Research on Corruption

A policy oriented survey

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Preface

This survey, "*Research on Corruption. A Policy Oriented Survey*", is an overview of contemporary corruption research. The main objective is to present research that is relevant for foreign aid policies to developing countries. The survey is commissioned by the *Norwegian Agency for Development Co-operation*, NORAD. An earlier draft version of the study was disseminated to the participants of the workshop "Corruption: Critical Assessments of Contemporary Research", held in Oslo, 19-20 October 2000.

The survey may be somewhat biased towards economic approaches, reflecting the fact that the writing and editing has primarily been done by the economists Odd-Helge Fjeldstad (CMI) and Jens Chr. Andvig (NUPI). In addition, Tina Søreide (CMI), also an economist, has contributed to chapter 3, However, Inge Amundsen (political scientist, CMI) has written chapter 4 and made several contributions to chapters 2 and 10. Furthermore, Tone Sissener (CMI), a social anthropologist, has written chapter 5. So, hopefully, at least some of the approaches from these two "other" social science disciplines are covered.

As readers will note, despite the broad approach of the paper and its substantial length, several important themes are not dealt with. While we have discussed typical situations that give rise to corruption in different parts of public organisations, research focusing on specific sectors such as the police, the judiciary and international relations is not dealt with explicitly in the survey. The same applies to literature on the *organisation* of corrupt transactions: when and why middlemen arises, what kind of red tape may endogenously arise and so on. Recent research on these issues has been rather "thin". Furthermore, this theme opens up for many questions that require a much more in depth approach than what can be achieved through a broad-based survey.

Another priority is that we have focused on recent academic research. Thus, while a survey of the output of public commissions dealing with corruption would be useful, this is not covered by this study. Moreover, to make the survey accessible for a

multidisciplinary audience, the most abstract and technical parts of the literature are presented in a non-technical way, emphasising the intuition behind the models.

In spite of its limitations we hope this survey will be considered useful – and used – by researchers, students, development practitioners and aid officials.

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1 Introduction

Corruption has recently become a major issue in foreign aid policies. However, behind the screens it has always been there, referred to as the "c-word". The major concern for international aid policy through the last five decades is to improve the living conditions for the poor in the poorest countries of the world. This endeavour requires a close co-operation with the national governments in poor countries. Generally speaking, however, the governments in poor countries are also the most corrupt. This is one of the few clear empirical results of recent research on corruption. The level of GDP per capita holds most of the explanatory power of the various corruption indicators (Treisman, 2000; Paldam, 1999a). Consequently, if donors want to minimise the risk of foreign aid being contaminated by corruption, the poorest countries should be avoided. This would, however, make aid policy rather pointless. This is the basic dilemma corruption raises for aid policy. Unlike international business most development aid organisations and international finance institutions have the lion's share of their activities located in highly corrupt countries (Alesina and Weder, 1999). The international community in general and some donor countries in particular are, however, increasingly willing to fight corruption.

Within the "good governance" strategies of the World Bank and the International Monetary Fund initiatives to curb corruption are given priority. OECD and the UNDP have also developed particular anti-corruption programmes to assist governments in tackling the problem. Furthermore, several bilateral development agencies have placed anti-corruption efforts high on their development agenda. Whether this is a desirable change in focus of aid policy, and, hence, whether it is possible to find workable policy instruments to fight corruption, remains to be explored.

Corruption is a problem that mainly arises in the interaction between government and the market economy where the government itself must be considered endogenous. Therefore it is complex to handle from a theoretical point of view. This difficulty is underlined by the fact that data are difficult to gather, and, if available, data are often "soft", unreliable and masked. Moreover, from an aid organisation's point of view the issue of anti-corruption may become diplomatically delicate since at least some of the

stakeholders who are handling the aid instruments in the partner countries, are likely to be part of the problem.

Despite this complexity, academic research has made some interesting clarifications of likely general causes, set some of the agenda for defining the key issues and thereby prepared some of the groundwork necessary for formulating anti-corruption policies and programmes. However, corruption deals with actions performed by agents in specific political and bureaucratic organisations, all applying considerable implicit information. Often corruption will spread among organisations within the same polity. Therefore, it has proven fruitful to combine country specific knowledge and thematic knowledge on corruption when tracing the causes of corruption, to understand the variety of corruption(s), and to suggest remedies and cures for fighting corruption. Comparative research has to some extent offered insights that are potentially replicable in other situations, and may clarify the extent to which the experiences of one country or institution are transferable to others. But, comparative and general insights on causes and possible remedies will have to be tailor-made to the specific situations.

The purpose of this report is to review the "state-of-the-art" in international corruption research. The study has two objectives. First, it aims to review the essential elements of the various approaches that have been used to analyse the causes and effects of corruption. Thus, the study is organised as a literature review, extracting and evaluating the core elements of corruption research in economics, political science and sociology/anthropology. Second, it aims to explore how research has been applied in developing countries. This is a question of what policy recommendations have been made, and what might be learned from the anti-corruption campaigns and policies applied in specific countries.

Ten years ago research on corruption was a small field. Currently, however, a large number of articles and reports are published every month. This development partly reflects an increased public concern for the problem. Furthermore, at least in the case of economics, it reflects internal changes in the analytical approaches and tools of the discipline combined with access to new data that has made corruption a researchable topic. Thus, it has also made it easier carry out a "survey on corruption research"

since many interesting contributions and insights are available. On the other hand, it has also become a more demanding task because of the sheer bulk of readings that is sprawling in all kinds of thematic and intellectual directions.

The study is not meant to be comprehensive. We have aimed at a balanced, assorted, and what we consider an interesting selection of topics. The report is organised as follows: What is corruption, and how is corruption understood in various academic disciplines? These questions are explored in chapter 2, which also briefly reviews definitions and typologies of corrupt transactions. Furthermore, this chapter explores research on the 'deep' structures of corruption, including neo-patrimonialism and the criminalisation of the state, as well as issues of social order and trust.

Chapter 3 deals with the problem of finding relevant observations of corrupt acts, eventually to find quantitative indicators of the extent of corruption, emphasising cross-country corruption perception indexes and their operationalisation. In chapter 4 the focus is on political variables and theoretical explanations developed within the political science tradition, while chapter 5 discusses anthropological perspectives on corruption. Economic and quantitative oriented studies for explaining the causes of corruption, along with empirical evidence, are discussed in chapter 6. Chapter 7 aims to synthesise research on the effects of corruption. Some of the micro-oriented theoretical analyses of corruption are presented in chapter 8, with an emphasis on the so-called principal-agent models. Furthermore, some typical situations where corruption may arise and which are important for foreign aid policy are analysed; e.g., corruption and public procurement and corruption and administrative queuing processes. How is research translated into policy recommendations? Anti-corruption measures are discussed in chapter 9. Finally, chapter 10 discusses challenges ahead for corruption-related research.

2 Understanding corruption

Corruption is a complex and multifaceted phenomenon with multiple causes and effects, as it takes on various forms and functions in different contexts. The phenomenon of corruption ranges from the single act of a payment contradicted by law to an endemic malfunction of a political and economic system. The problem of corruption has been seen either as a structural problem of politics or economics, or as a cultural and individual moral problem. The definition of corruption consequently ranges from the broad terms of "misuse of public power" and "moral decay" to strict legal definitions of corruption as an act of bribery involving a public servant and a transfer of tangible resources.

Accordingly, the study of corruption has been "multi-disciplinary" and dispersed, ranging from universal theoretical modelling to detailed descriptions of single corruption scandals. It has been studied as a problem of political, economic, cultural or moral underdevelopment, and mostly as something in between. The complex nature of corruption has made most observes agree that it pervades many societies and that there are no quick-fix solutions to it. The "Source Book" of *Transparency International* does for instance maintain that public programmes, government reorganisation, law enforcement, public awareness and the creation of institutions to prevent corruption are nothing but elements in a long-term process that needs to be supported from above and below and that also needs attitude changes at all levels (Pope 1997). Furthermore, it has been noted that corruption does not disappear as countries develop and modernise, but rather that corruption takes on new forms (Girling 1997).

This complexity is the background for this "state of the art" survey on corruption in the recent academic literature. In this survey we aim to identify the main academic discourses on corruption, to single out and categorise the current debates on corruption, and to classify the basic arguments and empirical findings.

2.1 One battery of definitions

To choose a set of definitions of corruption is the convention, but may literally be done in an infinite number of ways. Based on a review of the literature and an annotated bibliographical survey (Amundsen and Fjeldstad 2000), we can, however, categorise the contemporary academic discourse on corruption according to the various social science disciplines, according to the most prominent thematic debates, and according to the discussions within a selected number of government and non-governmental organisations working against corruption.

What is included in the various definitions, and what is excluded? What are the different types of corruption? What, if any, is the distinction between rent seeking and corruption? What are the forms of the state in developing countries? How is the state linked with the society around it? How far does the state's power and authority extend? Primarily in contemporary Africa, where political instability and state breakdowns are more frequent and widespread than virtually anywhere else, such questions have proved particularly troubling (Harsch 1997).

Research on the state in developing countries, and in particular in Africa, has sought answers by looking specifically – and sometimes too narrowly – at the formal structures and roles of the central state institutions. Research on corruption has partly been about classifying the various forms of corruption in order to operationalise the concept for analytical and practical purposes. Many suggestions therefore exist on how to categorise the different forms of corruption and how to define and categorise it into sub-phenomena. Researchers have defined corruption as a particular state-society relationship, and made the distinction between "political" corruption and "bureaucratic" corruption. Other broad analytical categories have also been suggested like between "functional" and "dysfunctional" corruption and corruption as a mechanism of either "upward extraction" or "downward redistribution". Sometimes the aim has been to relate corruption to other important phenomena or processes. For example, recent political science classifications and definitions have tended to place corruption and the fight against it within the broader agenda of democratisation.

A strict and narrow definition of corruption, which limits corruption to particular agents, sectors or transactions (like corruption defined as deviation from the formal rules that regulate the behaviour of public officials) can be handy for fighting corruption when the problem is limited. However, as narrow (legal) definitions may ignore vital parts of the problem, like the lack of political will to curb corruption in certain regimes, broader and more open-ended definitions, like corruption in terms of power abuse, will have to be applied to address the situations of pervasive and massive corruption.

Economic and political competition, government transparency and accountability, coupled with the democratic principles of checks and balances, are necessary instruments to restrict corruption and power abuse. Most of these mechanisms that the literature forwards in order to curb systemic and endemic corruption, are also largely the same mechanisms suggested to deepening and widening democratic rule and "good governance".

2.2 Working definitions

The decisive role of the state is reflected in most definitions of corruption, which will define corruption as a particular (and, one could say, perverted) state-society relation. Corruption is conventionally understood, and referred to, as the private wealth-seeking behaviour of someone who represents the state and the public authority. It is the misuse of public resources by public officials, for private gains. The encyclopaedic and working definition used by the World Bank, Transparency International and others is that corruption is *the abuse of public power for private benefit (*or *profit).* Another widely used description is that corruption is a transaction between private and public sector actors through which collective goods are illegitimately converted into private-regarding payoffs (Heidenheimer et al. 1989:6). This point is also emphasised by Rose-Ackerman, who says corruption exists at the interface of the public and private sectors (Rose-Ackerman 1978), and stressed by researchers who point to the Weberian distinction between public and private as the foundation of non-corrupt politics and administration (Médard 1986, 1991).

In Colin Nye's classical definition, corruption is "*behaviour that deviates from the formal duties of a public role (elective or appointive) because of private-regarding (personal, close family, private clique) wealth or status gains*" (Nye 1967:416). An updated version with the same elements is the definition by Mushtaq Khan, who says corruption is "*behaviour that deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private-regarding motives such as wealth, power, or status*" (Khan 1996:12). Samuel Huntington noted that where political opportunities are scarce, corruption occurs as people use wealth to buy power, and where economic opportunities are few, corruption occurs when political power is used to pursue wealth (Huntington 1968).

By looking at the different kinds of resources transferred, a distinction has been made between corruption in economic terms and corruption in social terms. Economic corruption takes place in a market-like situation and entails an exchange of cash or material goods, which is basic to corruption. This is a strict definition of corruption, reflected in the regulations that stipulate limits to what amounts can be "given" before it is considered a bribe. Transfers are not only in cash or other tangibles, however, and the exchange takes place in a social setting with a number of cultural and moral meanings. Corruption understood in these broader terms has been called "social exchange" and social corruption. Social corruption is conventionally understood as an integrated element of clientelism. Clientelism often implies an exchange of material benefits but cannot be reduced to this, because clientelism has a wider cultural and social implication. Clientelism, nepotism, ethnic and other favouritism are all variants of corruption, in social terms (Médard 1998:308).

Rent-seeking is sometimes used interchangeably with corruption, and there is a large area of overlap. But, while corruption involves the misuse of public power for private benefit, rent-seeking derives from the economic concept of "rents", i.e. earnings in excess of all relevant costs, and equals what most people think of as monopoly profits. Rent-seeking, the effort to acquire rents, is not necessarily banned by law or regarded as immoral in society, or necessarily uneconomical in terms of development if re-invested productively, but it is largely "directly unproductive", wasteful and very often economically inefficient (Coolidge and Rose-Ackerman 2000).

Given a definition of corruption as a particular state-society relationship, the genesis of corruption is consequently found at the two fields of interaction between the state and the society beyond it, namely at the national and the international arena. Besides, it takes place within the state itself, between its various layers or levels.

On the international arena, the globalisation of markets, finances, and numerous other transactions have expanded the opportunity of collusive and concealed transactions, including between the various non-state players and the "host" governments and their representatives. Multinational companies are for instance buying concessions, preferences and monopolies; kickbacks are offered on tenders, loans and contracts; and development projects are sometimes eased through by including travels, computers and other fringe benefits for local officials.

Corrupt host countries are sometimes particularly attractive for certain businesses from abroad (Bayart et al. 1999). However, international actors (in business, politics and development co-operation) can be both possible corrupters and reform supporters (Rose-Ackerman 1999; Moody-Stuart 1997). Foreign-sponsored bribery tends to be held by many observers in developing countries as the most significant contributing factor to corruption.

On the national arena, corruption takes place at the meeting point between the state and the various non-state actors. On the one side is the corrupt state official; on the other side is the corrupter, the supplier of bribes. The officials can be anyone from the president and top political leadership (political corruption) down through the hierarchy (bureaucratic corruption) to the most remote local government public servant. The many possible non-state counterparts include the general public, any non-governmental and non-public individual, corporate and organisational. Many theories and conceptualisations of corruption will call attention to the "corrupters", those who offer the bribes in the first place, and the advantages they gain. Other theories will emphasise the corrupted and their advantages.

On the national institutional arena, i.e. within the various levels and agencies of the state, corruption can take place between the different branches of government (like the executive, legislative and judicial branches), and between the political and

administrative/bureaucratic institutions (the civil service, local authorities and parastatals). These relationships can be corrupted because of overlapping and conflicting authority, political power-struggles over access to scarce resources, manipulated flows of information, and personal relationships of dependence and loyalty. In particular, a weak separation between civil service and party politics, a weak professionalisation of the bureaucracy, a lack of administrative accountability and transparency, and deficient political control and auditing mechanisms will increase corruption at these junctures. The more discretion officials have through abundant, complex and non-transparent regulations, the more corruption becomes likely.

Corruption, however, also exists within and between private businesses and within non-governmental organisations, without any state agency or state official being involved. There is corruption in terms of bribing, swindling and mafia-methods in businesses, and there are disloyal employees in private firms, non-governmental organisations and associations. Besides, corruption also exists as a moral and cultural problem in society, among individuals in their personal dealings. Accepted and expected practices of gift-giving, tipping and patronage exist in most societies, even when such habits may be illegal. Generally, such practices impose hidden costs on public services and/or confuse the distinction between public and private.

The level of "private" corruption can indeed be symptomatic for the general economic and political development of a society. Besides, all forms of "private" corruption can be destructive to the public morale and undermine the general trust and confidence in rules and regulations. However, most definitions of corruption will emphasise corruption as a state-society relationship because public sector corruption is believed to be a more fundamental problem than private sector corruption, and because controlling public sector corruption is a prerequisite for controlling private sector corruption.

2.3 Forms of corruption

A recent study has characterised some main forms or manifestations of corruption, according to a number of basic characteristics (Amundsen 1999). The main forms

considered are bribery, embezzlement, fraud and extortion. Even when these concepts are partly overlapping and at times interchangeable with other concepts, they may identify some basic varieties of corruption.

"*Bribery*" is the payment (in money or kind) that is given or taken in a corrupt relationship. To pay or receive a bribe is corruption *per se*, and should be understood as the essence of corruption. A bribe is a fixed sum, a certain percentage of a contract, or any other favour in money of kind, usually paid to a state official who can make contracts on behalf of the state or otherwise distribute benefits to companies or individuals, businessmen and clients.

There are many equivalent terms to bribery, like *kickbacks*, *gratuities*, "*commercial arrangements*", *baksheesh*, *sweeteners*, *pay-offs, speed-* and *grease money*, which are all notions of corruption in terms of the money or favours paid to employees in private enterprises, public officials, and politicians. These are payments or returns needed or demanded to make things pass swifter, smoother or more favourably through the state or government bureaucracies. By "greasing palms" corporations and business interests can for instance buy political favours and escape the full burden of taxation and environmental regulations, they can buy protected markets and monopolies, import/export licences and quotas, and get access to large state contracts on capital goods, on-going supplies, major civil engineering projects, construction works, and so on.

"*Embezzlement*" is theft of resources by people who are put to administer it; it is when disloyal employees steal from their employers. This is a serious offence when public officials are misappropriating public resources, when state official steals from the public institution in which he or she is employed and from resources he is supposed to administer on behalf of the public.

Embezzlement is *not* considered as corruption from a strict legal point of view, but is included in the broader definitions. In legal terms, corruption is a transaction between two individuals, one state agent and one "civilian", where the state agent goes beyond the limits of the law and regulations in order to secure himself a personal benefit in the form of a bribe. Embezzlement is regarded as theft because it does not involve the

"civilian" side directly. The general public is deprived when public funds are embezzled, but no individual property is stolen and individual citizens are bereft of legal rights to present themselves as forfeited.

This points to one of the dangers of embezzlement. There will have to be a political will as well as an independent judiciary and a legal capacity to clamp down on embezzlement. Embezzlement is a form of corruption and power abuse that can develop in closed institutional and moral spheres, independently of the public moral and with few possibilities of public sanction. In many thoroughly corrupt countries, embezzlement is a fundamental part of the resource extractive capacity of a ruling elite, even more important than extraction through bribes.

"Straddling", the process by which some power-holders systematically use their political office to enter into, secure and expand their private business interests, should be regarded as another form of embezzlement. In some countries the political elite has nationalised foreign businesses, property and monopoly rights, and redistributed these to the members of the ruling families.

