement in public funded programs in developing countries. MNREGA, a flagship program in India which gurantees 100 days of compulsory work a year to 900 million people at the cost of 3.6% of annual government spending, have been widely criticised for massive leakage of funds. Anecdotal evidences show that fictitous spells of workers have been introduced, "ghost" households have evolved and wages have been grossly underpaid[2]. Similarly, several studies of food[3], health and education entitlements[4] suggest massive leakage of government resources. In several other instances, like auctoning off public resources like 3G spectrum or coal blocks the public official can underreport the *true* price to the government leading to losses in public exchequer.

Considering the above, the literature on experimental corruption games has however focussed on bribery to elicit unethicality. A thorough understanding of corruption thus entails understanding and observing the incentive structure faced by the most important cog in the wheel connecting the government and the citizens - bureaucrat. Thus we devise a game where resources from the government are claimed in order to dole out public entitlements to the citizenry.

2.1 Identification Strategy

The identification strategy employed to examine our hypothesis of self selection is simple. We compare the degree and extent of corruption across subject pools, which consists of students aspiring to join the bureacracy in the government on one hand and those wanting to join the private corporate sector on the other. But first let us explore in some detail who our subjects are.

[1] Some authors, beginning with Leff (1964) and Huntington (1968) and later Lui (1985) and others, argue that in developing countries where institutions are inefficient, petty corruption can be efficiency improving and thus growth enhancing. However this view has been rejected several times susequently (see Shleifer and Vishny (1993) and Mauro (1995))

[2] its policy of hundred days guaranteed employment at the official minimum wage is widely credited to have increased the rural wage. However of the total annual outlay of Rs. 40,000 Crore ($ 8 billion), only half of it reach the target population. Anecdotal evidence abound about how fake identities are created in thousands and entitlements siphoned off. Niehaus and Sukhtankar (2012) find that none of the statutory wage increase is passed on to workers in an MNREGA program implying a marginal leakage of 100% .

[3] Program Evaluation Department (2005) reports that 58% of subsidized targeted food grains through targeted Public Distribution system in India are diverted. Olken (2006) estimates that at least 18% of subsidized rice is diverted from the Operasi Pasar Khusus (OPK) program.

[4] According to Reinikka and Svensson (2004) 87% of school grants, meant to cover nonwage expenditure of primary schools in Uganda, were usurped by local officials in connivance with politicians. Interestingly official figure of Uganda's total public expenditure in the mid 1990s on education was 20%.

Public Sector Aspirants

In order to join the government adminstrative service at the highest level, aspiring candidates have to take a three level national examination called the Union Public Service Commission (UPSC) Examination. Each year roughly 400,000-500,000 students appear for the Preliminary level of UPSC exam. Roughly 2% of them are invited for the second level -the main exam. And finally 0.4% of the students manage to appear for the interview out of which 700-800 students are finally selected which translates into a success rate of 0.25%-0.3%. Admittedly a difficult exam, UPSC however allows students to appear for the exam several times.

Once a candidate clears this examination she can choose from a number of services like Indian Foreign Service (IFS), Indian Administrative Service (IAS), Indian Police Service (IPS), Indian Postal Service, Indian Revenue Service (IRS) etc. depending on performance in the examination. In other words people qualifying through the UPSC exam comprise of the entire spectrum of personnel on whom the government machinery rests. It is the executive bullwark through which constitutional propriety is enforced, policies implemented and entitlements delivered. Indian Adminstrative Service, which admits within its folds only 80-100 students every year, has been hailed as the "Steel frame of India" by Vallabhai Patel - a statesman and the first home minister of India. However it is this very bureacracy which has earned flaks for being inefficient and thoroughly corrupt in the recent years.[5]

Due to several reasons over the years Delhi in general and Jawaharlal Nehru University (JNU) in particular has become an important hub for the aspirants of UPSC exam. JNU is a premiere research university in India and it attracts students from all across India and offers a wide range of choice of majors at bachelors and graduate levels, mainly in humanities and social sciences. Our public sector aspirants constitute of students who are preparing for the UPSC exam based in JNU.

