

**Zicklin Center Research Project  
2007-2008**

**Title:** Direct distribution as a remedy for the corrupting effects of economic rent

**Principal Investigator:** Martin E. Sandbu

**Time Frame:** 2007-2008

**Description:** Economic rent—supranormal profits generated by special conditions of scarcity and concentration of a resource or service—tends to have corrupting effects on institutional quality and good governance. This has been well documented in particular in the extractive industries, where most poor countries with large fuel or mineral resource deposits have slower growth, worse governing institutions, and a higher probability of violent conflict than otherwise similar countries without natural resources. The weakness of the public sector in these countries tends to co-opt the private sector (oil and mining companies) who are dependent on government approval to exploit the resources, but thereby often indirectly sustain the situation.

Earlier work by the author has argued that the corrupting effects of rent could be alleviated by distributing the rent to the population, and only then let the government access it through income taxes. The key assumption is that having to tax the population imposes more accountability on the government, and indirectly on the companies it deals with (M.E. Sandbu, “Natural Wealth Accounts: A Proposal for Alleviating the Natural Resource Curse,” *World Development*, 34(7), 1153–1170). To investigate if such distributions do improve governance, the author is in the process of constructing a data set of such policies in Native American reservations in the US. Many of these enjoy high rents due to the monopoly status of their gambling establishments among neighbouring non-reservation areas where gambling is prohibited. Some of these tribes perform direct *per capita* distribution of the rent. An empirical investigation of the effects of this policy on governance will be an important step better to understand the link between rent, corruption, and bad governance generally. The current project involves completing a rich data set and conduct analyses aiming at quantifying the effects of *per capita* rent distributions on various measures of governance and population well-being.