"***Fraud***" is an economic crime that involves some kind of trickery, swindle or deceit. Fraud involves a manipulation or distortion of information, facts and expertise, by public officials positioned between politicians and citizens, who seeks to draw a private profit. Fraud is when a public official (agent), who is responsible for carrying out the orders or tasks assigned by his superiors (principal), manipulates the flow of information to his private profit; hence the widely used principal-agent or incentive theory employed by economists to study this phenomenon (Eskeland and Thiele 1999; Fjeldstad 1999).

Fraud is also a broader legal and popular term that covers more than bribery and embezzlement. It is fraud for instance when state agencies and state representatives are engaged in illegal trade networks, counterfeit and racketing, and when forgery, smuggling and other organised economic crime is propped up by "official" sanction and/or involvement. It is fraud when politicians and state agents take a share for closing their eyes on economic crimes, and it is serious fraud when they have an active role in it.

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"*Extortion*" is money and other resources extracted by the use of coercion, violence or the threats to use force. Blackmailing and extortion are corrupt transactions where money is violently extracted by those who have the power to do it, but where very little is returned to the "clients" (perhaps only some vague promises of exception from further harassment).

"Protection" or "security" money can be extorted in the classical, well-known mafia style, where organised criminals use insecurity, harassment and intimidation to extort money from individual citizens, private businesses and public officials. Corruption in the form of extortion is usually understood as a form of extraction "from below", by mafias and criminals.

Corrupt practices of this kind can, however, also be "from above", when the state itself is the biggest mafia of them all. This is for instance when the state, and in particular its security services and paramilitary groups, extorts money from individuals, groups and businesses. With more or less concealed threats, taxes, fees and other resources are extracted from travellers, market vendors, transporters and other private sector businesses. Furthermore, various state officials may extract "under the table" fees and "gifts" from individual citizens as they approach the state as clients, customers, patients, school children etc. These practices may be interpreted as "informal" forms taxation.

"*Favouritism*" is a mechanism of power abuse implying "privatisation" and a highly biased distribution of state resources, no matter how these resources have been accumulated in the first place. Favouritism is the natural human proclivity to favour friends, family and anybody close and trusted. Favouritism is closely related to corruption insofar as it implies a corrupted (undemocratic, "privatised") *distribution* of resources. In other words, this is the other side of the coin where corruption is the *accumulation* of resources.

Favouritism is the penchant of state officials and politicians, who have access to state resources and the power to decide upon the distribution of these, to give preferential treatment to certain people. Clientelist favouritism is the rather everyday proclivity of

most people to favour his own kin (family, clan, tribe, ethnic, religious or regional group). Favouritism or cronyism is for instance to grant an office to a friend or a relative, regardless of merit.

Favouritism is a basic political mechanism in many authoritarian and semi-democratic countries. In most non-democratic systems, the president has for instance the constitutional right to appoint all high-ranking positions, a legal or customary right that exceedingly extends the possibilities for favouritism. It easily adds up to several hundred positions within the ministries, the military and security apparatus, in the parastatal and public companies, in the diplomatic corps and in the ruling party.

Nepotism is a special form of favouritism, in which an office holder (ruler) prefers his proper kinfolk and family members (wife, brothers and sisters, children, nephews, cousins, in-laws etc.). Many unrestricted presidents have tried to secure their (precarious) power position by nominating family members to key political, economic and military/security positions in the state apparatus.

2.4   Political versus bureaucratic corruption

Political or *grand* corruption takes place at the highest levels of political authority. It is when the politicians and political decision-makers (heads of state, ministers and top officials), who are entitled to formulate, establish and implement the laws in the name of the people, are themselves corrupt. With grand corruption we are dealing with highly placed individuals who exploit their positions to extract large bribes from national and transnational corporations, who appropriate significant pay-offs from contract scams, or who embezzle large sums of money from the public treasury into private (often overseas) bank accounts. Political corruption is furthermore when policy formulation and legislation are tailored to benefit politicians and legislators (Moody-Stuart 1997; Doig and Theobald 2000:3).

Political corruption can thus be distinguished from bureaucratic corruption, which is corruption in the public administration, at the implementation end of politics. This "low level" or "street level" corruption is what citizens will experience daily, in their encounter with public administration and services like hospitals, schools, local

licensing authorities, police, customs, taxing authorities and so on. The sums involved are rather modest (adjusted to local conditions), and therefore bureaucratic corruption is frequently referred to as routine or "petty". Even so, the sums involved may be considerable in particular cases and in aggregated terms.

The distinction between political and bureaucratic corruption is rather ambiguous. It depends on the Weberian separation of politics from administration, which has proved difficult to implement in most poor countries and hence is difficult to observe. The distinction is nevertheless important in analytical terms. Political corruption is namely something *more* than a deviation from formal and written legal norms, from professional codes of ethics and court rulings. Political corruption is when rulers abuse laws and regulations, or side step, ignore and tailor laws and regulations to benefit their private interests. It is when the legal bases, against which corrupt practices are usually evaluated and judged, are weak and furthermore subject to downright encroachment by the rulers.

In some cases, political corruption might take place on arenas without the general public coming across it in their daily life, or even knowing about it. Political corruption might be incidental, controlled or concealed, as in most consolidated liberal democracies. Likewise, bureaucratic corruption may take place at the implementation end of public administration without necessarily being a part of the political system or having political repercussions. This happens in particular when a clean and strong government has been able to purify the corridors of power, but not every inch of the public service so that certain services or bureaux are (still) engaged in corrupt practices.

At the same time, bureaucratic corruption and political corruption tends to go along and to be mutually reinforcing. Political corruption is usually supported by widespread bureaucratic or *petty* corruption, in a pyramid of upward extraction. And corruption in high places is contagious to lower level officials, as these will follow the predatory examples of, or even take instructions from, their principals.

This is why a strict definition of corruption as a deviation from formal rules, and a particular focus on bureaucratic corruption alone, can be misleading. Widespread and

systematic political corruption may be a basic mode of operation of certain regimes. Actually, with the exception of a few cases of strong authoritarian regimes with a strict political and economic control (also on corruption), corruption is widespread in most non-democratic countries and in particular in the countries that have been labelled "neo-patrimonial", "kleptocratic" and "prebendal". Here, corruption is one of the mechanisms through which the authoritarian power-holders enrich themselves. Graft and rent seeking are not diseases that the responsible politicians are eager to avoid, but a deliberately applied practice.

Bureaucratic corruption can be controlled and restricted when there is a political will and political ability to implement the necessary regulations. History shows a number of successful controls on corruption in liberal democratic countries, where bureaucratic corruption is curbed through auditing, legislation and institutional reforms. In most liberal democratic countries, political corruption is of an incidental and occasional nature, and is dealt with within the existing political system; by reforming, strengthening and vitalising the existing political, judicial and administrative institutions of checks and balances.

In countries with systemic political and administrative corruption, the formal legal framework of the state is insufficient as terms of reference to assess and judge the problem of corruption. Thus, the degenerative effects of political corruption cannot be counteracted by a legalistic or administrative approach alone. Moral, normative, ethical, and indeed political benchmarks will have to be brought in. Endemic corruption calls for radical political reforms, a system of checks and balances, and deep democratisation.

2.5   The "deep" structures of corruption

Most research on corruption is focused on situations where members of organisations have fairly well-defined rules to follow, and where other members of the society pay them for breaking these rules. In this, both parties are pursuing their own economic interests in a ruthless, but structured manner. In general, this illegal maximisation of private economic interests is *not* leading to socially desirable results. Therefore, this private profit maximisation differs from the profit maximisation of the market place,

usually studied by economists, where organisation-less people are co-ordinating their decisions through markets. In economic theory this is believed to lead to generally desirable outcomes.

At least from the early 1980s, many economists became aware that standard microeconomic theory explaining market behaviour made many, partly implicit, assumptions of a social nature: The agents were law-abiding and non-violent, they were neither cheating, stealing nor violent in the exchanges. However, in a realistic market context, these kinds of behaviours cannot be assumed away. A general theory should explain under what conditions independent agents will resort to cheating and violence, and should indicate how resources and decision-making powers will be allocated in each case. The economic agents studied by economists in the first decades after World War II were too nice. It was time to explore a harsher, more cynical world. Economics started to rediscover the problem of Hobbes' "state of nature" where all men, left to themselves, were predatory, greedy and cruel, and some economists started to develop "Hobbesian" economics (Hobbes 1651; Bowles 1985).

The social complexity of actually operating markets, the intricacy of laws and informal rules and behaviours needed to make them work, became particularly evident during the attempts of the early 1990s of rapid transformation of the centrally planned economies of Eastern Europe and the former Soviet Union.

2.5.1 Social order and trust

In an influential article Platteau (1994) brings these experiences together with the Hobbes-inspired theoretical problems of market theory to analyse the social order problems of market institutions. He attempts to show that solving them is a precondition for any long-term economic development and growth. Furthermore, Platteau's research aims to explain the simultaneous arise of viable exchange and the rise of a state. Without understanding the roles of the state, it is difficult to understand why corruption occurs. The main lines of argument may be simplified in the following way:

(1) Any potential, isolated market transaction is inherently loaded with conflict, and may be portrayed as a *prisoner's dilemma game.* Depending on the exact circumstances of the transaction, stealing/cheating or robbing is the dominant strategy[1]. Anthropological field studies have described a number of cases where conflicts have arisen in trade between social units where the members are not known across the units. If the traders know that the trades will be repeated, and they know each other through some kind of family or ritual friendship networks, other equilibria are conceivable and encounters with economic content may become regular. To personalise the transaction is the *first* way to solve the conflict and build trust among the traders.

(2) Any modern market-based economy has such a scale that a large number of transactions have to be made as impersonal encounters between traders, or, for that matter, between traders and a government. While modern traders also try to build personalised networks, there are limits to how extensive these may become. That is, isolated, impersonalised encounters are a necessary part of any extensive economic development. But then we are often back to the simple prisoner's dilemma game. Expansion in trade, technological change that requires meeting new partners to effect the change, are not profitable and will not happen in a society of deep mistrust. Agents will, for good reasons, expect to be cheated. Since personalised reputation building cannot cope with widespread anonymity, other mechanisms for generating trust in the frequent encounters are necessary in modern economies.

(3) If certain norms of honesty in impersonal transactions were internalised and could be shown to be self-sustaining, it will make the social order problem of market encounters easier to solve. One way to visualise this is to make conscience, internalised social norms substitute for the values of cheating in the impersonal

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[1] It may be disputable whether the *prisoner dilemma game* is the most precise way to characterise a market situation. In a prisoner dilemma the agents (prisoners A and B) decide simultaneously to act co-operatively or not, not knowing whether the Other will co-operate, but knowing that in this single act it will be advantageous for the Other not to co-operate, whether I choose to co-operate or not. So, if A and B both carries some goods along in an isolated encounter, both having a greater need for the goods of the Other, the best situation for each will be to rob the Other and thereby carry the goods of both back home, knowing that the same applies for him. If one is not clearly stronger than the other, both have a certain probability of winning. If not fighting, you are robbed for sure; if you fight, you may keep your own goods and may gain the others with a certain probability. If the Other chooses to act co-operatively you will rob him for sure. That is, if this is a prisoner's dilemma game.

encounters, making the prisoners dilemma game change to a so-called *assurance game*. In the assurance game, in contrast to the prisoner's dilemma game, it will pay for the other to be honest also, if one trader in the game has decided to be honest in the first place. Like a prisoner's dilemma, however, if one player has chosen to cheat it pays for the other to do the same. However, an equilibrium will be sustainable in the assurance case when the moral costs of being the only one cheating is high, but less so if the Other is cheating. When most people follow the set of moral norms of behaving in non-personalised contexts, it pays to follow them. They will be confirmed.

(4) The similarity between market encounters and transactions taking place between agents in formal organisations may not be so obvious. One way to illustrate the similarity is to regard the transactions as draws in a sequential version of the prisoners' dilemma, a *trust game* (Bacharach and Gambetta 1997). For example, one potential leader can move first, and employ a follower for doing military duty and pay him a salary and oblige him to fight when necessary. When a fight occurs, it will, however, be more beneficial for the soldier to run away. And, in realising this, the potential leader will not employ anyone in the first place, and no formal organisation will develop. The prospects of corruption (or rather embezzlement in this case) are so likely that no formal organisation develops, and no corruption may then be observed, although the problem of corruption (as a kind of trust game) is deeply entrenched.

One of the dilemmas of introducing moral norms as a solution to policy problems of this kind is that internalised moral norms cannot be manufactured in any simple way. They may or not be present in a sufficiently large part of the population to make them self-confirming. Major efforts in the public educational system together with major religious or ideological upheavals are necessary but not sufficient to turn distrust in non-personalised transactions into that minimum level of trust necessary to expand a modern economy. Platteau (1994) points to the former centrally planned economies

and many African countries as areas where old norm systems have made it extraordinary difficult to build trustful transactions under new conditions[2].

(5) Another way to change anonymous encounters from a prisoner's dilemma to an assurance game is to let the actors be monitored by a public institution that mete out punishment in such a way that the configuration of expected utilities constitutes an assurance game. This demands both a minimum of task efficiency and impartial honesty on the part of the public officials.

Impartial honesty is, however, a moral norm closely related to honesty in transactions with an anonymous Other. So, if distrust is a deep problem blocking both potentially welfare-increasing market transactions and organisations, both task efficiency and corruption are likely to be serious problems. Even so, a corrupt public monitoring may be better than no monitoring. Acemoglu and Verdier (1998) have in a penetrating, but complicated analysis presented some of the conditions present. We will return to their analytic discussion of corruption, but let us first look briefly at some other aspects of the Hobbesian world that are related to corruption.

2.5.2   Quasi-public organisations and violence

In his book on the rise of the Sicilian *mafia* the sociologist Gambetta (1993) explains its rise on the background of traders with low degree of mutual trust and insecure property rights. If one trader suspects the other of cheating, he may rent the services of a mafia that may supply credible threats in advance against cheating and mete out punishment after the fact. Knowing this, a large number of transactions can take place, which would not otherwise occur. The trader must, of course, pay the mafia. These payments may be considered as a kind of (illegal) tax since the mafia is itself an illegal organisation. But why should the trader trust that the mafia will mete out punishments? Why will it not cheat? Sometimes the mafia will do it, of course, but since it is policing a large number of transactions, these transactions will have less

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[2] Platteau also points to Mezzogiorno as the traditional case that shows how a low trust level (a low social morality and a low economic activity equilibrium) may be sustained for centuries (Platteau 1994). Putnam (1993) has, by exploring the different attitudes in southern and northern Italy quantitatively, brought the issue of social norms under the heading of "social capital" into recent

character of one-time anonymous encounters, and the mafia's reputation becomes central to its business.

So far one may regard a mafia to be a welfare-increasing organisation. However, once established, the mafia will try to tax transactions also where the traders are not asking for protection. Hence, traders have to pay members of quasi-public organisations to refrain from violence, pure and simple. No counter-service has to be involved. As long as a member of a mafia does not pocket the money privately, but collects the money on the behalf of the leadership, the payment is not corruption but extortion, formally speaking, but most of the economic effects are likely to be similar.

The role of violence in the historical case of the Sicilian mafia was, after all, quite circumscribed, and while weak in the south, the Italian state-apparatus on the whole had a monopoly of the heavier part of the apparatus of violence. Recently historians, economists and other social scientists have started to become interested in situations where there is open competition between different violent organisations, including internationally recognised government organisations. The increase in interest is again partly due to theoretical development, and an ideological scepticism of public institutions. However, most of all it is due to the fact that the last couple of decades we have observed a fairly large number of wars and war-like situations where the belligerents clearly have had economic motives for their fighting[3].

Again it may be useful to go back to a situation where limited amount of goods are exchanged between mutually suspicious traders. For some it will prove more profitable to capture by force the goods possessed by others. To be able to do so the predators need to coalesce in organisations. These organisations would then compete against each other using violent means. In Hobbes' own discussion violent competition was the likely outcome of this state of nature until one organisation would gain or be granted monopoly over a territory (Hobbes 1651). Recently, a large number of economic models have been constructed in the same spirit, some disputing

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development policy debates. Banfield (1958) is an old classic making the same points, based upon social anthropological fieldwork.

[3] Evidence that most recent wars are economically motivated is rather strong (Collier and Hoeffler 2000).

Hobbes' conclusions[4]. The basic principles of these organisations are clearly quite similar to the mafia-organisation except for the more pronounced role of war. A member of one of these organisations may, illegally (except maybe for the case of a member of the formal government), force non-combatants to give away resources for his own benefit, i.e. looting may be accepted. If not accepted, it is clearly a kind of corruption – extortion – stimulated by war[5].

More importantly for our discussion of corruption is that a de facto competition between a government and several quasi-governments makes the notion of corruption somewhat unclear. The same act will often be considered legal by one organisation, and illegal by another. It is a well-known characteristic of most long-lasting low-scale wars that they perpetuate low-trust relationships between members of the society in question, and that they are fought in areas with extensive economic poverty. One of the reasons why it often proves difficult to end fighting is that none of the fighting organisations are showing sufficiently increasing return to scale to win the war. This will be the case if low trust also makes their members easy to corrupt. If one organisation is considerably less corrupt, the probability of victory certainly increases.

In wars where the ruling organisations are joint ventures of looting and fighting, their leaderships may not be interested in peace or any definite victory, and consequently they are not policing corruption. Inspired by recent wars in the Balkans, West Africa and Afghanistan, economists have developed a large number of models of competitive rent-seeking where fighting is an instrument. The World Bank's web site on violent conflicts and criminal activity gives access to some of these models and the empirical evidence they try to explain. To our knowledge, however, the specific role of corruption in sustaining violent rent-competition games has not been explored so far.

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[4] Grossman (1995) argues, for example, that a kleptocratic state generates worse results than one competing with mafia-like organisations. It will take us too far to go into this literature, but it is clearly bordering on corruption issues.

[5] Fairly well documented cases have occurred in Sierra Leone where some government soldiers have joined rebel forces at night in order to share some of their diamonds (Richards 1996). Another case occurred in the Armenia-Azerbaijan war where several companies received trial ammunition, believing it was real, while some military leaders and private traders split the profit they earned by selling the "real" ammunition.

Corruption in public organisations in areas of economically motivated armed conflicts is a rather spurious phenomenon, or rather so extensive that it becomes difficult to analyse as a separate issue. The definition of corruption is based on the assumption that members of an organisation are expected to follow some rules prescribed by the government or organisation in question, and by not doing so they will privately gain some illegal income. If these rules are not trustworthy, however, but only established as some kind of Potemkin villages in honour of foreign observers, and the leadership is willing to accept bribes and looting most of the time as a form of incentive wages, we are in a different world.

These kinds of behaviours, nevertheless have much in common with corruption as normally defined. Agents gain illegitimate income not through services delivered, but through the power acquired through their positions in public or quasi-public organisations. External observers not knowing the Potemkin character of the rules prescribed will certainly perceive the behaviour in these organisations as highly corrupt.

While economists have not studied phoney corruption in the context of decentralised and violent fighting, they have not been blind to the phenomenon, and have discussed it as an aspect of a centralised, kleptocratic government or predatory state. Grossman (1995) has been a most prolific writer in this field[6].

