Government spending in the top ten U.S. states for public corruption is artificially higher by more than $1,300 per capita every year.

In the minds of many, the government corruption tends to be a problem largely limited to developing countries. Yet, in new research **Cheol Liu** *and* **John L. Mikesell**, *find that corruption across U.S. states is a major – and costly – problem. They find that the ten most corrupt states could have reduced their annual expenditure by more than $1,300 per capita, if their level of corruption was reduced to the states' average. They also argue that public corruption influences how state resources are allocated to favor more "bribe-generating" spending such as construction, highways, correction, and police protection ahead of education, health and hospitals.*

Is America corruption-free? Realization that international development requires good governance has directed the concern of international organizations such as the World Bank and the IMF towards corruption in developing countries. But, corruption of U.S. government officials is also serious. Recently, Rod Blagojevich, former governor of Illinois, was convicted on a wide range of corruption charges, including selling Obama's Senate seat in exchange for personal gain. He was finally sentenced to 14 years in prison. More than 25,000 U.S. public officials were convicted for violation of federal corruption laws from 1976 to 2009.

Can this public corruption affect the size U.S. state spending? From our panel data analyses over the period of 1997 – 2008, we find that public officials' corruption caused state spending to be artificially elevated. The ten most corrupt states could have reduced their total expenditure annually by $1,308 per capita, on average, if their corruption level was at the level of the states' average: 5.2% of mean per capita expenditure.

How can we explain these results? It is well known academically that public officials' self-interested behaviors may cause government spending to be larger than optimal, or "excessive." This budget-maximizing behavior by self-interested bureaucrats will be intensified by corrupt bureaucrats. Corruption is defined as the "misuse of public office for private gain." Corruption takes place when public officials' selfishness is pursued to the extreme. They violate laws and regulations in pursuit of their private interests, which are called "predatory" (illegal) behaviors. State budgets will become even larger with a higher degree of corruption as a consequence.

How then did public corruption influence resource allocations? States with a higher level of corruption are likely to favor capital, construction, highways, total salaries and wages, borrowing, correction, and police protection. Corrupt states spend less on education, health, and hospitals. At the expense of social sectors, corruption is likely to distort states' public resource allocations in favor of higher potential "bribe-generating" spending and items beneficial to public officials directly.

State spending on construction, capital, and highway projects often involves large expenditures, a small numbers of contractors and clients, and a lack of transparency, making it vulnerable to bribes, kickbacks and extortion. Corrupt states are more likely to engage in deficit financing, which tends to conceal the true cost of government spending from the public. They spent more on high wages, which benefit government employees. They also spent more on law enforcement and on prisons, reflecting both the legal costs of corruption and the fact that prison construction and operation are potentially lucrative. Note that the harmful impact of corruption on education persists even after expenditures on education are divided into subcategories: elementary and secondary education and higher education. These results imply that public officials' corruption reduces states' investment in education overall.

How can we measure the extent of public corruption in each state? Our corruption index calculates the number of public officials convicted by the federal corruption-related laws. The Department of Justice publishes "Reports to Congress on the Activities and Operations of the Public Integrity Section (PIS)." This annual report provides the number of federal, state, and local public officials convicted of a corruption-related crime across states. We collected the number of convictions state by state for the period from 1976 to 2008. The PIS data have a significant comparative advantage over other available corruption-related indexes. First, they are consistent across time and jurisdictions. Compared to other perception-oriented corruption indexes, second, our corruption index provides more objective and concrete actual numbers.

Which states are most corrupt and least corrupt? Table 1 ranks states according to our indexes of corruption by averaging them over the time period of 1976-2008. The lower the ranking, the more a state is corruption-free. According to the indexes, the ten most corrupt states are Mississippi, Louisiana, Tennessee, Illinois, Pennsylvania, Alabama, Alaska, South Dakota, Kentucky, and Florida and the ten least corrupt states are Oregon, Washington, Minnesota, Nebraska, Iowa, Vermont, Utah, New Hampshire, Colorado, and Kansas. Where does your home state rank?

Table 1: Public Officials' Corruption in U.S. States: 1976-2008, Ranking on Average

