
Study: More Corrupt States Have Higher Public Debt.

The link between corruption and debt is particularly prominent for private projects, such as stadiums.

Corruption might not just land politicians in jail. It could also cost taxpayers more money.

According to new research published in the journal *Public Administration Review*, states with more public corruption convictions have greater levels of government debt. Fighting corruption, the authors argue, can help governments limit debt and lower the higher borrowing costs they're subject to.

"Public corruption is far from a victimless crime. It costs money," said John Mikesell, an Indiana University professor who co-authored the study.

Researchers found that the 10 most corrupt states would have owed an average of 9 percent less, or $249.35 per capita, if they cut levels of corruption to the 50-state average.

A link between public debt and corruption may exist for a number of reasons. Compared to operating budgets, issuance of debt typically isn't as closely scrutinized. And, the report authors say, stealing a fraction of money from a large deal is often more profitable than siphoning dollars from a single line item in the budget.

From 1977 to 2008, the study found the relationship between corruption convictions and debt to be strongest for long-term debt issued for private purposes. Debt issued for private purposes typically involves more private-sector players, opening up more opportunities for corruption. For instance, deals involving private parking garages or stadiums — where profits are a major consideration — are more ripe for corruption than construction of new schools, said Mikesell.

There's also a relationship between corruption and how governments spend their money. According to related research published in the journal Economics of Governance, developed countries with more corrupt political environments invest more in housing and physical capital projects than schools and health.

Interestingly, the new study didn't find a relationship between corruption and short-term debt, which is typically due within a year. That's because, according to the authors, short-term debt is generally subject to greater scrutiny.

To approximate levels of corruption, the study relied on numbers of convictions reported by the U.S. Department of Justice. One limitation of the study is that this data does not distinguish between public officials and all other types of government employees, such as postal workers and administrative staff caught stealing. The study further controlled for multiple political and demographic factors, such as incomes and the competitiveness of elections.

Governments can try to curb mounting debt levels, but it's difficult.

The report found some measures — such as limiting tax expenditures and general obligation debt, and giving governors strong veto powers — showed no significant effects on public debt.

Other research suggests rating agencies disincentivize corruption by giving lower credit ratings to bonds issued by governments viewed as more corrupt. Despite that, lower credit ratings, and thus higher borrowing costs, aren't shown to curb corruption either.

But it's likely, the report notes, that some legal determinants are easily avoidable when corrupt officials possess the will to do so.

Still, this doesn't mean that deterrents are futile. Other safeguard measures not studied might be more effective. Mikesell cited efforts such as aggressive internal audits, requirements for more than one person to sign checks and regular personnel rotations.

"It's very important to have robust systems in place to prevent the impact of public corruption as much as possible," said Mikesell. "Little things could prevent fairly massive theft."

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