2.5.3 Neo-patrimonialism and the predatory state in Africa

Political scientists and historians have also turned their attention to the situation when a government is so corrupt that one has to study from scratch how it operates. Bayart (1993) and Reno (1995) are two influential studies that focus on clientelist networks between economic and political agents that may undermine what has been left of efficiency in African bureaucracies[7].

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[6] An older contribution of to the economic study of kleptocracy is Johnson (1975) who presents his insights in terms of a stylised description of institutions, not developing a formal, analytical model.
[7] This section has benefited from Harsch' (1997) review essay. See also the discussion in chapter 4.2.

The point is that these networks manage a large set of activities: war, illegal local and international business, legal local and international business, party politics, sometimes in several countries, personal family and tribal affairs; and normal government operations. This may cast transactions into a different light. For example, what is formally a bribe may in reality be an internal economic transfer within the network. A significant fraction of these networks' activities are criminal according to international (and local) law, and often managed by people in the network who are in government positions. Thus, Bayart et al. (1999) have called the process of network constructions for the "criminalisation" of the African states. Reno (1995) talks about the "shadow state" since the networks regulate the large (compared to the official) informal economy. Both studies try to verify this theory by describing presumably existing networks. This is obviously a difficult task to do empirically and the empirical documentation is so far not sufficiently strong to verify their hypotheses.

Bayart (1993) argues that state and civil society are not separate domains locked in a struggle for dominance. The state in Africa generally serves as an "incubator" for the developing dominant classes. That is why, he argues, corruption is not just an episodic, marginal departure from some Weberian norm of legal-rational administration, but is woven into the very fabric of the state in many African countries. Since office-holding in these countries often is insecure, many public officials will seek to compensate this through "straddling", that is individuals and families involved in multiple activities (the accumulation of formal and informal positions as well as an accumulation of political and economic relationships) to hedge against a loss of official position. This is part of what Bayart calls a broader "reciprocal assimilation of elites" that downgrades to secondary importance such common distinctions as public/private, bureaucracy/business, military/civilian, etc. Bayart's main contribution is that he shifts our viewpoint beyond the formal institutions at the peak of state power, in order to include the more shadowy arrangements that lie behind them, like for instance clientelism and nepotism. His analysis seems to be appropriate for some countries. However, in many African countries the central state apparatus remains a relatively terrifying, independent force, even though its edges are tattered and power also flows through other, and possibly informal, channels.

William Reno (1995) has made a case study of state politics in Sierra Leone. He argues that the basic methods of rule did not significantly alter after independence. In the same way as the colonial authorities found it expedient to anchor their rule in the interposition of traditional chiefs, the new "national" government in Freetown continued to rely on a shifting array of chiefs, local party bosses, miners and diamond smugglers, etc. These "big men" acted as the government's local representatives and points of support. Reno argues that those in authority at the local levels both engaged themselves in illegal business dealings of their own, and also diverted a good portion of local taxes and other state revenues. They were only encouraged by similar conduct from the president's office and the ministries in the capital: *"Seemingly unpredictable and destructive bribery, corruption and shortages of goods, widely lamented in the local press and the development literature, provided means for these individuals to attract supplicants as they became extremely rich"* (Reno 1995:1). According to Reno, corruption was both socially and politically functional to Sierra Leone's elites, thereby accounting for their persistence.

Reno claims that most external actors, including Western governments and the World Bank, failed to grasp the actual dynamics of power in Sierra Leone. With their eyes fixed on the formal institutions in the capital, they did not see that real power and authority was wielded through informal political and market networks. Due to the power of this "shadow state", attempts to impose economic reform and rationalise formal state functioning often had the opposite effect, driving the authorities from the president on down, to deepen their reliance on secret economic networks.

Robert Fatton (1992) addresses similar questions of the African state. His main argument is that class still matters. According to Fatton, the state in Africa is not "soft", but a hard structure of class domination whatever its incoherence and weaknesses. And this state, *"over the long term […] constitutes and is bound to constitute the ultimate organizer and defender of the long-term interests of the ruling class"* (Fatton 1992:19). Some of Fatton's strongest arguments revolve around his critique of African "civil society". He contends that civil society, including church societies, not only serves as an arena for subordinate class resistance, but also *"enlarges the domain of the site of the ruling class formation"* (ibid: 75). Civil society is not revolutionary, he argues, but perpetuates social structures, poverty and

corruption, and enhances the status quo and thus the rule of the higher circles (ibid: 77). The state is not only used by the elites to maintain their political domination, but also for purposes of enrichment and accumulation. Corruption is consequently but one element in the accumulation strategy of the ruling elite. This strategy makes ruling elites "predatory", they will plunder state coffers and extract tribute from the population to an extent that may be harmful not only to society, but also to their own long-term interests.

Jean-François Médard (1986, 1991, 1995, 1998) argues along the lines that corruption in Africa is closely associated with neo-patrimonialism and clientelism, and that the basis for the entrenched corruption in Africa is mainly due to the lack of distinction between public and private. In Africa the historic development of the state has been different from the European path: While in Europe the institutionalisation of the state has passed through patrimonial rule to a legal-rational mode of authority, in Africa we have witnessed an exportation-importation of bureaucratic structures that have been patrimonialised by its agents (Médard 1991:42). Even when the distinction between the public and private domains exists in legal and formal terms, it does not function in daily politics because of certain contradictory cultural norms. Médard gives the example of this contradiction in the dilemma of the legal-rational exercise of authority and the norms of loyalty and support for a bureaucrat's family and friends.

2.5.4 Lessons from the 'deep structure' of corruption

What are the lessons to be learned from these studies of the "deep" structure of corruption? Like old Freudian psychiatry there are few refutable hypotheses to be found, but they may yield some understanding important for policies. The most important one is that they teach us that both the transitions from family-based, traditional, and centrally planed economies to a capitalist one are more complex than most social scientists were thinking a decade ago. During the "transition" the societies may be stuck in low-trust, low-activity equilibria where the rationing of trust gives rise to networks where extensive corruption is an indicator of their existence. Only one refutable hypothesis emerges: Low levels of GDP per capita and high levels of corruption will be observed together. That is, development aid policies need to take seriously ideas about the "deep" structure of corruption.

2.6   General equilibrium models of corruption

In the previous section we made no attempt to outline the analyses of the Hobbesian state of nature in any detail since it is only related in a broad way to corruption as such. In this section we follow up and elaborate the analytical argument more closely. The first model also develops a story from a setting that is closely related to a Hobbesian one, except that strategic use of violence is not considered.[8] General equilibrium models of corruption in this context means that corruption is explained together with a set of other phenomena that are inter-linked in such ways that both corruption levels and these other phenomena are logically determined. Partial equilibrium models are models where corruption is explained in a more narrow way without extensive feedback from corruption to the variables explaining it.

Acemoglu and Verdier (1998) start by specifying that the main role of the government in the economy is to protect contracts made in the private sector. The agents in the private sector, the entrepreneurs, are basically dishonest and cheat when possible. Government employees do the same if that is profitable for them. The society consists either of two groups of entrepreneurs, the "producers" and the "suppliers" or of three – the two groups of entrepreneurs and government employees. For production to take place, one supplier has first to deliver his output to the producer who applies it as input and promises to pay when he has sold his output in the market.[9] The input may be of "high" or "low "quality, but that is only revealed during production itself. When high quality, first revealed when applied in production, the producer will be able to receive a higher price not observed by the supplier. To make the supplier deliver high

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[8] Readers, who have not been frequently exposed to economics, should be issued a warning. One should not read models too literally. Models of the kind outlined here are not intended to mirror the reality in any close way. They are more like metaphores seeking to grasp truths in a roundabout way, where the formal analysis is necessary to link a fairly large number of phenomena in a logically controlled system. The last achievement is much more difficult than readers not used to economics may imagine and gives rise to many assumptions that may appear unrealistic, but is needed for the logic of the argument. To make the necessary concessions to logic and at the same time cut the model so it may explain important aspects of behaviour in the real world is a challenge. After having constructed a 'model world', the issue of empirical exploration of the models arises. Normally this cannot be done in any straightforward manner, either. Often good models are in principle not testable, and they have to be broken up where only some of the relationships may be explored.

[9] The use of language here may be confusing, since a "supplier" is obviously also a producer. The point here is a simplification of the production structure of the economy where the production of consumer goods needs some produced input that can not be delivered to consumers directly.

quality they agree on a contract that specifies that the supplier shall gain the difference in value.

In order to deliver a high quality the supplier has to make some investment. However, this investment may not guaranty high quality, so with a certain probability it is still low quality. The result of this game when no government is present is that the producer will always cheat and report low quality even when it is high. Consequently, no investment will be done and the economy is stuck in a low productivity trap.

The way out is to introduce a government that may protect the suppliers' property (the value of their eventual investment) through inspection of the producers. When high quality is observed, the government official is obliged to ensure that the contract is kept and the supplier pockets the price difference. In a given period one government employee is able to inspect one supplier-producer interaction. Government employees receive a fixed wage financed by a fixed tax on each agent. If there are a sufficient number of (honest) government employees present, some suppliers are going to invest, and the economy will move up to a higher productivity equilibrium[10].

Not all government employees are honest. Some report low quality when in fact the quality is high and they pocket the price difference instead of the producer. If caught in mis-reporting, the bureaucrat looses his wages and has to pay back the amount taken from the supplier. A bureaucrat chooses to mis-report if his wages are below the net expected gain of taking bribe where a given probability of being caught and the corresponding income loss (wages + bribe) is included in the expectation.

In the case when there is no rationing of public positions there is a free labour market in the sense that the agents in the economy move freely between the private and public sector. These movements go on until the expected income of becoming an entrepreneur is going to be the same as the expected income of a government employee. Here there is one somewhat artificial assumption that if a person has made up his mind to become an entrepreneur, he has to participate in a lottery where there is

an equal chance of becoming a supplier or a producer. A producer receives the basic income from low quality production plus the income he receives when a high quality delivery is not inspected by a public official. The supplier receives the same basic income plus the income he receives when his delivery is high quality and inspected by an honest official or a corrupt one who is caught.

Acemoglu and Verdier (1998) then introduce a number of other assumptions necessary to reach particular conclusions with respect to anti-corruption policies in various situations, and the wide range of policy options outlined in their article is an important contribution. Like in many other studies of corruption, public sector wage changes are prominent among the policy instruments discussed. The theoretical outcome in their model varies strongly with the situation in which wage changes take place.

With very low wages all bureaucrats will be corrupt, and private sector suppliers will receive returns on their investment only when a corrupt official is caught. If this is the case, the expected return on a full-size bureaucracy (a bureaucracy capable of inspecting every transaction) is insufficient to induce any investment, and no investment will take place. Besides, no corruption will be observed even when every official will be willing to accept a bribe. As long as the wages are below the level necessary to make bureaucrats honest, an increase in wages will only move more people into the public sector and decrease the production in the private sector without increasing the number of honest inspections.

If wages are increasing above that point, however, some bureaucrats are turning honest, investment increases, the return in private sector increases and more people talented for private sector activities will move into business. If wages are further increased, the outcome will depend upon the initial size of the bureaucracy being full sized or not. If it is already full-sized (capable of inspecting every transaction), a wage increase will only increase the number of public employees without increasing its

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[10] An important analytical "trick" of the model is to make each agent in the economy different and imaging them as being more or less productive as entrepreneurs (compared to being a bureaucrat). In this way - as the likelihood of inspection increases gradually - more suppliers will find it profitable to invest in high quality. Otherwise sudden shifts in response will occur.

efficiency in inspections, and no further increase in private sector investment and production will take place.

A bureaucracy may not be allowed to increase above full size, implying a rationing of the number of public employees. However, a misallocation of talent will take place in this case, because many agents from the private sector will apply for civil service employment, even agents with strong comparative advantages in private activities. Consequently, with a less than full-sized bureaucracy and increased wages for government employees, the number of honest inspections will increase and private investments will increase along with production. In this case the number of public employees will also rise, despite the increased return in the private sector.

In a slightly modified model, where the authors allow the bureaucrats to be differently inclined towards corruption, it is indicated that best condition this imagined community might reach is one with both corruption and misallocation of talent. It is actually suggested that although corruption is harmful to investments and production, a fully honest bureaucracy will be too expensive.

2.7 Concluding remarks

This chapter has presented and discussed various approaches to understanding corruption. The literature provides us with a whole battery of definitions of corruption. This chapter discusses what is included in the various definitions, and what is excluded. Even though the distinction between the public and private domains may exist in formal and legal terms, it may not function in daily politics because of certain contradictory cultural norms (see chapter 5). Important for the discussion of corruption is that this makes the notion of corruption somewhat unclear. The same act may be considered legal by one group of actors and illegal by others. Furthermore, it is argued that research on the state in developing countries has focused too narrowly on the formal structures and roles of the central government institutions. In many poor countries, the real power and authority are wielded through informal political and market networks. Moreover, the state may be used by the elites not only to maintain their political domination, but also for purposes of enrichment. Consequently, corruption may be interpreted as one element in the accumulation strategy of the

ruling elites.[11]. Therefore, due to the power of this "shadow state", attempts by external actors, such as the World Bank and Western governments, to impose economic reform and rationalise formal state functioning may have the opposite effect, by driving the authorities from the president on down, to deepen their reliance on secret economic networks.

3   The empirical foundation of recent research on corruption

Ideally the data applied in research on corruption should be based on direct and first-hand observations of corrupt transactions made by unbiased observers who are familiar with the rules and routines in the sector under scrutiny. More aggregate numbers should then be constructed on the basis of such observations. This kind of empirical studies hardly exist, however, and for obvious reasons we cannot expect many more in the near future. Most of the time we are dealing with complex transactions taking place in large hierarchies to which independent researchers normally have no access, nor the appropriate social networks for picking up and checking data. The information is indirect and, until recently, rather unsystematic. One of the major difficulties in corruption research has consequently been the lack of a solid empirical basis.

3.1   *The observational basis of corruption research*

In countries with honest judiciaries, the most reliable information about corruption is *court* cases. Courts are spending huge resources on establishing which transactions have in fact taken place, and to judge whether they have actually been corrupt. The problem with court cases is that they are few, compared to the underlying number of corrupt acts, that they cannot be used neither as an indicator of sector occurrences nor of general frequency. For the same reasons court data are difficult to use for cross-country comparisons. They are likely to tell more about political priorities or the efficiency of judiciaries and police than about the underlying problem of corruption.

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[11] This discussion is elaborated in chapter 4. Khan and Jomo K.S. (2000) provide detailed analysis and

Such data on corruption has nevertheless been collected on an international basis and some efforts have been made to make them comparable across countries, for instance by the *Crime Prevention and Criminal Justice Division* of the United Nations Office in Vienna (United Nations 1999). However, the fact that Singapore and Hong Kong have exceptionally high conviction rates confirms the suspicion that data from courts cases on corruption, when aggregated, are telling more about judiciary efficiency than about corruption frequencies[12]. They do, nevertheless, bring interesting and often very detailed descriptions of the social mechanisms involved.

In addition to the court cases, the *police* and other investigation units are producing considerable information about instances of corrupt transactions, also when the information may not be precise enough to win court cases or to fire employees. The quality of this information is highly variable, ranging from cases almost ready to bring to court, to mere rumours.[13] In some cases this information may be sufficiently extensive to construct risk patterns for entire sectors, but in most cases it will be biased in the sense that active, strongly motivated police units will tend to exaggerate the number and the danger of the crooks they are hunting.

Investigative journalists are in many ways in a better position to collect data than social scientists. The public exposure of journalists gives them a larger supply of informants. They will often have to handle the data carefully, since good stories demand the naming of actors with the obvious possibility of harming innocent individuals. The risk of being sued necessitates caution. Like the police, journalists possess much surplus information that they cannot use. This means that stories from

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evidence of such process in Asia.

[12] Goel and Nelson (1998) used cross-state (in the U.S.) co-variations in conviction rates of public officials for office abuse, and real per capita public spending as background variables to explain that higher levels of public spending will give rise to higher incidences of corruption. However, as argued by Lambsdorff (1999a), the explanation may rather be that higher conviction rates are caused by more resources spent on investigation on corruption and the abuse of public money.

[13] Andvig (1995) employs information of this kind in a study of corruption in the Norwegian and British oil industry, and van Deuyne (1996) has used systematic police information in a mapping of Dutch organised crime industry, bribing included.

the media are important sources of information also for social science research on corruption when it comes to establishing facts[14].

Media are also important subjects of research on corruption, mainly for political scientists. Some forms of corruption may be considered as a kind of political scandals, and the political effects may often be quite similar to the publication of private misbehaviour of politicians or their families. Media are not only important in bringing forward facts about corruption, but also for forming public and scientific perceptions of corruption. Moreover, the media are to a large extent setting the stage for determining the likely political consequences of revealed corruption scandals.

Like court decisions, media sources have their evident biases when comparing corrupt transactions across countries and across time. Firstly, the media will tend to give priority to the more spectacular stories, making the less dramatic but more common practices of corruption less attention. Secondly, and more important, the number of stories on corruption that are reaching the public are not likely to be determined only by how many stories that exist out there, but is also a question of press freedom, of the market for corruption stories, the journalistic professionalism and resources available, and various kinds of journalistic bandwagon effects. The bias created is likely to be serious also when it comes to empirical research because of the need to rely on second hand information. This makes it almost impossible to determine whether the perception of increasing corruption levels world wide is based on facts or not, because the main sources used are likely to be strongly influenced by shifts in media attention and public opinion. As far as we know, unlike the case of criminal convictions for corruption, no international counting of media stories has been attempted.

It is clear that the actual occurrences of discovered and provable corrupt acts discovered through courts, media and the few instances of participatory research are too few in most countries to constitute a representative sample of the underlying corrupt transactions. To create patterns and analyses, researchers have to bring in

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[14] One of the leading researchers in the corruption field, Alan Doig, started out from investigative journalism. He has established one of the few international research centres on corruption at Liverpool

information that is relatively unreliable, and then try to process it and make explicit the large and hardly determinable margins of error in the field. Or alternatively, researchers can decide to let the uncertain and imprecise information about patterns pass, and consider it as not amenable to serious research.

Until recently, the last strategy has been the dominant one, but since the mid 1990s a number of quantitative studies have been published based upon quite subjective and commercial indexes of aggregate country levels of corruption. The first and most influential one was Mauro (1995) who brought corruption into the renewed field of economic growth studies among economists. It was an econometric study of the effects of country corruption level on the growth rate, and the results indicated, as discussed in chapter 7.4, that there was indeed a significant negative impact. The study was based on data on general country corruption levels. What kind of data had Mauro been able to find?

3.2   Corruption measured: The construction of corruption indicators

Mauro (1995) used mainly data from a commercial organisation, *Business International* (BI), which in 1980 made an extensive survey of a large number of commercial and political risk factors, including corruption, for 52 countries, among these several developing countries. *Business International* had an international network of correspondents (journalists, country specialists, and international businesspeople) who were asked about whether and to what extent business transactions in the country in question involved corruption or questionable payments. The perceived degree of corruption involved in these transactions was ranked on a scale from 0 to 10. BI also made efforts to make the rankings across correspondents consistent.