Private Sector Aspirants

For the private sector aspirant, our subject pool consists of the students who aspire to work for India Inc. For that we recruit subjects at International Management Institute (IMI), also located adjacent to JNU inStudents at IMI intend to join the private corporate sector Delhi. It is a premier institute which trains

[5] Indian bureaucracy has been ranked as the worst in Asia by the Hong Kong based Political and Economic Risk Consultancy (PERC). Corruption In India: The DNA and RNA Bibek Debroy and Lavesh bhandari estimate that Rs 92,122 crore ($18.42 billion) are pocketed by public officials through corruption. In a seprate study Transparency International estimate that truckers alone pay police officials Rs. 22,200 annually in order to cross state borders. Bertrand Mullainathan find that average license getter in Delhi pays Rs. 1080 while the official license fee is Rs. 450. They further note that the differential is not merely transfers usurped by the insidious nexus of bureacrats and agents but it is distortionary as well.

students in management and offers an MBA degree in Marketing, Finance and Human Resource. Over the years IMI has been fairly successful in placing its students in the private corporate sector within India as well as abroad. In 2011, out of around 150 students at IMI, 27% have been placed with financial sector, 21% with consulting firms, 11% with FMCG sector and 5% with hospitality, Information Technology and KPO firms each. The average annual salary of the placed students is Rs. 900,000 ($\approx$ \$36000 in PPP terms). Thus one treatment group consisted of aspirant bureaucrats and the other consisted of private sector job aspirants.

2.2 Design

In our experimental design an official evaluates the performance of a worker and is mandated to pay her accordingly. The public official receives resources from the government for this end. This comprises of a large number of situations where entitlements are disbursed to the citizenry like in the programs discussed above.

Subjects, participating in the real effort task experiment, are divided into two groups - workers and supervisors. They are seated in two separate rooms and each worker is anonymously matched to a supervisor. Workers are asked to solve a set of twenty matrix problems as in Ariely et al. (2009) and they had ten minutes for the task[6]. Their answers are graded by a randomly matched supervisor located in an adjacent room. The workers are entitled to a payment of 1 token for each correctly solved matrix, as reported by the supervisor.

A supervisor, after having graded the answersheet, goes to a token counter located outside the room and claims the total number of tokens he needs to pay the worker in addition to his fixed remuneration of 2 tokens. After collecting the tokens the supervisor comes back to his seat where he finds an envelope with the workers identity marked on it. He puts the worker's earnings into the envelope, seals it. He keeps the rest of the tokens with himself and leaves the worker's envelope in a box. These envelopes are sent to the corresponding workers. The supervisors are told that they could excercise one of the following three strategies:

1. Overreport the number of tokens they needed at the token counter i.e. claim more tokens than they needed.

2. Underpay the worker i.e. put less money in the envelope.

[6]In each matrix they had to find two numbers from the matrix which add up to ten

3. Truthfully report to both the experimenter and the worker.

Note that one of the important aspects which distinguishes our design from other corruption games is that there are two margins of corruption - *overreporting* i.e. claiming more tokens from the experimenters than one needs to pay the worker and *underpaying* i.e. putting less tokens in the worker's envelope than the latter's true earnings. Given this setting, possible strategy combinations populate the supervisor's strategy space. Our interest mainly lies in the following subset - overreport and underpay, overreport and pay honestly, report honestly and underpay and report honestly and pay honestly. There are two less probable albeit interesting cases that may arise - one, a subject may overreport and pay the worker more than she deserves and two, he may underreport and pay her less. These strategies, despite the involvement of overreport and underpayment may not lead to corrupt earnings. The three other strategy combinations entail incurring a deliberate self inflicted loss.

Supervisors are then asked to participate in two diagnostic games and are randomly paid for one of them. In the first game each of them is allocated 10 tokens and is asked to pay any number of tokens to one of five listed charity organizations. This aims to measure the distribution of fairness concern among subjects. In the second game, they are asked to choose a wage scheme, by which they will like themselves to be paid, for a two minute long addition task. They could choose the wage scheme from the one of the following - fixed wage, variable wage and tournament wage. The aim here is to capture the preference for competition among subjects and see if public private sorting can be explained in part by attitude to competition[7].

