

REFEREE REPORT

« Spurious Middlemen in corrupt transactions »

This article addresses the question of deception in corrupt transactions. More precisely it is interested in the deception by “spurious” i.e., powerless intermediaries who pretend that they have a critical influence on the delivery of services by corrupt officials while they have none.

The aim of the paper is to show how spurious middlemen can earn money in spite of their lack of influence on decisions. The key to the argument is that clients have incomplete information about both the honesty of the official and the acceptability of their application. That can be exploited by the spurious middlemen to extract bribes.

General comments

The idea is interesting and relevant but the argument suffers from major flaws. The author models the client’s incomplete information about the type of the application and of the official. However a main issue is the type of the middleman.

Indeed if the client knew he was dealing with a spurious middleman he would never pay him since a spurious middleman has no influence whatsoever on decisions. So the client must believe that the middleman is a real one. Those beliefs must be modelled. The author cannot mean that the Client is sure of something that is false i.e., that he puts zero probability on the event that the middleman is spurious. But if he does put some probability, we need to understand the behaviour of a true middleman i.e., an intermediary who has influence on decisions. The behaviour of the spurious middleman may then lead to the Client updating his beliefs about the type of the middleman he faces.

What does it mean that the “SM lies to the Client and tries to change his expectations” about the type of the official. This is not rigorous at all. Either he provides some hard information upon which updating is warranted or the Client should ignore him since he very well understands that whatever the type of the official the SM will claim that he is corrupt (see lemma 2’). To put it differently the SM is not credible neither about the official nor about the application.

In equilibrium the middleman demands different bribes depending on whether the bureaucrat is corrupt or not – what are the bribes demanded by a true middleman? If those are different, the Client will never pay since that reveals the spuriousness of the current middleman.

This model needs to be substantially revised.