In fact, *Business International* was not the only organisation that tried to monitor where international businesses have to expect the most extensive or frequent bribe demands. Quite a number of both profit and non-profit organisations constructed similar indexes. Today it is *Transparency International*'s "Corruption Perception

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Business School. An influential monograph that relies to a large degree on facts collected by investigative journalists is Doig (1984).

Index" (CPI) that is the most well known and most used both in research and in the public debate.

3.2.1 The Corruption Perception Index (CPI)

The CPI is the most comprehensive quantitative indicator of cross-country corruption available, where each single country is recognisable. It is compiled by a team of researchers at Göttingen University, headed by Johann Lambsdorff. The CPI assesses the degree to which public officials and politicians are believed to accept bribes, take illicit payment in public procurement, embezzle public funds, and commit similar offences. The index ranks countries on a scale from 10 to zero, according to the perceived level of corruption. A score of 10 represents a reputedly totally honest country, while a zero indicates that the country is perceived as completely corrupt[15].

The 1999 corruption perception index includes 99 countries. It is based on 17 different polls and surveys conducted by 10 independent organisations, not by TI

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[15] Before being added together, the indexes have to be standardised so that they all run from 10 (the least corrupt) to 0 (the most corrupt) whatever the original scale. To illustrate the principle, let one of the original scales run from 0 (no corruption) to 5 (most corrupt). Let us say that Russia gets 4.0 on this scale. What should be Russia's score on the CPI? First, we have to turn around the scale so that 5 becomes the least corrupt and 0 the most corrupt, and divide the absolute value of the CPI scale by the absolute value of the other index. In more complex cases, when for example the sub index of CPI does not contain the same countries, more complex procedures (as explained in Lambsdorff 1999b) have to be performed. In principle, the CPI index gives for each country each sub index an equal weight. Since some countries are covered by several indexes, each index will receive a lower weight for countries covered by many indexes. Moreover, in order to smooth the final CPI index several years of some of the sub indexes are included in the basis for estimating the 1999 CPI index. No countries where there are less than three observations, i.e. measurements from at least three sub indexes, are included. *Transparency International* appears to be convinced that they have succeeded in constructing a successful index that is able to rank countries in a reliable way to the degree corruption is perceived to a problem. The basis for this claim is the high degree of inter-correlation between the 17 sub indexes from which the CPI index is constructed (a correlation coefficient around 0.8 is common). Since some of the indexes with high inter-correlation are based on the information given by locals and others by expatriates or foreign experts, the bias coming from shared rumours or special experience of the expatriates is not likely to be serious, according to TI. Neither do, TI claims, any differences in the understanding of what is high or low corruption levels between locals because their understandings are highly correlated with the perception of indexes based upon the expatriates and foreign experts. Furthermore, these high inter-correlations are achieved despite the different ways the questions are phrased in the different surveys and polls. For details on the methodology, see *Transparency International's* website: www.transparency.de

itself[16]. None of these surveys are dealing with corruption only, but they cover a number of issues of relevance for development and business confidence. TI, however, is using only the data on corruption. Hence, the Transparency International index is not based upon information from the organisation's own experts but is constructed as a weighted average of (for 1999) 17 different indexes from 10 different organisations. The majority of these indexes are based on fairly vague and general questions about the level or frequency of corruption perceived either by experts or business managers. About half are based upon expert opinions with in built checks to ensure cross-country consistency. The other half is mainly based on questionnaires sent to middle and high-level management to either international or local firms. Only one organisation (i.e., *International Working Group*, developing the International Crime Victim Survey) asks the respondents directly about their own experience of corruption. Thus, the CPI is mainly a "poll of polls", reflecting the impressions of business people and risk analysts who have been surveyed in a variety of ways[17].

According to TI, none of these sources combines a sufficiently large sampling frame with a convincing methodology to produce reliable comparative assessments. Hence, TI has opted for a composite index as the most statistically robust means of measuring perceptions of corruption. Each of the other surveys uses different sampling frames and varying methodologies. The definition of the concept corruption also varies between the surveys. Thus, we may question whether the surveys cover the same phenomenon (see Lambdsorff, 1999b). Furthermore, all the surveys ask for the extent of the phenomenon, although the meaning of "extent" is not obvious. Is it the frequency of corrupt transactions or the amount of bribes paid or money embezzled?[18]

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[16] The 10 organisations are: Freedom House (FH); Gallup International (GI); The Economist Intelligence Unit (EIU); Institute of Management Development (IMD); International Working Group (developing the Crime Victim Survey); Political and Economic Risk Consultancy (PERC); Political Risk Service (PRS); The Wall Street Journal - Central European Economic Review (CEER); World Bank and University of Basel (WB/UB); and World Economic Forum (WEF). These organisations are partly non-profit development agencies, and partly consultancy companies specialising in strategic business information and market analysis (Søreide 2000).

[17] The main (and corruption-defining) questions asked from the different polls and surveys used in the CPI index are presented in Lambsdorff (1999b).

[18] Note, that if the multiple equilibrium type of models is correct, there will exist large areas where the size of bribes will be positively correlated with corruption frequency (see Andvig and Moene, 1990). Hence, the distinction between size and frequency will not matter much for the construction and understanding of the index.

Moreover, in general, the surveys do not distinguish between administrative and political corruption (see chapter 2).[19]

Despite (or may be because of) the vagueness of 'the level of corruption', the surveys correlate well with each other. The correlation coefficient is generally around 0.8 or higher (table 3.1). The high correlation between the 1997 and 1998 indexes (0.988) may partly be explained by overlap in the sources: Of the 12 surveys used in the 1998 index, four were also used in the 1997 survey. However, for 1996 and 1998 there was no overlap in the sources, yet the correlations here were also very high (0.9689 and 0.9663). The CPI indexes also correlate highly with the corruption perception index compiled by Business International (BI) in the early 1980s[20]. The CPI and BI indexes also correlated highly with the rating published by The "International Country Risk Guide" (ICRG) provided by the Political Risk Services (PRS)[21].

Table 3.1 **Correlation coefficients between different perceived corruption ratings**

	CPI 1996	CPI 1997	CPI 1998	BI (early 1980s)	ICRG (for 1980s)	Gallup International 1997
CPI 1996	1.000	0.9689	0.9663	0.8739	0.8844	0.7719
CPI 1997		1.000	0.9880	0.8517	0.8828	0.8403
CPI 1998			1.000	0.8044	0.8785	0.8424
BI (early 1980s)				1.000	0.8512	0.6471
ICRG (for 1980s)					1.000	0.7244

Sources: Transparency International and Treisman (2000)

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[19] In a survey made by Gallup International where one distinguishes between political and administrative corruption, the two forms of corruption were found to be highly correlated (correlation coefficient 0.88). Thus, Lambsdorff (1999b) argues that it likely that *Transparency International's* CPI index also measures both types of corruption. That is, different forms of corruption are likely to be so highly correlated that even vaguely formulated questions are likely to catch most of the important sides of the phenomenon.

[20] BI is now taken over by the Economist Intelligence Unit (EIU). From 1998 onwards the EIU-ratings, entitled "Country Forecast", have been used in the CPI indexes. The EIU-index assesses development and ranks the risks of doing business in 60 countries.

[21] Political Risk Services is a consultancy service located in New York. In the ICRG, 135 countries are ranked according to their estimated levels of political, economic and financial risk.

The way the sampling is carried out varies between the surveys. This may lead to inconsistencies between them. For example, the responses may depend on the respondents' cultural backgrounds, and if they are residents or non-residents in the country in question. Furthermore, the responses may vary between income groups, among experts and the general public. Lambsdorff (1999b), however, argues that the impacts of such factors on the CPI are insignificant for two reasons. Firstly, the correlation between the sources is high, which implies that the perceived "degree of corruption" is consistent among the different categories of respondents. According to Lambsdorff, this may be because the respondents have the same idea of how to define "degree of corruption". Secondly, even if the perceptions vary among the respondents, it still makes sense to aggregate the data and "obtain an assessment of the level of corruption seen by a broad and possibly heterogeneous sample of respondents".

TI argues that the combination of several sources is the major strength of the CPI, because this improves the reliability of the index and reduces the possibility of misinterpreting the responses from individual countries (see Lancaster and Montinola 1997). Furthermore, the surveys cover different countries, and each country in the CPI is not necessarily covered by all the 10 sources. To be included in the index, a country must at least be covered by three surveys from three different institutions. The survey data must also refer to current conditions and not be more than three years old.

The TI index (CPI) assumes that corruption is a one-dimensional phenomenon varying along a single continuum. Yet, corruption is not one-dimensional. As discussed in chapter 2, corruption has many facets, including embezzlement, bribery and extortion. The CPI does not distinguish between these types of behaviour. Moreover, there are wide variations in the way corruption is organised, how the incomes from corruption are spent, and so on. These variations are likely to produce different economic outcomes. Neither does the CPI discern between grand and petty corruption, though the first is presumably more threatening to the economy for several reasons to be spelled out later (see chapters 4 and 7). What the index does show is how systemic corruption is perceived by the chosen informants.

Because it is based on perceptions, the CPI does not necessarily reveal the true extent of corruption in a country. The CPI may also be biased against poorer regions of the

world. For instance, we should not assume that a similar score means the same thing in countries at different levels of development. However, people's perceptions about corruption may be important for what actually happens. The mere belief that government officials are crooked may, for instance, affect business confidence and, in turn, investment behaviour (Goldsmith 1999:875).

3.2.2 The Bribe Payers Index (BPI)

In 1999, *Transparency International* also carried out a *Bribe Payers Survey*, partly in order to mitigate the impression that all transnational corruption is caused by corruption that arise internally in poor countries. This survey provides the basis for two indexes. One is the *Bribe Payers Index* (BPI), which indicates the tendency of different exporting countries to win business contracts through bribes. The second, *Bribery in Business Sectors*, indicates what type of business is most likely to pay bribes wherever it is located.

The 1999-BPI ranks 19 leading exporting countries according to the extent to which companies are perceived to be willing to pay bribes to get contracts abroad. The survey covered private sector leaders in 14 emerging market economies[22]. These countries account for about 60 per cent of inward foreign investments in the developing world. In addition to a ranking of the inclination to bribe, the survey also ranks various business sectors according to their exposure to corruption.

The respondents were asked to rank the levels of bribery in business transactions between 0 and 10, where 0 represents high levels of bribery. With a score of 8.3 in the 1999-index, Sweden is ranked as number 1, which implies that Swedish companies are perceived to be the least active in bribing abroad. In contrast, China is ranked as number 19, which implies that Chinese companies are perceived to use bribes more often to obtain contracts compared to the other 18 countries. In the business sector survey, "Public works, contracts and construction" is perceived to be most vulnerable

to corruption (a score of 1.5 on the index). A surprising result is that U.S.-based enterprises had as high propensity to bribe abroad (as the German ones) despite the fact that its *Foreign Corrupt Practices Act* has been in operation for more than two decades.

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3.2.3 The level of corruption and the meaning of an index ranking

Fredrik Galtung (1998) describes the qualities of TI's Corruption Perception Index (CPI) as follows: "*At best, [the index] can measure two things: Trends over time and relative positions vis-à-vis other countries. It does not capture the absolute amount of corruption in any country.*"

However, as pointed out by Lambsdorff (1999b), the general public, journalists and others will often misinterpret the meaning of an index ranking. It is believed that the country scoring lowest on the CPI is the most corrupt in the world. This is a premature presumption. Firstly, the indexes only cover countries where the required information is available. Thus, a number of countries are not included, for instance Burundi, Cambodia, the Central African Republic, Laos, Nepal and Turkmenistan.

Secondly, even with a clear understanding of this shortfall, as well as knowledge of the methods used to estimating the indexes, it is still difficult exactly to say what a specific position in the indexes implies. One problem is that we do not have a standardised way of estimating the *level* of corruption. Should this level, for instance, be defined as the number of transactions affected by corruption or the total number of bribes during a year? Alternatively, should it be understood as the total sum of costs and benefits of corruption to the society, or the extent to which politics are affected by corruption?

What does the term "extent of corruption" actually tell us? And how does the uncertainty around this issue affect the meaning of a ranking on a corruption index? It

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[22] The survey was conducted in the following countries: Argentina, Brazil, Colombia, Hungary, India, Indonesia, Morocco, Nigeria, the Philippines, Poland, Russia, South Africa, South Korea and Thailand. Approximately 55 interviews were conducted in each country. One third of the respondents were senior executives from foreign companies in the country, about one third were senior executives from national

is tempting to think that a ranking of 6 on the CPI implies that the country in question is twice as corrupt as a country with the ranking of 3. However, this is not the case. Even without going into the actual technicalities of the index construction, it is clear that to interpret the index in terms of actual real numbers would have demanded information about corruption far beyond any conceivable possibility.

For example, to give any clear meaning of the mathematical *ratio* between two levels of corruption the method of measuring corruption has to be clearly established in beforehand. Imagine that bribes represent 10 per cent of *all* payments in country X. In country Y bribes represent only 2 per cent of *half* of all transactions. If we measure the *volume* of corruption, that is the total sum paid in bribes, then country X is 10 times as corrupt as country Y. However, if we measure the *number* of corrupt transactions, country X is only twice as corrupt as Y. Furthermore, given the unclear measures, we can not say if the difference in corruption levels between two countries with indexes 3 and 4, is identical with the difference in corruption levels between two countries with indexes 5 and 6.

Accordingly, if quantification of corruption is uncertain, comparison of corruption levels among countries is also problematic. The question of the *extent* of corruption is specified in the surveys. However, when it comes to the aggregated indexes, and the CPI in particular, it is a problem that they often are based on a *combination of specific descriptions.* Thus, although the aim is more evident information, this approach might result in *veiled* information. But regardless of an uncertain measure of the "level of corruption", such "rankings" are informative, since they may provide us with information on whether corruption is "most likely" to be a "more serious" problem in one country compared to others.

What about comparisons over time? Can we compare the ranking of a country on the CPI from one year to the next? A simple answer is that while the numbers ascribed to the countries cannot be compared, one can to some extent compare the rankings. For instance, if country X is ranked below country Y in one year and above this country the next year this tells something about the relative development of perceived

companies, and the last one-third top executives at chartered accountancies, law firms, chambers of

corruption in these countries, if we disregard the measurement errors. The actual numbers ascribed are, however, influenced by their relative rankings in the two years. Thus, a lower number for one country does not necessarily imply that its perceived degree of corruption has gone for the worse. The index does not inform us where the change has happened. Neither does it tell us when the change has happened, since the perceptions of the survey-respondents are based on impressions that are not necessarily limited to the calendar year. Therefore, in contrast to the claim made by Galtung (1998), it is difficult to see that the [CPI] index has, except for the mutual ranking, any clear dynamic dimension except for a potential shift in the ranking list (Paldam 1999a).

The ranking of countries from one year to the next in the CPI - as well as in other indexes - has proved to be highly correlated (see table 3.1). The obvious explanation is that the actual corruption level of individual countries changes slowly over time. However, it may also (partly) be due to methodological weaknesses: The "fame" and familiarity of the CPI may have impacts on peoples' perceptions of the corruption level in a specific country. Thus, the most recent ranking may be highly dependent on previous rankings.

Furthermore, a high correlation is observed between the rankings of countries in various corruption indexes. This is not surprising because the indexes measure, in principle, the same phenomenon. However, methodological flaws may also play a role if the various indexes are based on the same sources of information: Index A may be applied to estimating index B, at the same time as B is one of the sources for estimating index A. This implies a circularity of information, and A and B should therefore not be regarded as two independent indexes.

3.2.4   Alternative rankings based on conditional means

At present there exists considerable disagreement among researchers working in the field about the observational status of the CPI-rankings, a disagreement that is likely to become even more outspoken. World Bank researchers (Kaufmann et al 1999a) have thrown considerable doubt on the significance of TI's ranking list of countries

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commerce, and national and foreign banks.

by building up their own index on a list of larger sample of sub indexes. These sub-indexes are also based on the work of reliable commercial country risk assessment organisations and non-governmental organisations. In addition to bringing in more organisations, their list of indexes was expanded by bringing in other aspects of public governance that proved to be highly correlated with corruption.

While basically using the same sub indexes, noting their strong inter-correlation, and standardising them in a similar manner, Kaufmann et al. (1999 and 1999a) apply a somewhat different weighting procedure where indexes with a lower degree of inter-correlation and higher variance receive lower weights. The main difference is, however, that they develop an explicit statistical model that emphasises the underlying measurement error in the corruption variable and reach a completely different result.

If a 90 % confidence interval is placed around the conditional mean level of corruption for a typical country (which will fix its ranking number), that confidence interval will be so wide that the conditional mean of a large number of other countries will fall under it. This means that for most countries (those with intermediate levels of corruption) any ranking based on the conditional means is statistically insignificant. Only for the most and the least corrupt would the ranking of the countries (and then only as "high" or "low" corrupt) be statistically significant.

Since Kaufmann et al. have not yet published their ranking based on their conditional means for named countries, it is impossible to say whether their ranking of named countries differs much from TI's or not.[23] More importantly, the World Bank economists' work indicates that a much more detailed and explicit measurement of corruption variables are needed before one can judge the outcome of anti-corruption policies.

As far as we can see, TI has not presented a valid defence against the World Bank criticism. Lambsdorff (1999a) is defending the TI procedure by pointing out that some of the indicators of corruption applied by the World Bank may contain more

noise by bringing in other governance indicators. This defence appears not to be wholly convincing. The only valid defence is to develop a statistical model for TI's own index to explore whether, and for which cases, its ranking of countries is statistically significant.

The great policy impact of the TI-index may make it difficult to give it up. The need for numbers may also make it useful in econometric research on corruption. Furthermore, the *Transparency International* index is not likely to be less imprecise than most other indicators used for democracy levels, human rights, etc. that are used in modern growth econometrics with Barro (1997) as the leading work. Since most of the econometric studies of the exact ranking of particular countries are less important from a policy perspective, the statistical noise in the CPI indicator is less worrying than its use for studying the outcome of a particular country's anti-corruption policy measures.

3.3   Recent attempts to measure corruption more directly

In the near future we believe that the "state-of-the-art" empirical work on corruption will rely more on detailed questionnaires. So far, the World Bank has developed such questionnaires, and the *European Bank for Reconstruction and Development* (EBRD) has also become involved. In these, enterprises are asked about how large share of their expenditures are paid out in bribes, whether they try to bribe lawmakers to give advantageous laws, and whether they pay out bribes to win single contracts. Furthermore, detailed questions about whether the bribed officials fulfil their promises, whether the outcome is predictable, etc. are included.[24] One such questionnaire was made for the 1997 *World Development Report*, and a considerably improved version is recently out. So far, only results for the transition countries are reported (Hellman et al. 2000a). The results, however, appear promising in the sense that new opportunities for gaining empirical insight into corruption are opening up.