Instead of neutral language we use loaded terms while framing the design with words like "Overreport" and "Underpay"[8]. While the moral sanction of contextualization is neutralised across treatment groups, it nudges the lab enviornment closer to the actual field setting. Hence we conjecture that any treatment group effect obtained from the use of situational terms is possibly the lower bound of the effects that can be obtained otherwise.

2.3 Experiment Procedure

The experiment was conducted at Jawaharlal Nehru University (JNU) and International Management Institute (IMI) in New Delhi.

[7] We are aware that the measure may be confounded by attitude to risk. But such a composite measure serves our purpose since our aim here is to explore whether corruptibility matters in occupational choice even after other plausible reasons like attitude to competition and risk.

[8] Though Abbink and Hennig-Schmidt (2006)finds that no effect of neutral vs loaded framing

The public sector group consisted of those students from JNU who were either going to appear for the UPSC exam in 2013 or those who had already appeared in it in 2012 or both. We posted fliers around JNU campus as well as student dormitories and interested students signed up by calling us or registering online through the website. The recruitment of public sector aspirants was very carefully conducted as we wanted only the kosher ones to participate. All applicants, without a genuine interest in the UPSC exam or its state level counterpart, were filtered out after asking a series of questions about the modalities of the exam and/or coaching. However state level public service aspirants were retained. Table 1 contains the number of times, if at all, the subjects appeared for the UPSC exam.

We finally had 82 students participating in our experiment from JNU and 66 from IMI thus leaving us with 41 public sector and 33 private sector job aspirants as independent observations. Three sessions were conducted at JNU each with atleast 24 students. Only one session was conducted at IMI and it had 66 students. The students were asked to come to two different classrooms (large lecture halls at IMI) as per preassigned roles. Participants in one group did not know who the participants in the other group were but knew that they were randomly matched with someone from the other group. We were particularly careful to maintain anonymity of subjects in the experiment because we expected some of them to behave dishonestly. Thus the responses of all subjects were anonymous and was tracked using a random identity number.

Each subject recieved a copy of the relevant instruction which was then read out aloud. Interlocution altered intermittently to Hindi to ensure that language did not cause any confusion. The pay offs of worker and supervisor was explained to each group for each of the options exercised. After the workers completed their task the answersheets were brought to the supervisors for grading. The supervisors graded the answersheet and one by one went out to claim the required number of tokens from the token counter. The token counter was not manned by the experimenters but by a volunteer. After having collected the tokens they would come back and privately insert the number of tokens that the worker deserved in the envelope marked with the matched worker's identity number. They would seal the envelope thereafter and leave them in a box kept at the front desk. These envelopes were then returned to the respective workers as the supervisors continued with the diagonostic games.

In the charity game the supervisors were given 10 tokens each and were asked to donate as much as they wanted to one of the five listed charities. They had to fill up the donation amount, which could include nothing as well as the entire amount, and their choice of charity. In the wage scheme determination game the supervisors were shown one example of the addition problem they were required to solve. Then they

were asked to write down their choice of wage scheme which they want themselves to be paid by. They were given two minutes to complete the task after which their asnwersheets were taken back. A coin toss then determined which of the two games they would be paid for. Finally members of each group filled an exit survey and left after encashing the tokens from the token counter.

3 Result

The subject pool demographic characteristics are given in Table 1. As discussed above since the a student typically appears in the UPSC exam several times before being able to pass it, the public sector aspirats are on on avergae slightly older than the private sector aspirants (24.5 as compared to 24.5). There was also a higher proportional representation of lower caste in the public sector with only one student in the private sector group belonging to the lower caste[9]. A larger percentage of subjects were female in the private sector than in the public sector (49% vs. 28%). Average family income , if family member worked in the government..

Table 1 also states the number of times public sector aspirants attempted to appear for the UPSC exam. One fourth of our public sample were planing to appear for UPSC for the first time. Several of them had appeared more than once.

Let us first analyze the intensive margin of corruption.

Figure 1-3 shows the distribution of the overreporting, underpayment and corrupt earning respectively for both the private and public sector aspirants, on a q-q plot give a fair idea of the results that follow. Table 1 presents the full sample and corrupt sample mean differences, the t-tests of differences in means and Mann-Whitney rank sum tests of difference in distributions[10]. Overreporting is much higher, with an avergae of 4.02, in the latter than in the former, with an average of 0.67. The mean difference is statistically significant at 5% with a p-value of 0.0004. The average underpayment by private sector aspirants, at 2.61 is less than that of the public sector aspirants which is 3.54. But the difference is statistically insignificant with a p-value 0.458. The mean corrupt earning, which is the sum of overreport and underpayment, is significantly higher for public sector than for their private counterpart (3.27 vs 7.56) with a p-value of 0.006. The results are similar if one considers the corrupt sample mean.

