Dishonesty and Public Goods Provision: A Tale of Tax Evading Politicians
(Job Market Paper)
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Abstract

Elected politicians running local governments are instrumental in providing public goods to their constituencies. On one hand, dishonest politicians can expropriate public funds for personal use, reducing availability for public goods provision. On the other hand, through clientelistic and patronage politics, dishonest politicians can give back appropriated funds to citizens. I study how dishonest politicians affect public goods provision in constituencies the politician represents. To identify dishonest politicians, I determine whether they evaded income taxes conditional on their minimum earnings and occupations, using a unique dataset based on asset disclosures and tax forms of candidates submitted prior to elections in Bangladesh. Comparing constituencies represented by dishonest and honest politicians directly will not provide causal effect on public goods provision and economic development, since those that elect dishonest politicians may be systematically different from those that do not. I rely on close elections, where a dishonest politician just defeats an honest one, and a regression discontinuity design to examine the effect of dishonest politicians on public goods provision and economic progress. Between 2009-10 to 2014-15, I find that the sub-districts that narrowly elected dishonest politicians have 27.3% fewer households receiving social safety net programs compared to sub-districts that narrowly elected honest politicians. To analyze the effect between 2014-15 to 2019-20, I use a number of health and infrastructural variables at the sub-district level to develop an index of public goods provision using principal component analysis (PCA). I find that constituencies with dishonest leaders have 0.74 standard deviation lower index value than constituencies with honest leaders. Results are quantitatively similar under the choice of different bandwidths and robust to various specifications. Furthermore, categorizing sub-districts by highly dishonest versus highly honest leaders – measured by politicians' total assets holding above the mean value at 2014, I compare long-term economic development proxied by growth of night-time light brightness. I find sub-districts with highly dishonest leaders have 2.3% less growth of night-time light brightness. Using my own estimates to convert night-time light brightness to GDP growth, I find 0.38% less yearly GDP growth per sub-district under highly dishonest leaders. To understand the mechanism, I provide evidence from sub-district level budgets showing statistically significant lower constituency-wise expenditure by dishonest politicians. Lastly, I further show empirically that growth of public goods provision does not depend on the ability of politicians, where ability is measured by years of education, and politicians' honesty and ability do not depend on each other.

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