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[23] It is unclear whether this is because they believe most of the rankings are statistically insignificant and, thus, not of great interest, or because of World Bank diplomacy.

[24] The direct, firm-level data from the World Bank are briefly presented in Wei (2000) and applied in Kaufmann and Wei (1999). Most of the data published has so far focused on the so-called transition countries. Svensson (1999), however, applies firm-level data from Uganda, based on the Ugandan Industrial Enterprise Survey, initiated by the World Bank but implemented by the Ugandan Manufactures Association.

For example, it appears likely that the firm-level effects on bribes paid for gaining public procurement contracts become quite different when lawmakers are for sale compared to situations when they are not[25].

3.4   The action research approach

Partly inspired by an older Scandinavian-based action research approach[26], new attempts have been made to combine questionnaires addressed to local leaders and to the general public with sets of public meetings where issues of corruption are brought up. From a research point of view, the advantage is that publicity may make respondents more interested in answering and less afraid of exposing local corruption. In addition, public attention and concern may create changes in public policies as well as ignite a process of anti-corruption efforts, which may in itself bring forward new data about the "where, how and why" of corruption in the country in question.

A clear exposition of the action research approach is found in Langseth et al. (1997). Furthermore, an interesting collection of data created by this approach is found in *Uganda National Integrity Survey 1998.* While initiated by the World Bank, like the data collection referred to in section 3.3, *Transparency International*, and several multilateral and national aid organisations have embraced the method.

The method has some obvious weaknesses, however. The statistical validity may be questioned when the answers cannot be considered statistically independent as they become part of a public campaign where emotions are stirred. Valuable data about high level (political) corruption can only rarely be brought forward by this action research approach, since the answers generated are based on or biased towards rumours rather than direct observation.

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[25] A presentation of the recent questionnaire is given in Hellman et al. (2000a), and an example of its results (the results to a question of the role of political corruption in transition countries) is given in Hellman et al. (2000b). These data are very valuable to researchers, who, in general, are unable to gather this kind of material individually. Most researchers lack the resources and, more importantly, the authority and legitimacy needed to get a questionnaire like this answered. An earlier report based on this methodology, applied at the global level, is Brunetti et al. (1997).

The method has so far, however, been able to generate data about forms of corruption that has high public visibility such as the police and judiciary, the school and health systems, and in some cases also local road construction. The method also has some potential in exposing more complex forms of corruption if it is brought into its original intra-organisational setting and thereby exposing intra-organisational problems for public discussion. The major attraction of the method for researchers and sponsors is the possibility it offers to kill two birds with one stone: to do research on corruption and fight it at the same time. We will return to this possibility in the policy chapter (chapter 9).

3.5 Concluding remarks

Summing up, empirical research on corruption has for long been hampered by the lack of good data. This has been partly rectified by *Transparency International* bringing into the public domain the results of mainly commercial risk analysis institutes. This has until now mainly consisted in a quantification and indexation of rather vague and loosely structured conceptions of corruption. Thus, it ought to be underlined that the results from the growing number of econometric work based on these indexes must be considered to be preliminary, although technically well done. Recently, however, data-collection based on processes closer to observables has been initiated by the World Bank. Findings from this research are likely soon to be published.

 We do not believe in scientific purism, in the sense that when social scientists may rely on vague, uncertain and highly subjective observations, they should shy away and leave the field wholly to the common sense of "experts" (in this case the common sense of the police, journalists and businessmen). If, however, the basic observations are of this kind, the vagueness and subjectivity of the data should not be forgotten. For these reasons, "use of numbers" should be very cautious, whether the application is in research on economic growth or on foreign aid. Policy applications require even more cautionsness.

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[26] Originally action research focused on intra-organisational problems of work-organisations. The basic idea from a research point of view is that by initiating changes and record the effects researchers may gain information otherwise not produced. In addition, researchers may become social activists and achieve desirable results through their work. Needless to add, difficult role conflicts may arise.

The prospects that empirical research will bring new, significant insights are still bright. Most promising is the willingness that many persons in both the private and public sectors have shown in answering detailed and tricky questions about corruption when the questionnaires have been backed up by authority, legitimacy and credible promises of anonymity. Newspapers, the judiciary and police still possess data and information that are partly untapped or only unsystematically used. Finally, empirical case studies guided by theory are as scarce as ever, and no declining returns are in sight.

4   Political science perspectives on corruption

The issue of corruption has re-entered the current political science debate from the new interest in the role of the state in the developing world, and from the assumption that the state is an indispensable instrument for economic development, redistribution and welfare. In contrast to the largely rejected "state-dominated" and "state-less" development models, there is now much consensus on the need for an efficient medium-sized state apparatus with a political will and adequate economic policies to ensure economic development. More specifically, any assessment of corruption must take a country's political dimensions into account (Johnston 1997; Hope 2000).

In recent years, economic explanations of corruption have been the most cited and probably also the most influential for policy formulations. However, corruption has also attracted much attention from other social sciences, in particular from political scientists, and more recently from sociologists and anthropologists. To understand corruption, the political factors cannot be ignored.

Taking the political factors into account, political science has approached the phenomenon of corruption in terms of regime type and searched for its causes in authoritarianism versus democracy and in development-oriented regimes versus neo-patrimonial rule. Besides, corruption has also been looked at according to institutional characteristics like the balance of power between the state institutions, judicial independence and the strength of the parliament in counterbalancing the executive

branch, different models of hierarchy and bureaucracy including the effect of the numerous civil service reforms, and power de-concentration efforts like privatisation, deregulation and decentralisation. Furthermore, in the struggle against corruption, various institutional control mechanisms have been evaluated, like parliamentary control, executive control, internal bureaucratic controls, audit and watchdog-bodies.

4.1 Political systems and the causes of corruption

Because corruption is a deviation from the Weberian legal-rational model of democratic and bureaucratic rule, the study of corruption has challenged somewhat the traditional political science perspective on formal institutions. In addition to the theories on democratisation and institutionalisation, some broader political debates on legitimacy, representation and participation have been brought in, largely in the form of a debate on the role of the civil society. But also models from social anthropology and sociology on reciprocity and networks, and on clientelism and nepotism, have been brought in to explain the causes of corruption.

In conventional political science, the causes of corruption were believed to be deficiencies in the political system, and in particular in the "democratic deficit". Corruption is understood as caused by political systems that are deficient in democratic power-sharing formulas, checks and balances, accountable and transparent institutions and procedures of the formal and ideal system of democratic governance (Doig and Theobald 2000). The relationship between democracy and corruption is understood as grossly negative: the less democracy, the more corruption. Widespread corruption is seen as a symptom of a poorly functioning state, and as a failure of ethical leadership, democracy and good governance (Hope 2000:19). The "law of democratisation", which says the degree of corruption varies inversely to the degree that power is consensual (Friedrich 1989) also supports what has become the basic and practical argument on corruption; *that it can only be reversed by democratising the state.*

Much of the political science literature on corruption has thus focussed on broad issues of democratisation. Within this broad perspective, three basic mechanisms have been suggested: to strengthen the democratic institutions (including parliaments,

judiciaries and the specialised bodies for political participation, supervision and control); to strengthen the civil society (including the media), and general public sector reforms. In political science, the literature on democratisation and institutional reform abounds, although with few contributions on corruption as such, but a number of political science studies have made institutional assessments of anti-corruption agencies, commissions and other specialised bodies of corruption control, in order to evaluate their impact on corruption.

Within the group of non-democratic systems, the correlation between authoritarian modes of rule and high levels of corruption seems to be confirmed (Amundsen 1999). There is nevertheless large variety of non-democratic rule systems, and one important distinction has been made between controlled and uncontrolled systems, closely related to the distinction predictable/unpredictable regimes and functional/ dysfunctional regimes (Girling 1997; Campos et al. 1999). The main analytical point here is that authoritarian control over politics and economy also implies a strict control over corruption levels and distribution mechanisms, and that controlled corruption is less economically damaging. In less controlled non-democratic systems, corruption is decentralised, unpredictable and inhibitive for investments and economic entrepreneurship.

Within the family of authoritarian regimes, another related distinction is between on the one hand the "developmental oriented" political elites or "benevolent autocrats", and on the other hand the "kleptocrats". The former ideal type of autocrat will seek to maximise society's wealth (and be development oriented), while the latter type of autocrat will be concerned only with his own riches (and be development oriented only to the extent that it serves his own interests) (Coolidge and Rose-Ackerman 2000:58-59).

4.2   Neo-patrimonialism and informal practices

Political science studies of corruption may to some extent be categorised according to their focus on formal or informal aspects of power and political organisation. Political science has traditionally focussed on the formal aspects and institutions of power, and most political science studies of corruption until the mid 1970s can be labelled

classical political science approaches within the school of modernisation, with its roots back to the traditional/modern dichotomy of the mid-20th century development studies. These studies have an explicit focus on the formal state institutions necessary for development and economic "take-off". Modernisation meant state building and institutional engineering of a kind that could promote industrialisation and economic growth, and the institutions required (and studied) were largely the economic policy oriented institutions. Corruption was seen as caused by an incomplete or unfinished process of modernisation, as the remaining "traditionalism" of modernising countries (Myrdal 1968a).

Besides, with economic growth as the single most important component of modernisation and an implicit economic liberalist agenda of a restricted developmental state (rather than a "big" bureaucratic state), coupled with the idea of "trickle down" and efficiency as more important than democracy, corruption was largely seen as something that could "grease" the wheels of modernisation, and something that would disappear as markets became stronger and the state more efficient and modern.

The anti-thesis to modernisation theory, what was called the dependency school, neo-Marxism or radical underdevelopment theory, argued that due to the subservient, neo-colonial, peripheral and exploited position of the Third World, and the role of the local (political) elites as puppets of multinational corporations and Western governments, authoritarianism and political underdevelopment, including corruption, would only persist (Blomström and Hettne 1984). Imperialist-capitalist penetration and forced underdevelopment was put up as the substance of dependent economies, of which authoritarianism and other political predicaments, including corruption, were the logical consequences. The solution suggested was a radical break with the capitalist world, or at least a national protection in the form of "self-generating" or "endogenous" growth and import substitution industrialisation policies.

Another relatively large and less radical political science "school" or approach to the study of corruption has a distinct focus on the informal aspects of power (see chapter 2.5.3). This is the "neo-patrimonial" approach that originated in the late 1980s from a French academic milieu with a main focus on Africa. By stressing that African

politics are radically different from politics elsewhere, this approach is a corrective to traditional theories of political development, democratisation, and formal institutions. These scholars have called attention to the informal aspects of African politics, arguing that the state is merely a façade that masks the realities of deeply personalised political relations, clientelism and political corruption (Hope and Chikulo 2000; Chabal and Daloz 1999; Bayart 1997; Bratton and van de Walle 1994; Médard 1986, 1991, 1998).

Neo-patrimonial practices can be found in all polities, but it is the core feature of politics in Africa and in a small number of other states, including Haiti, and perhaps Indonesia and the Philippines (Bratton and van de Walle 1997:62). Neo-patrimonialism is by some researchers called "personal rule", "the politics of the belly", "prebendalism" and "kleptocracy". Its core characteristics are personal relationships as the foundation of the political system, clientelism (sometimes also nepotism), presidentialism (political monopolisation), and a very weak distinction between public and private. These are all factors that undermine the formal rules and institutions, and opens up for both political and bureaucratic corruption.

According to the classical Weberian theories, the emergence of the state and the related political institutions will entail the end of patrimonialism, a functional separation of the public and private spheres and a notion of citizenship binding individuals directly to the state. Rooted in empirical research and the theoretic tradition that recognise the distinct features of African political development, there are also some scholars who will still focus on political institutions in a Weberian sense and their development, and emphasise the importance of institution building in order to consolidate democratising systems. Building onto this, most theories of neo-patrimonialism will emphasise the (level of) incorporation of traditional and clientelist practices into formal political institutions (Bratton and van de Walle 1997; Médard 1991).

Conversely, in an extreme version of the neo-patrimonial perspective, Chabal and Daloz (1999) argue that the formal institutions of the state is an empty shell, and that political disorder and de-institutionalisation is a deliberate and profitable political strategy in Africa pursued by African rulers. Corruption is in their view a key aspect

of the African functional disorder; it is legitimate, practical and "*a habitual part of everyday life, an expected element of every social transaction [and] embedded in the dominant social imperatives*" (ibid.: 99-100).

The effect of regime type on corruption is arguably very strong when it comes to the neo-patrimonial or kleptocratic mode of rule (which, on the authoritarian-democratic scale, are situated in-between the centrally controlled autocratic regimes and the consolidated democratic regimes). Ethical leadership, public accountability and legitimacy is for instance seriously lacking in the great majority of African states, and these neo-patrimonial systems are characteristically lacking the distinction between public and private interests (Hope 2000:19; Médard 1991). According to Coolidge and Rose-Ackerman (2000), neo-patrimonial regimes are characterised by rent-seeking behaviour by officials at the highest government levels, and consequently this will produce excessive state intervention in the national economy, inefficient rent-extracting monopolies, too big governments, privatisations that benefits the ruling elite, a range of non-transparent and contradictory regulations on taxation, investments and government spending, overly short-term investments, and hampered economic growth.

Mobutu's Zaire and Shagari's Nigeria are but two examples of flagrantly corrupt regimes, one autocratic and one elected, in which the political factors and the role of the regime loomed large. According to Doig and Theobald (2000), grand corruption, the unashamed looting of national riches, has hitherto not been as obvious in developed and democratic countries, primarily because of the existence of a large private sector that offers (better) opportunities for self-enrichment than does the public sector and politics, and secondly because the state is of a relatively smaller scale and of a lesser strategic position, and lastly – but not least – because of better functioning control bodies and a higher level of transparency, which includes elections and the media.

The rather frequent reports of scandals involving the European Union as well as individual Western government officials and political parties nevertheless demonstrates that the public sector in the developed world is not immune to predation. There have for instance been numerous scandals of dubious party financing and

elected politicians with audacious self-enrichment through parallel company directorships, outside consultancies, the selling of information and contacts, and classic bribery.

At the same time as grand corruption is more visible and probably more damaging in developing countries, the routine petty corruption is also much more visible and certainly more widespread in the developing world. At the same time, there is a very noticeable difference between poor countries in the extent to which bribes are demanded at checkpoints and for the delivery of public services, which indicates that political cultures and political institutions indeed matters.

4.3   Corruption and democratisation

In contrast to the analytical and descriptive literature on neo-patrimonialism, empirical research on the effects of democratisation on corruption is considerably less developed, and the evidence less conclusive. Neo-patrimonialism and the "politics of the belly" serve well as illustrations of and explanations to the "deep" causes of corruption in such countries, and the embeddedness of corruption in clientelist political logics, and give a motive for calling for democratisation. But, there is still a need for research on the actual effect of democratisation in various settings, and on the various paths of democratisations that will serve the cause of anti-corruption better.

The most schematic theories will hold that the level of corruption decreases with the level of democracy, but a slightly more refined theory holds that the relationship is not linear but bell-shaped. The most authoritarian (totalitarian) systems are able to control the levels of corruption and thus keep it at an economically viable level (take for instance the South East Asian examples of "controlled corruption"), while countries in a situation of political and economic transition are the most corrupt. When authoritarian control is challenged and destroyed through economic liberalisations and political democratisations, but not yet replaced by democratic checks and balances, and by legitimate and accountable institutions, the level of corruption will increase and reach a peak before it is reduced with increasing levels of democratic governance.

The general relationship between regime type and levels and types of corruption is much discussed, however. In testing the general hypothesis of a negative relationship between democracy and corruption, recent studies of the effect of regime type on the levels corruption, using *Transparency International's* Corruption Perceptions Index (CPI) for corruption levels and the *Freedom House's* Country Rankings for levels of democracy, found that there is a negative relationship between democratisation and corruption but that this correlation is not very strong. Indeed, the level of corruption was substantially reduced only with democratic consolidation in terms of "deep democracy" (Amundsen 1999). Besides, this is a statistical correlation, and not necessarily a causal relationship[27]. Paldam (1999a), for instance, finds that corruption in general terms will decrease with increasing levels of democracy, but that this covariance varies much according to the different levels of democracy (or rather the different stages of political transition). He suggests that the direct effect of democratisation on the level of corruption is spurious.

Besides, even when the relation between democracy and corruption has been found negative in general terms (the more democracy, the less corruption), there has been few studies with systematic control of this covariance against economic indicators, and (as mentioned above) the causality remains uncertain. Knowing that poor countries are more corrupt than rich countries, and that poor countries are more authoritarian than rich countries (on a very general level, and with some well-known deviant examples), it is still impossible to determine whether economic growth (economic factors) or democratisation (political factors) is more conductive to reduced levels of corruption, like it is impossible to determine whether economic growth causes democratisation or *vice versa*.

The effect of democratisation and multi-partyism on corruption has therefore been debated (see chapter 6.2). It has for instance been noted that competitive politics probably will escalate the demand for campaign funds, and thus be a breeding ground for questionable political influence (Goldsmith 1999). Besides, we know from the Western world that that both incumbents and office-seekers are tempted to sell their

political influence (their votes) to the biggest campaign donors, and we have seen from democratising countries that politicians quite often are paying groups of voters to vote for them. According to Harris-White and White (1996), the process of democratisation has in the Philippines and Thailand led to increased corruption. Corruption in these countries has furthermore become more decentralised and uncoordinated. Referring to China and South-Korea the authors argue that (ibid: 3): "*far from improving things in the short and medium term, democratization may actually increase the sources and scale of corruption, without strengthening countervailing political or institutional capacity*".

In a comprehensive cross-country study, using TI's corruption perception index as the main dependent variable in the regressions, Treisman (2000) finds that the current degree of democracy in a country makes almost no difference to how corrupt it is perceived to be. What matters, according to Treisman, is whether or not a country has been democratic for decades (Treisman 2000:439). The regression results suggest a painfully slow process by which democracy undermines the foundations for corruption. Those countries with at least 40 years of consecutive democracy behind them benefited from a significant, although small corruption dividend.

At the same time, several factors associated with democratisation will push the other way. It has for instance been noted that democracy (and market liberalisation) has increased both the opportunities for graft *and* the likelihood of exposure because the chance for revealing corrupt officials is higher in more democratic, open societies (Diamond and Plattner 1993; Quah 1999). Greater civic engagement may lead to closer monitoring an exposure of civil servants and politicians.

More important in terms of disciplining the rulers are the free and fair elections. In democratic systems all political office holders (rulers) will be incumbent politicians, and thus disciplined by the possibility of being voted out of office in the next elections. Furthermore, the competitors for office have an incentive to discover and report the incumbent's misuses of office. Besides, freedom of the press and of association engenders journalists and public interest groups to expose abuses.

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[27] This is not unlike the debate on economic factors discussed in chapter 6 below: is corruption caused

Some empirical evidence is also emerging on the impact of political democratisation variables on corruption. For instance, is indicators like the quality of public institutions and bureaucratic predictability found to affect corruption, in that a better performing public sector with rational promotion and recruitment will reduce corruption (Lambsdorff 1999a; Rauch and Evans, 2000).