[9]Lower caste people may be attracted more to the public sector since it promotes affirmative action in the way of reservation. Another plausible reason for this is that the fees charged by the privaye college are prohibitively high for an average low income earning lower caste person.

[10]The inferences from the t-test are same as that from the Rank sum test. So we discuss only the t-test.

The extensive margin of corruption is laid down in Table 3. We find that 66% of the public sector overreported as against only 33% of private sector aspirants (p-value=0.005). Also, 59% of the former underpayed as against only 39% of the latter (p=0.100). However when it comes to corruption, though 70% of former are found to be more corrupt as against 63% of the latter, the difference is not statistically significant (p-value=0.516). This suggests that while most of the public sector corrupt indulged in corruption by both overreporting and underpaying, the corrupt private sector aspirants who underpayed were not the ones who overreported and vice-versa. Furthermore, the results from the extensive margin of corruption when juxtaposed with that of the intensive margin, implies that on an average while public sector aspirants are not more likely to be corrupt, but on an average they are more corrupt.

Figure 4 shows the scatterplot in an overreport-underpayment panel with the size of the circle becoming larger with corrupt earning. All the elements of the strategy space discussed above are shown here[11]. The solid dots show the points where corrupt earning is zero however its presence other than (0,0) reflects benevolence. The benevolent subjects are those who overreport at the token counter and overpay the workers at the same time or vice versa. One of the interesting finding from our data is that while benevolence is not associated with religiosity, it is negatively related to worker's true performance. In other words, supervisors were more likely to overreport and overpay workers if the performance of the workers were low[12]. Interestingly we also find a significant negative relation between corrupt earning with the respective self declared degree of religiousity implying that religious people are more corrupt. The descriptives of all relevant variables are given in the Appendix.

Finally we estimate a probit model with the choice of professional sector as the dependent variable and corrupt earnings along with demographic and other exogenous variables as independent variables. The vector of independent variables were chosen so as to control for all possible confounds that may affect occupational choice in this context. Presence of public servants in the family may inspire children to follow suit, higher family income may nudge students to acquire relatively expensive skill set which are more valuable in the private sector, students from lower caste may be attracted to government to benefit from the institutionalised affirmative action policies, a perception of higher corruption in the society at large might affect his choice and finally attitude to competition and in some measure risk might determine his choice of sector. We obtain the attitude to competition from the wage scheme chosen by the subject in the

[11] This helps us capture the cases where despite overreporting corrupt earning may be low due to overpayment.

[12] We find rather week evidence of the existence of social preferences though the positive corrleation coefficient (ρ) of charitable giving and benevolence is insignificant. Furthermore corruptibility is found to have an insignificant but negative relation with charitable giving with $\rho = -0.13$ for private sector and $\rho = -0.08$ for public sector.

second diagnostic game. Perception of corruption is an index created from the first principal component of a set of ten questions on exposure and perception about corruption (See Appendix). Similarly motivation for public service is the first principal component of ten questions aimed at understanding one's attitude to public service and politics. The other variables are obtained

The results are reported in Table 5. The parameter estimates indicate the the effect of corrupt earnings on choice of sector after controlling for demographic and other characteristic variables. Corrupt earning, which in our set up indicates the location of a subject in the distribution of corruptibility, has a positive effect on probability of choosing public sector and is highly significant. Presence of public servants among immediate family members, lower caste identity, motivation for public service significantly increases the probability of choosing public sector while family income significantly decreases it. The variables which do not matter in our data are choice of incentive scheme and perception of corruption.

4 Conclusion

We introduce a corruption game which is distinctly different from the bribery and petty corruption games that has been used in the corruption literature. The game models the most significant source of leakage of public resources- embezzlement of public resources.

