

## **CORRUPTION AND DECENTRALIZATION: A THEORETICAL STUDY**

### ***Abstract***

The purpose of this paper is to examine how uncertainty in voters' type induces the incumbent politician to be more or less corrupt under relative performance evaluation criteria (yardstick competition). A theoretical model has been developed to examine the rent seeking behavior of the incumbent under yardstick competition with uncertainty in a static framework. An incumbent politician provides public good and extracts rent, which are financed by the taxes. He/she derives utility from the rent as well as from the social prestige. Government representatives (politician) can be more corrupt under uncertainty when compared to the certainty case. The extent of rent extraction depends on the uncertainty in voters' sensitivity, whether they are highly sensitive or not. For low level of volatility in voters' perception, marginal expected rent may decline. Political Decentralization (and the associated relative performance evaluation) is thus associated with high corruption under uncertainty.

**Keywords:** Politics, Decentralization, corruption, yardstick competition and Elections