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GREASE OR SAND THE WHEEL? THE EFFECT OF INDIVIDUAL BRIBES ON THE DRIVERS OF AGGREGATE PRODUCTIVITY GROWTH

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ABSTRACT

The Asian paradox suggests a net grease-the-wheel effect of corruption. Under the assumption of diminishing returns to bribes, going beyond the single-representative-firm assumption, we argue that the grease and sand-the-wheel effects are likely to co-exist among a large number of firms, and that the industrial effect of corruption depends on the productivity drivers that fuel firm's dynamics. We decompose Indonesian manufacturing labor productivity growth while contrasting and comparing the contributions of no-, low- and high-bribing firms over the period 1975-94. We confirm the coexistence of grease and sand-the-wheel effects. Industrial productivity gains stem first from the net entry of non-corrupted firms, evidencing a sand-the-wheel effect. Market share reallocation from low to high productivity growth incumbents paying low bribes is the second source of productivity growth, pointing at a grease-the-wheel effect. Intra-plant productivity growth is overall negative and largely attributable to high-corruption plants, suggesting a sand-the-wheel effect.

Keywords: corruption, bribery, productivity