We conduct an experiment in Delhi with two treatment groups - aspirants of UPSC exam and aspirants of private sector. Through this novel corruption game, we show that people who aspire to become senior bureaucrats in Indian civil service are more corrupt than the private sector aspirants. We do not find statistically different corruption levels on the extensive margin. This suggests that Indian bureaucracy attracts more corrupt people than the private sector. Thus corruptibility is an important sorting dimension for aspiration in the private or public sector.

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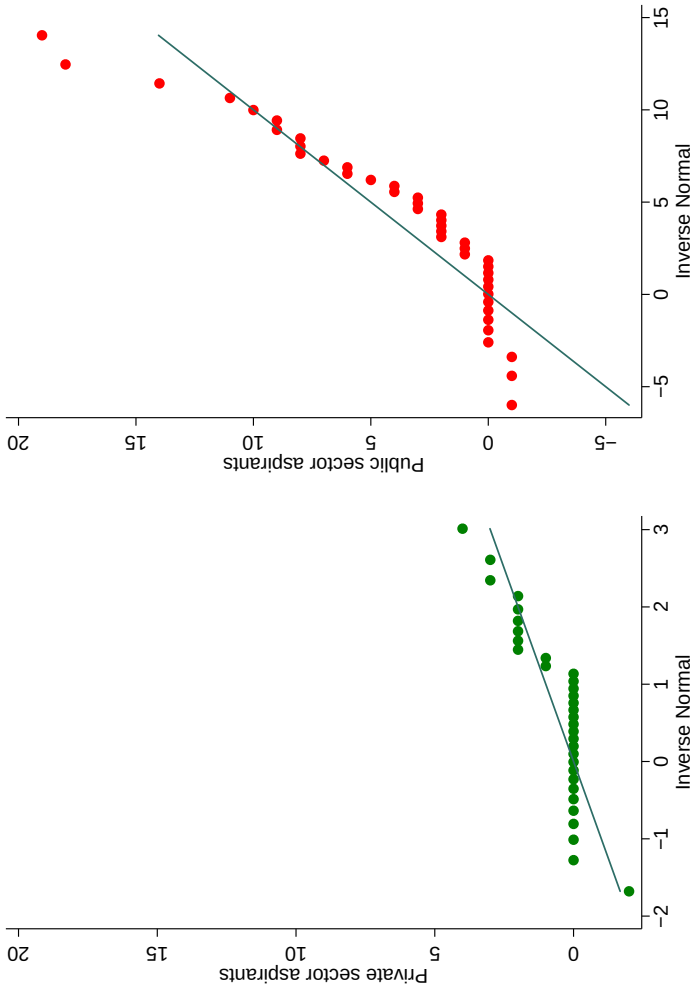