Index with Population				Index with Employment			
Rank	State	Rank	State	Rank	State	Rank	State
1	Oregon	26	New Mexico	1	Oregon	26	Hawaii
2	Washington	27	Maryland	2	Washington	27	Rhode Island
3	Minnesota	28	Hawaii	3	Minnesota	28	Maryland
4	New Hampshire	29	Delaware	4	Nebraska	29	Delaware
5	Utah	30	West Virginia	5	Iowa	30	New Jersey
6	Iowa	31	New Jersey	6	Vermont	31	Georgia
7	Nebraska	32	Florida	7	Utah	32	West Virginia
8	Colorado	33	Georgia	8	New Hampshire	33	Montana
9	Vermont	34	South Carolina	9	Colorado	34	Virginia
10	Wisconsin	35	Missouri	10	Kansas	35	Missouri
11	Kansas	36	Ohio	11	Wisconsin	36	South Carolina
12	Michigan	37	Virginia	12	Wyoming	37	North Dakota
13	Nevada	38	Pennsylvania	13	Idaho	38	Ohio
14	Arizona	39	Kentucky	14	Michigan	39	New York
15	Idaho	40	Oklahoma	15	North Carolina	40	Oklahoma
16	North Carolina	41	New York	16	Indiana	41	Florida
17	Indiana	42	Montana	17	Arizona	42	Kentucky
18	Texas	43	Illinois	18	Maine	43	South Dakota
19	Arkansas	44	Alabama	19	Texas	44	Alaska
20	California	45	Tennessee	20	Nevada	45	Alabama
21	Maine	46	South Dakota	21	Arkansas	46	Pennsylvania
22	Connecticut	47	North Dakota	22	California	47	Illinois
23	Massachusetts	48	Louisiana	23	New Mexico	48	Tennessee
24	Rhode Island	49	Mississippi	24	Connecticut	49	Louisiana
25	Wyoming	50	Alaska	25	Massachusetts	50	Mississippi

Figure 1 illustrates the corruption map of the U.S. states.

Figure 1: Public Officials' Corruption in U.S. States: 1976-2008 on Average
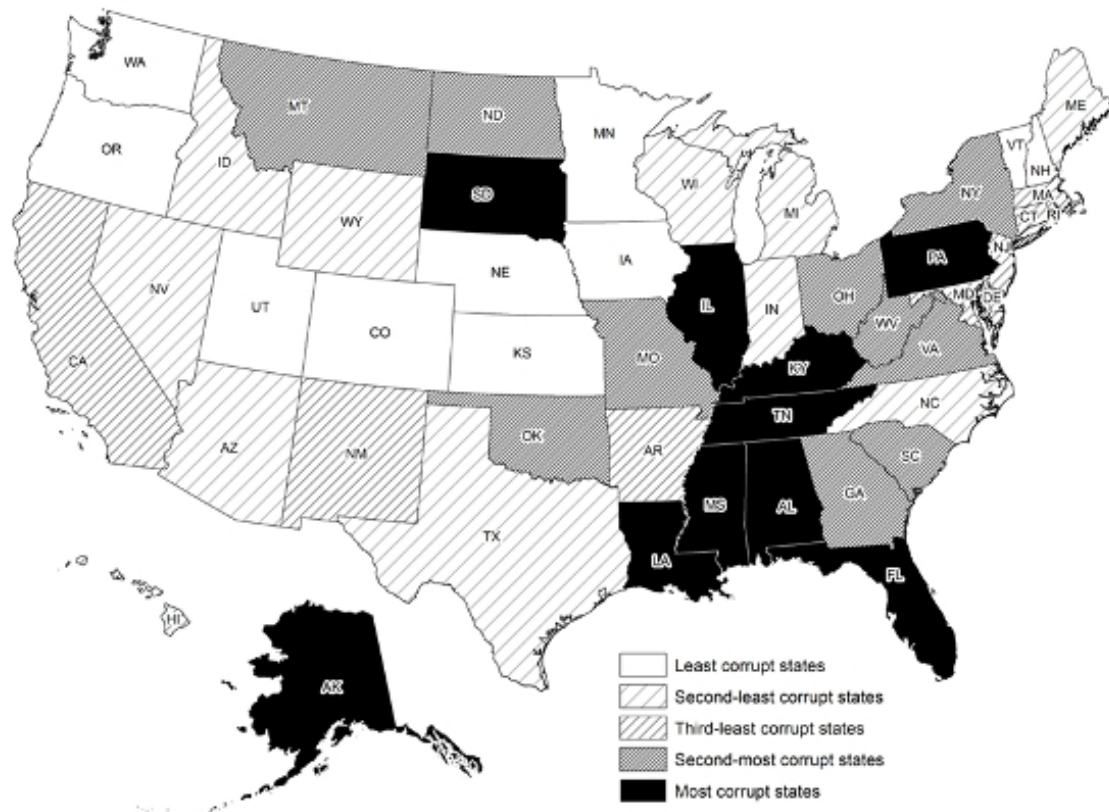
Researchers have scrutinized economic, political, and institutional determinants of government expansion under the Great Recession. And state governments have made various efforts to balance their budgets. Disappointingly, however, state budget deficits have been increasing. Preventing public officials' corruption and restraining spending induced by public corruption should accompany the other current efforts at fiscal constraint, and special monitoring and control over corruption-prone spending items are required. Increases in state's expenditures on capital, construction, highways, and borrowing are not problematic in themselves. Those investments are crucial for the state's economic growth and development. However, policy makers should pay close attention so that public resources are not used for private gains of the few but rather distributed effectively and fairly for various purposes.

This article is based on the paper ‘The Impact of Public Officials' Corruption on the Size and Allocation of U.S. State Spending’ *in Public Administration Review.*

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Note: This article gives the views of the author, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.

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