4.4   Impacts of corruption on politics

Systemic corruption was long held to be a cultural, moral and historical problem, but by the 1990s is has clearly become a political and institutional problem as well (Galtung and Pope 1999). In addition to corruption bearing most heavily upon the poorest sections of society, who are ultimately bearing the cost of the distortions and deprivations corruption produces (Doig and Theobald 2000:1), it is in general terms believed that the effect of corruption on politics is that corruption renders the state incapacitated and impotent. Corruption is destructive to the state's ability to extract taxes, to implement coherent and rational development policies, to redistribute resources among groups and regions, and consequently to its ability to transform the society and the economy according to political priorities.

The capacity of the state to extract taxes will for instance be eroded when individuals and groups are able to pay their way out, and certainly when public officials are embezzling revenues collected. When bureaucratic regulations are restructured, manipulated and operated in a confusing and impenetrable manner in the implementation end to enable bureaucrats to collect bribes and other personal advantages, and public officials are preoccupied with other tasks, insecurity will hamper investments, state's revenue basis will shrink further and its ability to render public services will be shattered.

Corruption will also probably reduce public investments, and certainly it redirects public investments towards unproductive and more easily embezzled sectors (see chapter 7.4). Besides, when private citizens, commercial businesses (local and international) and various interest groups (formal and informal, modern and

by poverty, or is it rather *vice versa*?

traditional) are able to buy national and public resources cheaply, to buy exceptions, privileges, immunity and impunity through the use of kickbacks and mafia methods vis-à-vis public officials, national resources are literally opened for looting and might be depleted, waters can be polluted etc., and consequently the development potential of the nation may be undermined.

Widespread corruption also has the effect that it renders political systems illegitimate. In many cases, corruption scandals, reports and debates have led to mobilisation and political action from below, and presidents have even been toppled in elections where corruption issues have been high on the agenda. At the same time is entrenched and systemic corruption, and the many cases of much talk on corruption but little action, making people deem the entire political system dishonest and illegitimate, with withdrawal and political apathy as the consequence.

Political corruption has some particularly important political repercussions in that it has a direct effect on the rules of the political game and the operating rules of the political system. Political corruption implies the manipulation of political institutions and the rules of procedure, for private benefit, and therefore it distorts the institutions of government. Political corruption is a deviation from the rational-legal values and principles of the modern state, and leads to institutional decay. The basic problem of political corruption is the lack of political will to encounter the problem: the power-holders do not wish to change a system of which they are the main profiteers (Amundsen 1997).

Some researchers have also pointed to the "criminalisation" of the state as a consequence of widespread corruption. Due to the continuous economic crisis of many African countries, combined with the perpetual political crisis of feeble legitimacy and recurring ethnic conflicts, the African "kleptocratic" elites have taken a radical move towards illegal economic activities and organised crime, close to what can be labelled an "economy of pillage" (Bayart et al. 1997). Indiscriminate and unlawful use of violence and intimidation by the state's military apparatuses and security services also follows, as power holders have "privatised" the state's coercive capacity for their own strategies of accumulation (ibid:28-37, 47).

The long list of such activities, in which state leaders, military units and bureaucracies are directly involved or at least paid off to let it take place, in flagrant contradiction to international laws and regulations, includes cocaine and heroine traffic in transit through African countries, a savage exploitation of gold and diamonds, massive counterfeiting of foreign products, money-laundering and falsification, and trade in human beings.

4.5 Concluding remarks

The effect of democratisation in curtailing corruption is a much-debated and somewhat disputed topic. However, to the extent that corruption is seen as one of several consequences of democratic system deficiencies, as a manifestation or symptom rather than a cause in itself, the mechanisms recommended for curbing corruption will consequently be the same as the measures recommended to broadening and deepening democracy as such.

5 Anthropological perspectives on corruption

Corruption is today viewed to be the primary obstacle to social and economic growth in developing countries. Notwithstanding arguments showing positive effects of corruption, the general picture suggests widespread condemnation (Theobald 1990). In order to devise anti-corruption programmes in developing countries it is necessary to know the nature, characteristics, patterns and organisational structure of the phenomenon.

Economists and political scientists have taken the lead in recent research on corruption world-wide (Price 1999). International debates on how to approach the phenomenon are ongoing, but a general and widely accepted definition is "*the abuse of public office for private gain*" (Amundsen 1999, Gray and Kaufmann 1998, Rose-Ackerman 1996, Zakiuddin 1998). This definition obviously depends upon the existence of a public domain that is recognisably separated from the private sphere. The question is how this definition, which is informed by Weber's rational-legal bureaucracy model, applies to non-western contexts.

Most social anthropologists consider the conventional definition of corruption as too narrow and excessively concerned with the illegality of practices. Peoples' own assessments of courses of action do not arouse from a set of culturally universal, invariable norms that helps to decide if certain actions are to be classified as "corrupt" or not. Rather, what is seen as corruption varies from one country to another. Given such variations, explorations of how the actors themselves evaluate social practices are required.

It has repeatedly been argued that in some countries, corruption in embedded in local cultures. In many countries in Africa, for instance, corruption is visible, generalised and commonplace, included in a broad range of power abuse and illegal enrichment, but most people engaged in it will deny their practice is corruption or argue for its legitimacy (see chapters 2.5.3 and 4.2). Some social norms and behavioural logics are indeed facilitating corruption, like fluid and always negotiable "rules of the game", multiple norm systems, the many brokers and middlemen, gift-giving practices, networks of solidarity and collusion, extended family solidarity and predatory (neopatrimonial) forms of authority (Olivier de Sardan 1996).

Some shortcomings of the above-mentioned rational-legal paradigm will be clear when anthropological methods and approaches are applied and placed within a social and historical context. An examination of sociocultural logics informing everyday practices will reveal that what is corruption and what is not is a matter of social experience.

5.1 Weber's rational-legal bureaucracy model

The rational-legal bureaucracy model has long traditions in European countries. Handelman states that *"the idea of bureaucratic organisation is hardly an invention of Western social-science"* (Handelman 1981:6). He attempts to show *"whether there may be logical connectivity between the seventeenth-century idea of taxonomic-organization and Weber's depiction of modern bureaucratic-organization"*[28] (op. cit.: 9). Handelman finds continuity between early organisational principles in the West

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[28] Taxonomy literally means classification, i.e., the idea of an organising principle based on a classification system.

and the evolution of bureaucratic-organisation. He argues that in the West "*one is predisposed to feel and think in particular ways, perhaps in terms of different logics, when one is within particular locales or settings which are relevant to the frame*" (op. cit.: 12).

This does not imply that bureaucratic orders are simply the reflections of society.[29] Bureaucratic orders maintained in Western countries today must be seen as a result of historical events informing and changing the idea of a rational-legal bureaucratic-organisation. That public office was viewed as private property in much of Western Europe till at least the mid-nineteenth century exemplifies how notions of rational-legal principles have changed. Scott writes that "*the control of administration we know today would have been impossible without the development in the late nineteenth century of government accountability to broadly representative legislative bodies*" (Scott 1969:316).

Developing nations have, according to Scott, '*for the most part adopted the full panoply of laws and regulations that evolved from, and gave expression to, the long political struggle for reform in the West*" (Scott 1969:319). This view is in line with Olivier de Sardan's statement with reference to Africa that "*the functioning of the administrative apparatus [is] entirely copied from the European pattern... In law, official functioning and budget it is totally Western*" (Olivier de Sardan 1999:47). However, the mere adoption of an administrative framework does not ensure similar practices in various contexts.

As opposed to Western Europe, the logic of bureaucratic-organisation may be far removed from predominant socio-cultural logics. In England, the development of political and bureaucratic rules and norms was a result of a long process. In Africa and South Asia, for instance, an entire legal framework was a legacy of colonialism. As a result, the functioning of the administrative apparatus, entirely copied from the European pattern, takes the form of a "schizophrenic type" (Olivier de Sardan 1999:47). Moreover, the European legacy of colonialism may have set the stage for conflicting norms regarding bureaucratic-organisation in pre-colonial nations. Cohen

reports from Nigeria that "*Africans learned how to live and operate under a bureaucratic system in which illegitimacy was normal*" (Cohen 1980:81). The new rules and political norms of the colonisers had little or no applicability to the realities of their own lives. Furthermore, the public services set in place by British colonial authority departed from how such services were managed in Britain for several reasons. The inefficiency, mistrust, and frustrations of over-centralisation became part of the norms and culture of the Nigerian public service well before Africans took over. When they did, they also took over the managerial style of the previous administrators (op. cit.).

5.2   Defining corruption: the conventional distinction in social sciences

In political science, the conception of public office is strongly influenced by Max Weber's ideal type of rational-legal bureaucracy. This rational-legal paradigm is crucial for the understanding of corruption as the non-respect of the distinction between public and private. However, this public administration perspective on corruption has not gone unchallenged.

Firstly, the notion of public office is essentially a western concept. Several scholars have made this point clear. Wood says, '*it does not proceed from an a priori assumption that such [Weberian] rationality is or can be the norm in society*' (Wood 1994:520). Price argues in the case of India that "*a public servant is confronted with a wide range of pressing demands for action which are not described in official rules and regulations […]. We can see the existence of competing codes as a reason for the widespread contestation of bureaucratic norms in many sections of Indian societies*" (Price 1999:318). Finally, Ruud states that "*to be the same man, and not to entertain primary loyalty at certain times to an informal institution, a lofty ideal, to remain the person in which your friends have trust, that seems more human, at least under certain circumstances to Bengali villagers*" (Ruud 1998:4).

Secondly, legal procedures are not *per se* the most rational. Legal regulations are *per se* conservative, preserving the status quo in terms of social relations and behavioural

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[29] This is made clear in the following statement, "In the West, one recognizes that the idea of bureaucratic-organization is somehow different from one's perception of the everyday, and yet the

patterns. Furthermore, Myrdal (1968a) differentiated between the "actual" rules of bureaucratic behaviour and the "official" rules and suggested that the former may be more "innovative" and appropriate to local conditions. Although corruption is often interpreted as having negative distributional consequences, others have argued that corruption has positive effects; it "humanises" the workings of bureaucracy (Ward 1989)[30].

The task of finding a suitable definition of corruption, which can be used for purposes of comparative analyses, has proved fraught with difficulty. The legalistic understanding of the term relates corruption to the violation of a rule or a law. This approach raises several problems. Firstly, it presupposes rules and laws prohibiting corrupt behaviour and does not allow looking into the actions or inactions that laws on corruption (and regulations that distinguishes public from private) do not cover. Secondly, given that legal codes vary from country to country, judgements of the legality of various practices will also vary.

Thirdly, the legal approach depends on the notion that legal frameworks are somehow neutral, objective and non-political (Williams 1999), but corrupt activity is not an objective form of practice existing in a vacuum. It is a social act and its meaning must be understood with reference to the social relationships between people in historically specific settings. A transaction is now a legal one, now illegal, depending upon the social context of the transaction.

Trying to understand how corruption is conceptualised the question we need to raise is; what behaviour is being compared, how are practices evaluated, and by whom? Supporting the view that Weberian informed definitions of corruption is "*too narrow and excessively concerned with the illegality of such practices, defined from a modern, Western point of view*" (Olivier de Sardan 1999:27), our argument is that a broader notion of corruption is required. Olivier de Sardan uses the term of 'corruption complex' to include practices beyond corruption in the strict sense of the word, i.e. nepotism, abuse of power, embezzlement and various forms of misappropriation, influence peddling, prevarication, insider trading and abuse of the

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same" (Handelman, 1981:14).
[30]See also Theobald's (1990) discussion of positive effects of corruption.

public purse (op. cit.). This seems the most satisfactory alternative as it opens up for a more advanced view of the complexity of social behaviour. Furthermore, it makes an exploration of people's own evaluations of their practices possible.

5.3 Anthropological methods and approaches

Blundo and Olivier de Sardan (2000) argue that corruption is largely a clandestine or concealed practice with strong normative undertones, similar to other phenomena like large scale and petty crime, parallel to black market activities and drug trafficking. And anthropology, as a social science sub-discipline, has an inventory of methodological tools appropriate for analysing the habitually concealed and under-communicated, usually illegal, and sometimes illegitimate practice of corruption. As an initial approach to a field where corruption is not very well-known or previously described, to formulate new hypotheses and verify the applicability of existing theories derived from other studies, anthropological field methods are particularly fruitful.

Besides, traditional social science methods like questionnaires and quantitative studies run the risk of being identified with police interrogations and to produce embarrassed silence, self-victimisation, condemnation of others, and very biased results. Consequently, the indirect anthropological field methods are particularly apt in getting information from this social field that is so difficult to access for the "non initiated" (Blundo and Olivier de Sardan 2000).

In Blundo and Olivier de Sardan's discussions of anthropological field methods, they emphasise *observation* as a useful method to assess the tension between formal and informal norm systems, and to determine what practices informants are considering to be the most important. Corruption does not necessarily take place where the researcher is looking for it; its everyday manifestations might be elsewhere. This everyday dimension is often overlooked by other social sciences and has as a result been lacking in the literature on corruption.

Even when corruption per se is hardly observable through "participatory observation", informal conversations and people's everyday discourses are rich in anecdotes,

confessions and accusations, through which both substantiations and assessments on corrupt practices can be obtained. One can also study more directly observable activities, like transactions in buses, hospitals and roadblocks, although at high costs and with serious ethical dilemmas.

Valuable information on corrupt practices can also be collected through interviews, and preferable informal interviews that can uncover the popular and local semiotics and ethics concerning corruption. Focus group discussions have also been fruitful in some situations. Case studies, whether of particular institutions or specific interactions or episodes, are also fruitful. Finally, Blundo and Olivier de Sardan (2000) underline the significance of methodological triangulation: approaches and methods should be combined and used in parallel, like for instance interviews combined with observations and news paper reports or court hearings, to substantiate and verify the findings.

5.4   Three examples of anthropological field work studies on corruption

In this subsection we will present three anthropological works on corruption. This is to show how other social scientists, working within the field of anthropology, have argued for a broader understanding of corruption.

Akhil Gupta made an early anthropological contribution to the international scholarly debate about corruption with an article published in 1995. By examining how lower-level officials execute their duties, Gupta found the conventional distinction between private and public inapplicable to an Indian context. Gupta says that Sharmaji, an Indian lower-level official, "*pose an interesting challenge to Western notions of the boundary between 'state' and 'society' in some obvious ways*". The reason, he continues, is perhaps because "*those categories are descriptively inadequate to the lived realities that they purport to represent*" (Gupta 1995:384). The following case is an example of how an ordinary lower-level officer executes his duties.

"Sharmaji was a *patwari*, an official who keeps the land record of approximately five to six villages […]. Sharmaji lived in a small, inconspicuous house deep in the old part of town […]. The lower part of the house consisted of two rooms and a small enclosed courtyard. One

of those rooms had a large door that opened onto the street. This room functioned as Sharmaji's 'office'. That is where he was usually to be found, surrounded by clients, sycophants, and colleagues [...]. Two of the sidewalls of the office were lined with benches; facing the entrance toward the inner part of the room was a raised platform, barely big enough for three people. It was here that Sharmaji sat and held court, and it was here that he kept the land registers for the villages that he administered. All those who had business to conduct came to his 'office'. At any given time there were usually two or three different groups, interested in different transactions, assembled in the tiny room. Sharmaji conversed with all of them at the same time, often switching from one addressee to another in the middle of a single sentence. Everyone present joined in the discussion of matters pertaining to others. Sharmaji often punctuated his statements by turning to the others and rhetorically asking, "Have I said anything wrong?" or, "Is what I said true or not?" Most of the transactions conducted in this 'office' were relatively straightforward [...] [but] these things 'cost money'" (Gupta 1995:379).

Sharmanji's way of executing his duties show little resemblance to Western experiences in at least three ways. Firstly, his office was located in the same building as his home. Secondly, when performing his duties he constantly discussed the matters with others present. Thirdly, money was demanded in order for Sharmaji to execute his duties. However, when villagers complained about the corruption of state officials they were not mainly complaining about how they kept office, or having to pay bribes, but about lack of performative competence required in order to be successful in their dealings with state officials.[31] Gupta concludes that, *"the discourse of corruption varies a great deal from one country to another, dependent as it is on particular historical trajectories and the specific grammars of public culture"* (op. cit.: 392). In other words, social boundaries marking acceptable behaviour is not the same in all contexts, but rather culturally specific and socially produced.

Arild Engelsen Ruud (1998) argues that – seen from the actor's point of view – there is a difference between bribery and other forms of corruption. He says that in the case of Bengal the villagers have a special term for 'bribe' while other forms of corruption

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[31] Ruud cites an Indian newspaper reporting that a group of peasants had sent a letter of complaint to the Prime Minister, "The letter did not complain about bribes having to be paid. Instead, it complained that the rates of the bribes for the various tasks varied from day to day, and even from person to person" (Ruud 1998:4). Supporting Gupta, Ruud says that, "The process of negotiation for getting a job done by a bureaucrat – including the negotiation for the size of the possible bribe – is a game, and it requires knowledge, wit and intelligence" (Ruud 1998:11).

are not covered in everyday vocabulary. Ruud writes, *"as such bribes appear to have a special significance, a special meaning, which is negative"* (op.cit.: 13). However, bribing may appear without being given a negative meaning, but outright bribery is described as only the last resort. First, problems are sought solved through the use of contacts.

"In order to secure a more steady income, Kalo applied for a position […] at a near-by hospital. There were thirty vacant positions and several hundred applicants […] Kalo had reasonably good qualifications, but so had many others […]. As one who was not exceptionally qualified, he knew that only informal sources of influence would help: bribes, contacts, or pressure from the top. Over the month or so that went by from the formal interviews to the declaration of the results, Kalo [made] frequent travels into town from his village home […] searching for information and contacts in connection with his employment application […]. He had initially two promising contacts, a friend of his from old, who was employed in the municipality and who allegedly knew personally one of those in charge of the selection process; and then Kalo's cousin whose neighbour was a highly placed hospital clerk. With his friend he went to the one in charge of the selection process, and with his cousin he visited the neighbour-clerk. The neighbour-clerk part of the affair was pretty open and straight-forward. As a good neighbour he would do his bit to help […]. He asked for money that he would need to pay off certain well-placed people. Kalo expected him to envision a reasonable cut for himself as well […]. [A] rather steep sum [was required][…] but the argument was that lots of people were willing to pay up […]. Kalo's cousin's in-laws turned out to be close personal friends of one of the commissioners in town […]. [The commissioner] explained that his own position was not one of great influence in the matter (which was to say that he was not particularly interested), and promised to write a letter to the right person recommending Kalo – which to all meant that would not apply his clout in this matter but that equally he would not jeopardise his relationship with his friends, whose in-laws brought this person […]. The last strategy […] was that he implored his brother-in-law, Nikhil, to come to his assistance. He [Nikhil] declined to do it, declined to help his sister's family, and jeopardised his relationship with her […] and they are not on speaking terms any more. Kalo's many other strategies also failed and he did not get the job"(Ruud 1998:14).