Figure 1: Over reporting by private and public sector aspirants

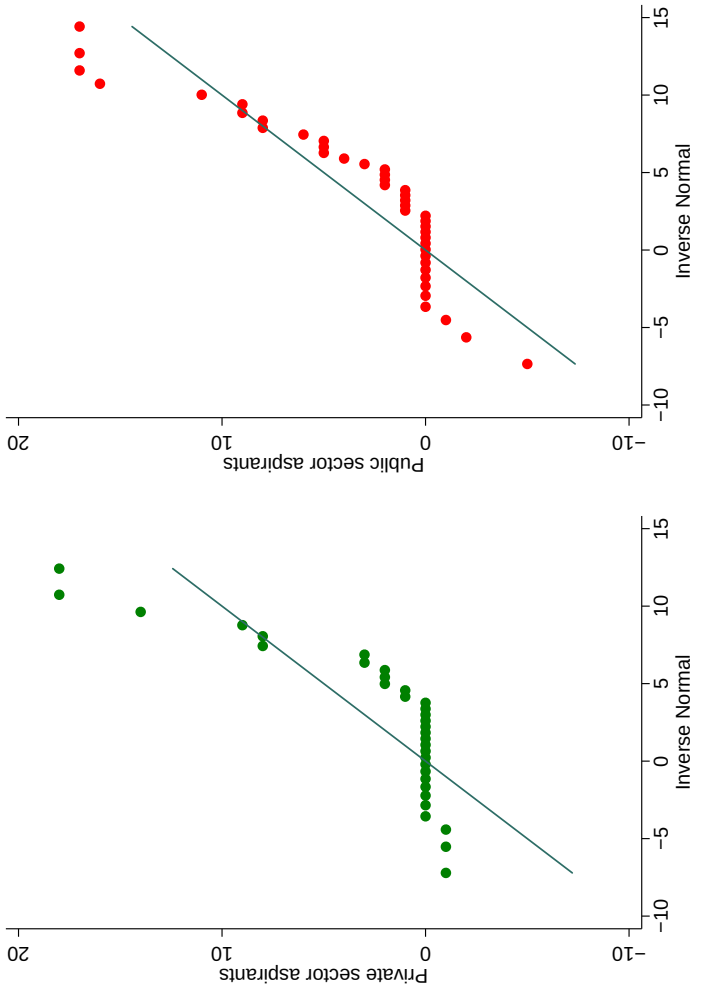

Figure 2: Underpaying by private and public sector aspirants

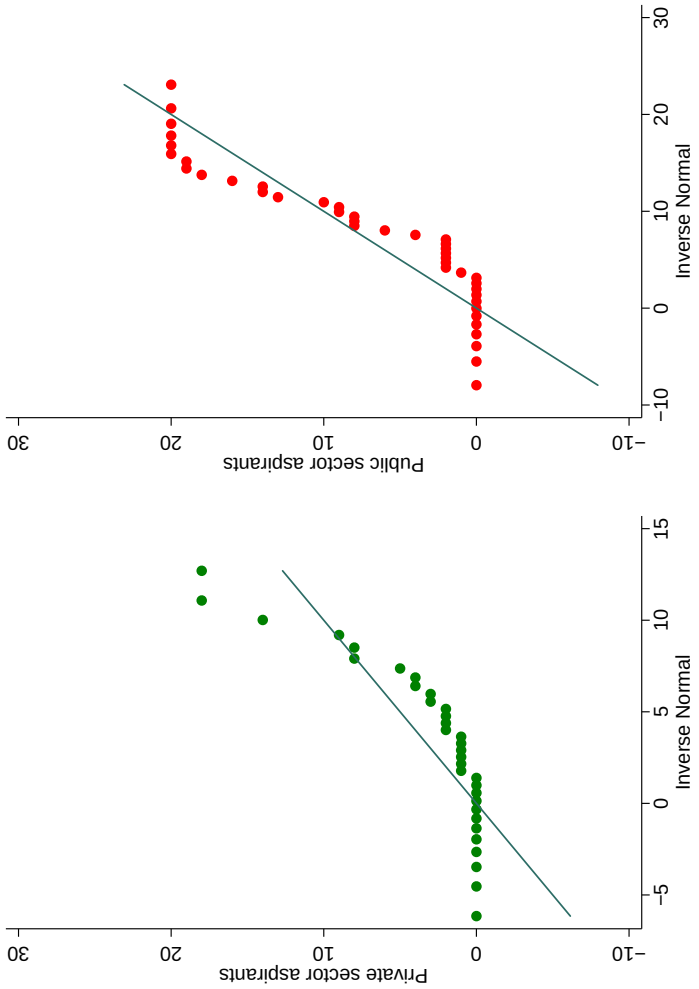

Figure 3: Corrupt Earnings by private and public sector aspirants

Figure 4: Over reporting and Underpayment

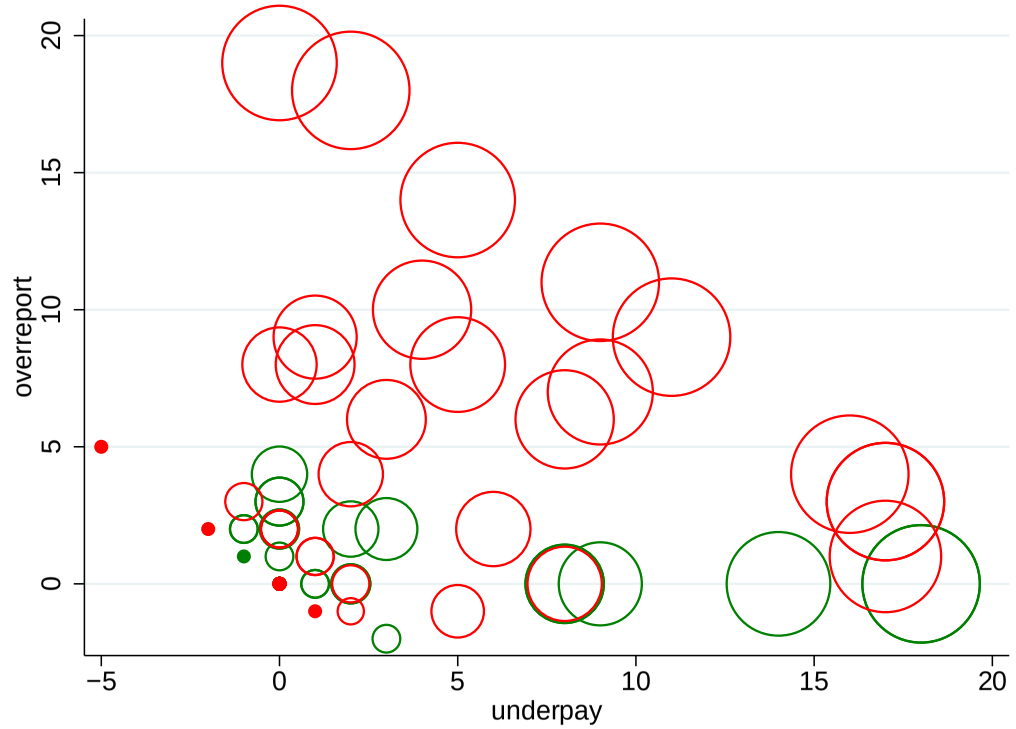

Table 1: Descriptives

	Private Sector Aspirant	Public Sector Aspirants	Total
Number of subjects	33	41	74
Average Age	22.8	24.5	23.8
Lower caste	1	20	21
Male	17	30	47
Number of Public Sector Aspirants ..			
preparing for UPSC exam		30	
preparing for State Civil Service and other public exams		11	
with past attempts to clear UPSC exam is 0		10	
with past attempts to clear UPSC exam is 1		8	
with past attempts to clear UPSC exam is 2		8	
with past attempts to clear UPSC exam is 3		3	
with past attempts to clear UPSC exam is 4		1	

Table 2: Intensive margin of corruption

Mean	Private Sector Aspirants	Public Sector Aspirants	Combined	Mean difference	T test: P<	Mann-Whitney Test: P<0
Full Sample Mean						
Overreporting	0.67	4.02	2.53	-3.36**	0.000	0.001
Underpayment	2.61	3.54	3.12	-0.93	0.458	0.193
