

Living With Corruption: Threshold Effects in Red Tape and Rent Seeking

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This paper presents a simple model of public procurement in which government officials (bureaucrats) are delegated the task of acquiring some privately-manufactured input for use in the production of a final public good or service. Asymmetric information about the quality of this input leads to an optimal procurement contract that allows firms to make positive profits which bureaucrats can appropriate through the substitution of bribe payments for costly rules and regulations. We establish the existence of a critical, or threshold, level of such red tape, below (above) which public good provision is unaffected (reduced) by rent-seeking. We contend that this threshold is more likely to be higher for lesser developed economies, implying that such economies are more able to absorb a higher amount of red tape and corruption without compromising the objectives of public procurement.