In the case of Kalo most of those who got involved tried to help him secure the job without expressing any resentments about how they where approached. Neither did Kalo complain about the sum of money that was asked for. Ruud writes that *"it is not easy to draw the distinguishing lines between paying a bribe and remunerating some*

distant contact in the bureaucracy for a job done in your favour" (op.cit.: 17). Ruud concludes that what is corruption and what is not is a matter of shade. While giving a bribe and using one's contact can give the same results evaluations of the two acts are rarely the same.

Drawing on ethnographic material about a set of Nepalese cultural practices known as '*natabad – crypabad*'[32], Alex Kondos (1987) attempts to chart the meaning 'favouritism' has for Nepalese in their everyday encounters with central administration. This is again compared to how the idea of favouritism is constructed by the Westernised intellectuals to mean corruption. He finds a conflict between the two opposing ideologies and argues that, what the academics tend to label as instances of corruption, those involved will view as obligations towards family and friends. This view is supported by 'rickshaw wallas' in Kathmandu in the following case story.

"Many a 'rickshaw walla' in Kathmandu explains why he does not operate with a motorised version of the vehicle known as 'tempo' by simply saying '*pahauch chaina*' (I have no source-force[33]). [D]uring the 1970s […] a Cabinet Minister launched a scheme which provided for long-term interest-free bank loans to 'rickshaw wallas' for the purchase of 'tempos', arguing that, among other things, this would help up-grade the occupation which had become popular among Kathmandu's educated youth because of lack of alternative employment opportunities. He claimed that the government's action would demonstrate in a very concrete way its own and the people's faith in education by illustrating that 'education holds the key to better occupational opportunities'. The scheme was short-lived because, as the press, and the radio bulletins put it, 'corruption' […] marked the occasion. Some Nepalis insist that this was not the reason but rather the scheme became so popular that the students from all over Nepal rushed to the city 'to cash in' on the scheme and hiring their acquisitions to existing 'rickshaw wallas'. It appears that those who managed 'to cash in' on the scheme were either relatives of the Minister or close friends of these relatives or staunch political supporters of the Minister" (Kondos 1987:17).

The 'rickshaw wallas' that did not manage to get the favourable bank loans expressed no complains about how these loans were gained. The only regret they expressed

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[32] Kondos writes that, "helping kin is known as '*natabad*' helping others as '*crypabad*'". *Natabad-crypabad* is translated to favouritism (Kondos 1987:18).

concerned their own lack of 'source-force'. Kondos concludes that because favouritism constitutes a legitimate way of going about things in a highly traditional Hindu culture these practices are not regarded as corruption by the participants.

A narrow definition on corruption makes it difficult to explain how behaviour, that transcends Weberian borders of what is deemed acceptable for holders of public office, are seen as legitimate and even laudable to those involved. In order to explore the legitimacy of various practices a broader understanding of the phenomenon is essential. This will have to include a contextualised assessment of what practices are the most important *seen from the actors' point of view*.

5.5 Sociocultural logics informing everyday practices

In many developing nations, holders of public office derive their administrative and professional legitimacy from training in modern European administration, but their social legitimacy may imply to act in conformity with different socio-cultural logics. Below, ethnographic examples of the different socio-cultural logics of gift-giving and solidarity networks will be presented to indicate just a fragment of acquired habits and commonplace practices informing everyday activities in selected places. Only by exploring how the actors themselves evaluate their actions can we hope to understand the legitimacy of various activities.

5.5.1 The logics of gift-giving

Discussions and analysis of gifts and exchange provided by Malinowski (1922), Mauss (1990 [1925]), and Sahlins (1972) have provided a theoretical frame of reference for contemporary ethnographers (see for example Bourdieu 1977; Ledeneva 1998; Parry 1986; Weiner, 1976, 1978, 1980; Yan 1996).

In China there is a set of practices called *guanxi*, which literally means "social relationships or social connection" (Yang 1989, 1994). In Mayfair M. Yang's rich and varied ethnographic material a variety of practices, generally falling under the rubric of guanxi, is described and analysed. In the practice of guanxi giving gifts activates

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[33] Kondos says that, "'source' refers to the contact and 'force' refers to your contact's power" (Kondos

obligations of mutual assistance on a wide scale between two parties who have established a basis of familiarity. However, the motives behind gift-giving and repaying varies depending on the relationship between the parties. Firstly, living up to obligations by giving, receiving, and repaying gifts are at the same time what 'feels' right and a way of avoiding 'loosing face'[34] in the eyes of others. Secondly, *one may feel obliged to help others with a certain sense of self-interest and material benefit in mind*" (Yang 1994:140). Gunaxi is a way of helping each other out in every day life by giving and reciprocating gifts, which the following case is an example of.

"Han Sulan, a woman in her early fifties with a peasant and working-class background, lives with her husband, daughter, and mother-in-law in a modest three-room cement cottage […] belonging to her husband's factory […]. Because of the proximity of the neighbours and the long time they have all lived there, these families have come to know each other well and feel comfortable calling on one another for help on a small scale […]. Sharing is the best policy, says Han, because invariably neighbours find out what you have acquired, and a loss of face for yourself […]. Her mother-in-law once made a cotton-padded winter jacket for a neighbour who could not sew very well. Six months later when the mother-in-law was going to visit her other son in the countryside, the neighbour bought her some cakes to give to her son's family […]. Han says that through these rounds of giving and helping, one maintains good relations with the neighbours and finds peace and security at home" (op. cit.: 81).

Yang refers to a variety of examples where gifts are given on a day-to-day basis and where the act of refusing to accept or reciprocate a gift invariably leads to a 'loss of face'. However, the obligation to accept and reciprocate a gift may cause dilemmas, as in the case of a worker who wanted to get a few unauthorised days off from work. First he presented a gift to the factory manager in private, but the latter declined. He then decided to offer the gift in yet another way. In the presence of other workers he presented the gift in a manner that the manager could not refuse to accept. After accepting the gift the manager had to honour the worker's request because so many people had seen him accept the gift. Otherwise, people would talk about him as the

1987:17).

[34] See Yang (1989:42) where she writes, *"the Chinese relational construction of personhood represented by the importance of face provides the mechanism for the art of guanxi to constrain the actions of a gift recipient"*.

manager that had accepted a gift without feeling any obligation to give something in return (op. cit.).

In China, gift-giving is not only seen as obligatory in certain contexts, but also as a legitimate solution when, for instance, trying to obtain and change job assignments, buy certain foods and consumer items, and obtain better education. Kin, friends, neighbours, and colleagues become a resource for obtaining goods and services. In an article Yang writes, *"in the Chinese cultural discourse there is […] often a fine line between the art of guanxi and bribery"* (Yang 1989:48). This argument is followed up in a monograph where she argues *"the art of guanxi cannot be reduced to a modern western notion of corruption because the personalistic qualities of obligation, indebtedness, and reciprocity are just as important as transactions in material benefit"* (Yang 1994:108). Yang argues that in cultural judgements of practices the importance of the length and quality of personal relationships is stressed. She finds that the Chinese distinguish between those who are 'inside' and 'outside' when commenting on exchanges:

"A woman graduate student studying in the United States expressed the culturally felt distinction between bribery/corruption and the art of guanxi perhaps most clearly. For her, bribery and corruption are pejorative, negative terms, whereas guanxixue[35] connotes "human sentiments" […], friendship, long-term personal relationships, and an image of people helping one another. So there is a good side of guanxixue which bribery does not have. For example, if you and an official do not have a prior personal relationship already, such as shared native homes, kin relationship, and so on, and he is seen to help you, then other people will surmise that there is bribery going on between you'" (op. cit.: 63).

Yang stresses the point that although Chinese cultural discourses contains diverse, ambivalent, and contradictory understandings of guanxi, most people consider the art of guanxi a necessary part of everyday life. However, to legitimately obtain goods and services through informal channels presupposes an established basis of familiarity between those involved.

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[35] Gunaxixue is a contemporary variation on gunaxi (Bell 2000).

5.5.2 The logics of solidarity network

Ever since Barnes introduced the concept of network to anthropology in 1954 anthropologists have employed this term to qualify multiple forms of belonging in different settings (see for example Barth 1978; Bott 1955, 1957, 1964; Epstein 1961; Mayer 1962; Mitchell 1966, 1975; and more recently Hannerz 1992).

The concept of network was found particularly useful in a Bangladeshi context were much effort is put into maintaining and creating bonds to a wide range of people (Sissener 1999). Bangladeshi men spend a lot of time meeting after dark sharing cigarettes, drinking tea and chewing betel together, always trying to expand their personal ties of friendship. The conversations they have may seem like meaningless chatter, but by engaging in these conversations they gain information about each other. On this arena, which usually is the local market place or the nearest country town, business deals are discussed, loans are given, introductions are made, favours are granted, information exchanged, etc.

A man I shall call Lucas, on his regular trip to the country town, one evening heard that he might not keep his current position. A few months back he had been promoted and was holding a position as a higher-level officer at the local office of an international NGO. A friend of him said that the head office in Dhaka had decided to transfer him to a position as a lower-level officer in Dhaka upon request from the local director. The next morning Lucas was called to a meeting with the local director who explained that, as he was not pleased with Lucas' work, he had requested to have him transferred to Dhaka. Lucas decided to get more information on why his boss suddenly was not pleased with his work. After working nearly twenty years in the same office he had finally been appointed to the second highest position in the local office. He could see no reason why his boss wanted him transferred.

Lucas had a friend who was on leave from his position as assisting director at the head office in Dhaka to do a Ph.D. at a university in England. This friend was back in Bangladesh to decide on fieldwork sites for his research. Lucas met with him one evening and offered to assist him the next morning visiting various villages in the area. This gave him the opportunity to talk with his friend about his job. After explaining the situation Lucas asked his friend to talk to the local director to find out why the director had decided to have him transferred. Next time they met the friend told Lucas what the director had said. Lucas then asked him to talk to the directors in Dhaka convincing them that there was no reason for his

transfer, but the friend said that since he was on leave he would have no influence on the matter. As a friend he wanted to help Lucas, but by getting too involved he was afraid of jeopardising his own opportunity of returning to his position as the assistant director after finishing his Ph.D. Therefore, he advised Lucas to go to Dhaka himself and talk to people there. He gave him a name of one of the officers to talk to in particular.

Before going to Dhaka, Lucas made a visit to another friend, the former director of the local office, asking for advice. This friend belonged to the same tribal community as Lucas and he was hoping for some help. The former director, as it turned out, had left the organisation due to a personal conflict between himself and the directors at the head office in Dhaka and could offer no assistance. Arriving in Dhaka Lucas stayed with a relative working for the same organisation, but as a lower-level officer he was unable to influence the decision of the officers in charge. After a few days in Dhaka spending hours every day meeting with different people Lucas realised that there was nothing he could do there about the transfer. Back home Lucas again tried to get his boss to change his mind and withdraw his request for transference. Lucas ended up leaving the organisation realising he could not turn things around because he did not have, or manage to establish, contact with the right people. None of those he tried came through for him and in the end he had no one else to turn to.

When Lucas realised he might not keep his job at the local office he met with friends working for different organisations in the area. This way he came to know about a vacant position relevant of his qualifications. One of his friends knew one of those in charge of hiring and recommended Lucas for the position. A few years back when this friend had applied for the position he was currently holding Lucas had recommended him to the board, which he was a member of, and the board decided to hire him.

Between family, friends, neighbours etc. in Bangladesh there exists an almost general obligation of mutual assistance. One cannot refuse a service, a favour, and a bit of string pulling or compliance without severe consequences (as observed in the case of Kalo approaching his brother-in-law). When Lucas heard about the transfer he said that moving to Dhaka was not possible because he did not know very many people there. Ethnographic evidence documents the importance of special purpose networks consisting of friends doing business together and lending money, without interest, from each other (cf. Sissener 1999). People spend years establishing and maintaining a sufficient network and they depend on kin, friends, and neighbours for their everyday survival. In this context, making use of solidarity network is a vital and

legitimate part of everyday practices. If objections to the use of solidarity network are voiced at all it is usually done in connection with one's own misfortune, i.e. in cases where people see themselves as victims of particularistic considerations giving preference to someone else.

In Russia there is a set of practices similar to those described above called *blat*, which is "*the use of personal networks and informal contacts to obtain goods and services in short supply and to find a way around formal procedures*" (Ledeneva 1998:1). Within blat, Alena V. Ledeneva distinguishes among forms in which favours were grounded in the actors' mutual utility, in which personal ties of friendship or kinship created a moral obligation to help out, and in which a boss meted out favours for the sake of his own self-image. Ledeneva's primary research consisted on fifty in-depth interviews. The following statement is made from one of her interview objects explaining about blat.

"My mother worked as head of a Soviet farm buttery. She could sell really good meat and at much cheaper prices, or other foodstuffs in short supply. For example, when there was a shortage of butter she could obtain some. Naturally, she had good connections, and worked hand in glove […] with shop assistants from the clothes store. My father worked in construction all his life, and construction materials were always in demand. When he retired and became a gas-supplier, he could offer a bigger gas cylinder in exchange for a small one. And city gasmen gave him more of the bigger cylinders because his wife would sell good meat to them. He also obtained fuel for his car by *blat*. He knew the tanker drivers and received an unlimited supply from them, normally for a bottle of vodka or 'moonshine'. He also paid, of course, but they did not offer this to everyone, only those whom they trusted. For him it was cheaper and free of queuing. Another example: a meat storekeeper in the village was a good acquaintance from long ago. Every year when she went on holiday she left him in charge. She trusted he was not going to cheat, whereas he was happy to help and to have this opportunity to buy meat for all his family. My father also helped my brother with dacha construction. You know how expensive it became. And he hardly spent any money. Contacts, old contacts. They allocated him cut wood for free or for a few kopecks. And he gave them fresh eggs or dung" (op. cit.: 134).

According to Ledeneva (1998) obtaining goods and services through blat is seen as a legitimate activity. Based on her informants' statements she draws a distinction

between blat and bribery; "*In contrast to bribery, blat is a matter of belonging to a circle. Blat favours are normally provided to svoim (people of the circle, one of us). In such long-term relations, all kinds of favours are possible*" (op. cit.: 40). In blat, as in guanxi, the personal relationship existing between those involved is stressed. One of her informants expressed this concern in the following manner:

"In blat, one's self-image is positive also because no money is involved. People often provide favours in anticipation of some return favours in order to create a certain image: 'no need to pay, it is a sign of friendship, no calculations between friends, I could be in the same situation myself, one day you'll prove useful'" (op. cit.: 41).

Giving bribes becomes only a last resort because "everything can be decided by *blat*". Ledeneva writes that while bribery is illegal according to a statute in the Criminal Code blat is not mentioned at all. However, the distinguishing line between a bribe and the use of blat is thin and often overlapping.

"Thus, some links in the chain are *blat* ones, some must be paid off. The cases where *blat* approaches or mediates bribery create juridical problems as well as everyday confusion. This is but one reason why struggle against bribery and corruption cannot be fully effective – only one link (bribe-giver-bribe-taker) in the chain is involved in the case while the greater part of it – to do with *blat* and personal networks – is not targeted" (op. cit.).

These are just a few examples of acquired habits and commonplace practices informing everyday activities. In many cases, practices of gift-giving between familiars and the use of solidarity network to obtain goods and services is evaluated differently from outright bribery between strangers. Even if a payment in cash is involved this becomes secondary to the importance placed on the nature of the relationship existing between those involved. Consequently, the line between blat or guanxi and bureaucratic corruption becomes blurred.

5.6   Concluding remarks

Corruption is an ambiguous phenomenon often causing diverse, ambivalent, and contradictory understandings among scholars, policymakers, and practitioners alike.

Given such ambiguousness, what is corruption and what is not can only be understood when seen as part of wider social and cultural contexts.

Social anthropologists have argued for a broader understanding of corruption. Finding the conventional definition on corruption too narrow and excessively concerned with the illegality of practices, they argue for a more "open" approach. Anthropology has an inventory of methodological tools and analytical approaches appropriate for capturing people's own assessments of courses of action. Using these methods and approaches may enable us to disclose what is corruption and what is not *seen from the actors' own point of view*.

Corruption is very much an issue in public debates and everyday conversations in many parts of the word. The intention by this review of anthropological approaches and studies of corruption is not to excuse illegal actions by providing an explanation by 'culture', but to show that the borderline for acceptable behaviour is not universal. Unless practices are seen as unacceptable to the practitioners, reforms may prove difficult to implement. Any 'anti-corruption' policy must face up to this.

6 Economic perspectives and quantitative analyses of the causes of corruption

In this chapter we will mainly discuss the econometric literature that explores the causes of corruption. This is a fairly new undertaking. Based on corruption indexes and cross-country data, the research has mainly focused on determining causes and consequences of corruption at a fairly general level. It has a rather macro-directed orientation. As discussed in chapter 3, the most frequently applied indexes are those developed by *Transparency International*, sometimes in combination with indicators of democracy, press freedom, etc. (*Freedom House*). Lambsdorff (1999a) provides a comprehensive review of this literature. Empirical research on the causes of corruption focuses on political institutions, government regulations, legal systems, GDP-levels, salaries of public employees, gender, religion and other cultural dimensions, poverty, as well as the role of colonialism.

Most of this econometric research assumes as a first approximation independent variables "causing" corruption without feedback from corruption itself. Moreover, there is little discussion of any interesting interaction patterns among the causal variables. Hence, we are allowed to discuss the impact of these variables, one at the time.

It is often difficult to assess whether corruption causes other variables or is itself the consequence of certain characteristics (Lambsdorff 1999a). Empirical research based on various corruption indexes reports correlation between certain forms of government regulations, poor public institutions, poverty and inequality. But conclusions with respect to causality are blurred. A major obstacle for cross-national comparative empirical research is the difficulty of measuring levels of relative corruption in different countries. However, in recent years economists and political scientists have started to analyse the indexes of perceived corruption prepared by *Transparency International* and various business risk analysts and polling organisations. A number of econometric studies using these indexes as explanatory variables examine historical, cultural, political and economic determinants of a variety of indicators of government quality, including corruption (e.g., La Porta et al., 1999; Paldam, 1999a; Treisman, 2000).

Cross-country ratings – based on the respondents' perceptions – are by definition subjective (see chapter 3). However, the patterns they reveal are interesting due to:

- The various cross-national ratings from different sources tend to be highly correlated with each other and highly correlated across time.
- Indexes of relative corruption based on surveys of international businesspeople turn out to be highly correlated with at least one cross-national poll of the inhabitants of those countries.
- Empirical work confirms that subjective evaluations of corruption do themselves appear to influence investment decisions, growth and the political behaviour of citizens (Mauro, 1995).
- The most widely used index in regression analysis, i.e., Transparency International's 'Corruption perception Index', correlates positively with the size of the unofficial economy as estimated by Johnson et al. (1998)

In terms of analytical approach and methodology, Lancaster and Montinola (1997) suggest that comparative research on corruption should include three related tasks:

(1) The provision of causal explanation of co-variation among cases and correlation between corruption and other variables.