Corrupt Earning	3.27	7.56	5.64	-4.29**	0.006	0.031
Corrupt Sample mean						
Overreporting	2.18	6.22	5.05	-4.04**	0.000	0.007
Underpayment	6.85	6.37	6.54	0.47	0.823	0.822
Corrupt Earning	5.14	10.68	8.36	-5.54**	0.003	0.289

Table 3: Extensive Margin of corruption

Proportion	Private Sector Aspirant	Public Sector Aspirant	Mean difference	T Test: P<0
Overreport	0.33	0.66	-0.32**	0.005
Underreport	0.39	0.59	-0.19*	0.100
Corrupt	0.63	0.70	-0.07	0.516

Table 4: Marginal effects of Worker entitlement and Religiosity on Corrupt earning and Benevolence

	Corrupt earning	Benevolence
Worker's True Performance	-0.02	-0.06*
	(0.03)	(0.04)

	Corrupt earning	Benevolence
Religiosity	1.14**	-0.37
	(0.53)	0.63

Table 5: Regression

	Probit	Standard Error	Logit	Standard Error
Public servants in the family	0.98**	0.46	1.78**	0.87
Log of Family income	-0.52**	0.22	-1.03**	0.02
Caste	1.47**	0.52	2.59**	1.03
Perception of corruption	-0.11	0.15	-0.22	0.29
Motivation for public service	0.28**	0.14	0.48**	0.24
Corrupt Earning	0.07**	0.053	0.10*	0.060
Incentive Scheme	-0.71	0.49	-1.11	0.87
Constant	5.99**	2.37	11.63**	4.73
Pseudo R^2	0.53		0.53	
Log Likelihood	-23.94		-23.81	
N	74		74	