(2) The development of theoretical models that incorporate differences in context in order to illuminate causal relations.

(3) Empirical verification of theoretically derived models or regressions to estimate numerical values for coefficients in theoretical models.

In step one, empirical surveys or case studies may be necessary. Such studies may contribute to the understanding of certain aspects of corruption and, thus, lay the foundation for new hypotheses. Case studies alone, however, are not sufficient to provide general knowledge. Lack of objective data reduces the value of empirical verifications in step three. Consequently, step one and two in the suggested approach become more important. However, given the existing corruption indexes and possible improvements of these, empirical verification (step three) can support theoretical models and improve our understanding of corruption.

The suggested research procedure is exemplified by Martin Paldam's (1999a) analysis of 'The cross-country pattern of corruption': As a *first* step, Paldam presents the major idea behind his analysis, that the cross-country pattern in TI's corruption perception index (CPI) must be explained by a combination of cultural and economic variables. He suggests seven variables or hypotheses based on economic and cultural theory. The *second* step consists of the development of a model. Paldam constructs a simple one-equation function that can be separated into an economic and cultural sub-model. In the *third* step, regression analysis is initially conducted separately for the two sub-models. The corruption variable is presented by the CPI. Subsequently, the entire model is explored in a multiple regression analysis.

Interestingly, the conclusions differ between the sub-model regressions and the full-model regressions. Paldam finds dynamic changes in the corruption level within individual countries. He explains these changes by a seesaw-effect, where the level of corruption in a country moves towards either a high or a low equilibrium depending

on the initial situation. This seesaw-effect is consistent with the theoretical models of multiple corruption-equilibria, for instance, the one developed in Andvig and Moene (1990).

Treisman (2000) follows the research approach outlined above. This article is probably the most comprehensive quantitative analysis available on the causes of corruption. His point of departure is: Why is corruption perceived to be more widespread in some countries than others? This question can also be rephrased as: Why do officials (i.e., civil servants and politicians) in some countries misuse public office for private gain more frequently and for larger payoffs than officials in others? Economists and political scientists have suggested a variety of characteristics of countries' economic, political, cultural and social systems that may affect the expected costs and benefits of corruption for individual officials. Thus, by assuming rational behaviour, corruption can be modelled as a gamble where the public official is weighing the expected benefits from a successful act of corruption against the expected costs (including social, psychological and financial costs).

6.1   Corruption and levels of economic development

Misuse of public office is more likely to be exposed in more economically developed countries. Economic development increases the spread of education, literacy and depersonalised ('arm's-length') relationships (Treisman, 2000; Tanzi, 2000a). The 'arm's-length' principle requires that personal relationships shall play no role in economic decisions involving more than one party. Equality of treatment for all agents is essential for a well-functioning market economy. Rich countries are relatively spoken efficient countries, where transactions have to be fast and transparent. Corruption is a break of the 'arm's length' principle, and may make transactions inefficient, slow and sometimes unpredictable (Schleifer and Vishny, 1993; Myrdal, 1968a).[36] This insight can be expressed as follows (Paldam, 1999a): Seen from the households, 'honesty' is a good with a high income elasticity, i.e., the demand for 'honesty' increases with the income levels. Seen from the firms, 'honesty'

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[36] In the 'classical' corruption literature some scholars argue that corruption can have beneficial effects in developing countries suffering from oppressive state intervention (e.g., Leff, 1964). Thus, by allowing entrepreneurs to side-step restrictive rules, corruption can induce faster growth and higher efficiency. We will return to this discussion in chapter 7.1.

is a time saving device that becomes more necessary as countries grow rich. Thus, honesty is hypothesised as a production factor.

An additional reason to expect that corruption might decrease with economic development is related to social stigma. Some scholars argue that the social stigma facing corrupt officials if exposed, changes with economic development. Ekpo (1979), for instance, suggests that in traditional societies, where the lines between public and private are less clearly drawn and where gift-giving is not clearly distinguished from bribery, the social stigma may be lower.[37] Thus, it is argued, the attempt to apply traditional norms to a complex, modern economy is a recipe for corruption (see chapter 5.1).

From this line of partly theoretical arguments and intuition, political scientists and economists have derived hypotheses on the linkages between corruption and economic development. In cross-country regression analyses, Paldam (1999a) and Treisman (2000) find that by far the most important determinant of corruption is economic development, measured by real GDP per capita. Causation runs from economic development to lower corruption, and from corruption to lower economic development (measured by GDP per capita).

6.2   Political rights and democracy

The linkages between corruption and democracy are not obvious (see chapter 4.3). Is the spread of democracy and multi-partyism more of help or hindrance to corruption? For instance, competitive politics may escalate the demand for campaign funds, and thus be a breeding ground for questionable political influence (Goldsmith, 1999). Office-seekers may become tempted to sell their politcal influence (their votes) to the biggest campaign donors. However, several factors associated with democratisation may push the other way. In theory we will expect that the risk of revealing corrupt officials is higher in more democratic, open societies (e.g., Diamond and Plattner,

1993). Greater civic engagement may lead to closer monitoring an exposure of civil servants and politicians. In democratic systems through free elections people may vote corrupt politicians out of office, and competitors for office have an incentive to discover and report the incumbent's misuses of office. Furthermore, freedom of the press and of association engenders journalists and public interest groups to expose abuses.

Is corruption lower in democratic countries and those with a free press and strong civil associations? In recent years a number of empirical studies have explored the possible correlation between corruption and democracy (e.g., Harris-White and White, 1996; Paldam, 1999a; Goldsmith, 1999; Treisman, 2000). For instance, Paldam (1999a) finds that democracy seems to decrease corruption, but both variables interact strongly with the level of transition. Thus, he suggests, the independent effect democracy on the level of corruption is dubious.

In a comprehensive cross-country study, using *Transparency International's* corruption perception index as the main dependent variable in the regressions, Treisman (2000) finds that the current degree of democracy in a country makes almost no difference to how corrupt it is perceived to be. What matters, according to Treisman, is whether or not a country has been democratic for decades (p. 439). The regression results suggest a painfully slow process by which democracy undermines the foundations for corruption. Those countries with at least 40 years of consecutive democracy behind them benefited from a significant, although small corruption dividend.

6.3 *Federalism and decentralisation*

The redistribution of power between centre and periphery is another possible determinant of corruption. Some scholars argue that concentrated power is an aggravating factor in corruption. Proudhon (1863:48), argues about the centralised

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[37] Huntington (1968), however, argues that corruption is not a characteristic of underdeveloped societies but is a consequence of their rapid modernisation, which introduces normative confusion at a time when new economic elites are seeking influence in the political sphere. Huntington's arguments might be relevant to understanding the seemingly 'normative' confusion among (some) Norwegian top

state that *"instead of serving its citizens and communities, expropriates and crushes them. Soon corruption, embezzlement, and laxness enter the system ... [which] collapses into autocracy and immobility."* Thus, it is argued, bringing government to the door of the people through decentralisation could mitigate these problems (Wunsch and Olowu, 1990; Enemuo, 2000; Rondinelli *et al.*, 1989; Oates, 1972). Since everyone tends to know everyone else's business in decentralised settings, it is claimed, it is harder to conduct under-the-table deals (Goldsmith, 1999). Due to social pressure, local officials may thus be less prone to cheat or abuse people they know and live near.

According to Klitgaard (1988), corruption thrives when agents have monopoly power over clients (see chapter 8.1). Weingast (1995) argues that a federal state structure contributes to more honest and efficient government by providing for competition between subjurisdictions. According to Breton (1996), competition between levels of government will lead to less corruption related to the provision of public services for which officials can demand kickbacks.[38] In an influential theoretical paper, Schleifer and Visny (1993) suggest that states with a very centralised institutional structure and those with a very decentralised one may suffer less from the damaging effects of corruption than states with an intermediate level of institutional centralisation.

By contrast, some researchers argue that *"decentralised political systems are more corruptible, because the potential corrupter needs to influence only a segment of the government, and because in a fragmented system there are fewer centralised forces and agencies to enforce honesty"* (Banfield, 1979:98). According to Wilson (1989a), one cause of the corruption in the US system is *"the need to exchange favors to overcome decentralized authority"*. Manor (1999:101) argues that decentralisation *"is always attended by an increase in the number of persons who are involved in corrupt acts",* although this need not imply that the overall amount of money diverted by corrupt means increases. Some economists have also suggested that corruption may be greater at the local level. Prud'homme (1995:211), for instance, argues that there are probably more opportunities for corruption at the local level: Firstly, local

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business executives today who accept generous "tributes" from groups of shareholders fighting for control over the companies.

officials usually have more discretionary powers than national decision-makers. Secondly, local bureaucrats and politicians are likely to be more subject to pressing demands from local interest groups in matters such as taxation. Tanzi (2000b) supports these views.

Empirical studies of the linkages between corruption and decentralisation in developing countries are relatively few. In a case study from Tanzania, Fjeldstad and Semboja (2000) find that the fiscal administrations in many local authorities are highly corrupt, partly due to the extreme degree of discretionary fiscal powers of local officials, and lack of poor (or non-existent) monitoring from above. In a cross-country regression analysis based on corruption perception indexes, Goldsmith (1999) suggests that federal or decentralised systems are not favourable settings because they make it easier to hide corrupt practices (or intimidate whistleblowers).

These results are supported by Treisman (2000) who finds that federal states are more corrupt than unitary ones. He attributes this to the collective action problem for semi-autonomous central and sub-national officials in deciding how much to extract in bribes from businesses that both levels have the power to regulate (p. 440): *"Restraints by one [state] level merely increases the pickings of the other"*. According to Treisman (p. 441), the likely result is sub-optimally high demands for bribes that end up driving many private actors out of the market. In other words, competition between autonomous levels of government to extract bribes leads to 'overgrazing' of the commons. In contrast, in unitary states more effective hierarchies of control enable central officials to limit the extraction of sub-national officials to more 'reasonable' levels. If these interpretations are correct, caution must be raised in decentralising political power in poor countries are susceptible to corruption. It is, however, safe to predict that the question of whether decentralising public bureaucracies will cause decreased corruption levels or not, will remain open. Theoretical studies that discuss corruption in the context of political decentralisation are Bardhan and Mookherjee (1999 and 2000) specifying a large number of conditions when it will limit and when it will further corruption.

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[38] An econometric study that supports the claim that decentralisation of public expenditures reduces the

6.4 Public sector salaries and recruitment policies

Rijckeghem and Weder (1997) explore to what extent the level of public sector salaries is linked to the level of corruption. Their basic argument is that low salaries force public officials to supplement their incomes by taking bribes, while high salaries imply higher alternative costs if detected for fraudulent behaviour. In a sample of 28 countries they find a significant negative influence of public sector salaries relative to wages in the manufacturing sector on the level of corruption: *If public sector wages were doubled, the corruption index of a country will be improved by the order of 2 points in the corruption index (CPI) of Transparency International.* However, there may be a problem of causality in their analysis since corrupt (and poor) countries tend to have poor budgetary performance and, thus, may keep civil service wages low as a consequence.

Treisman (2000) also investigates the impact on corruption of the average government wage as a multiplier of per capita GDP. The results of this study are ambiguous and mostly insignificant. Rauch and Evans (2000) do not find robust evidence for any impact of public salary levels and corruption. Other aspects of public administration appear more important: Security of employment is significant, but in particular application of employment and advancement along meritocratic principles have a strong negative impact on corruption levels.

6.5 International openness and trade

In a recent study, Wei (2000a) tests the claim that low trade volumes are one of the roots to corruption, rather than one of its consequences.[39] Wei separates a country's openness, defined as the sum of its annual export and import flows divided by GDP, into two parts. The first part is called "natural openness", defined as the fraction of openness that can be explained by largely unchangeable factors such as geography, languages and population size. The remainder is called "residual" openness, which potentially includes trade policies. In empirical tests he shows that almost 60 percent of country-to-country variation in openness can be explained by "natural" factors, of which English language is among the most important.

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level of perceived corruption is Fishman and Gatti (2000).

[39] Chapter 7.6 presents research that explores the possible impacts of corruption on trade.

Wei's hypothesis is that countries that have a natural propensity to trade with the rest of the world have more to gain from curbing corruption than those countries that are relatively isolated. Assuming that corruption and bad governance drive out international trade and investment more than domestic trade and investment, a 'naturally' more open economy is expected to devote more resources to building good institutions and would therefore display lower corruption in equilibrium. 'Natural' openness, thus, should imply lower level of corruption. Wei tests his hypothesis by using both the *Business International's* index for the early 1980s and *Transparency International's* Corruption Perception Index for 1998 (see chapter 3.2). In both cases, he finds that 'naturally' more open economies do exhibit less corruption even after taking into account their levels of development. Residual openness - which potentially includes trade policies - is found not to be important once natural openness' is accounted for. Moreover, naturally more open economies also tend to pay civil servant better salaries relative to their private sector alternatives, indicative of the marginal benefit of good governance in a society's revealed preference.

Broadman and Recanatini (2000) include the effects of trade openness in their study of the effects of market institutions on the degree of graft in a sample of transition countries. Again the effects of what is denoted 'residual' openness are surprisingly weak.

It is difficult to draw any clear policy implications of Wei's analysis. Given that residual openness - on which government policies might exercise some control - is only weakly related to the level of corruption, the future for landlocked countries, such as Laos and Slovakia, may seem gloomy. However, Wei argues that the factors that determine natural openness are much more numerous than those he considers explicitly in the regressions. Thus, he predicts that the lowering of other fundamental barriers to trade through global liberalisation and technological improvement will lead to lower corruption. This argument does not rely directly on econometric evidence, however, but on several econometric studies of the composition of capital import and levels of corruption:

Countries with high corruption levels have lower shares of foreign direct investment (FDI) in their foreign (gross) debt stock, and low FDI levels altogether (Wei, 2000b). High FDI/GDP-ratios are necessary for technical progress and long-term survival of the regime. High FDI/debt stock reduces the macroeconomic instability also in the short run in an open economy. Hence, a more open global economy drives the individual country to contain its corruption. The more exposed the regime is, the stronger are these forces.

6.6 Critical assessment of regression analysis based on subjective indexes

Econometric studies obviously provide useful empirical results. However, the regression results ought to be interpreted with some care, and should not be considered a substitute for historical analysis (Khan and Jomo K.S., 2000). A basic assumption in the regression approach is that there is an underlying invariant relationship between the degree of corruption and economic performance (ibid:9). Corruption across countries is measured in terms of the subjective responses of international businesspeople and local residents. Critics of this approach argues that these subjective estimates raise problems of objectivity and comparability which are very serious (Khan, 1999). A number of concerns have been raised:

- Firstly, the regression approach does not distinguish between corruption per transaction and aggregate corruption.
- Secondly, no distinction is made between economic and political corruption.
- Furthermore, businesspeople may subjectively assess corruption to be less serious if the system works and they are making (large) profits.

Another concern, raised by Khan and Jomo K.S. (2000:9-10), is that the econometric analysis compare countries to see if more corrupt countries *on average* are doing better or worse. For instance, in general the regression studies find that more corrupt countries perform less well. A large group of developing countries have not done too well in economic terms over the last three decades. These countries are also very corrupt, and corruption seems to have had damaging effects on growth. However, a smaller group of developing countries, in Asia in particular, have experienced very

high growth rates despite extensive corruption. These countries are few in number simply because few countries have been successful developers. A third group consists of developed countries where corruption is low and economic growth moderate. Thus, in a cross-section study, the second group of corrupt and fairly well performing countries *"may be swamped out as a set of outliers because of their small numbers"*. Thus, the analysis of economic and political determinants of corruption, as well as regressions on the effects of corruption, may effectively be based on a comparison of the first and third group of countries.

Khan's critique above is to some extent consistent with critique raised by others, though based on a different set of premises. As discussed in chapter 3.2.4, World Bank researchers (Kaufmann et al. 1999a) have thrown considerable doubt on the significance of *Transparency International's* ranking list of countries. For instance, if a 90 % confidence interval is placed around the conditional mean level of corruption for a typical country (which will fix its ranking number), that confidence interval will be so wide that the conditional mean of a large number of other countries will fall under it. This means that for most countries (those with intermediate levels of corruption) any ranking based on the conditional means is statistically insignificant. Only for the most and the least corrupt would the ranking of the countries (and then only as "high" or "low" corrupt) be statistically significant.

6.7 Concluding remarks

In this chapter we have discussed in detail possible causes of corruption, in terms of exogenous variables such as the level of economic development, political rights and democracy, federalism and decentralisation, public sector salaries and openness to international trade. This is done mainly to reflect the current state of the empirical studies on corruption that have so far, with few exceptions, been restrained to studies of what explains corruption. This discussion of the causes of corruption is made partly for pedagogical purposes, but partly also in order to allow for the study of the consequences (or effects) of corruption that follows in chapter 7, which also have pedagogical advantages, particularly for preparing the policy discussion in chapter 9.

This way of organising these three chapters is, of course, too simplistic for societies where corruption is systemic. Corruption, and the effects of corruption, will often feed back into the various phenomena that we have labelled "causes". In other words, the "causes" and "effects" of corruption are closely interrelated and can hardly be separated. Thus, Acemoglu's and Verdier's (1998) modelling of corruption (chapter 2.6), where extensive corruption is understood in terms of general equilibrium phenomena, is most likely indicative of the future direction of econometric studies of corruption.

7 Economic perspectives and quantitative analysis of the consequences of corruption

Thinking of corruption as being caused by some factors otherwise independent of it, "simplifies" the empirical understanding and explanations of the phenomenon. Similarly, the discussion of welfare effects of corruption is simplified if we think of it as something having independent impacts on other social occurrences (or variables).

7.1 Costs and benefits of corruption

An important line of thinking in the corruption literature argues that the economic benefits of corruption outweigh the costs (e.g., Leff, 1964; Nye, 1967; Huntington, 1968). Rooted in Merton's (1968) discussion of the latent functions of the political machinery, this functional theory of corruption argues that the buying and selling of political favours have (certain) political and economic advantages. One point often made is that bribery "grease the wheels" by cutting red tape, and thus is improving efficiency. According to Samuel Huntington (1968:386), *[i]n terms of economic growth, the only thing worse than a society with a rigid, over-centralized dishonest bureaucracy, is one with a rigid, over-centralized, honest bureaucracy*. On the political side, it is argued that corrupt practices are a means of integrating people in the political system. The claim that corruption is politically integrative is, however, questioned by Johnston (1996, 1997) who argues that corruption also has disintegrative feature.[40]

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[40] Theobald (1990:116-132) provides a good overview of the functional and dysfunctional aspects of corruption in developing countries. See also Alam (1989) and Nichols (1997) for literature reviews.

The arguments that corruption improves efficiency are based on the assumption that the economic costs of extensive public regulations may be reduced or avoided through bribery. Using data from three worldwide firm-level surveys, Kaufmann and Wei (1999) examine the relationship between bribe payment, management time wasted with bureaucrats, and cost of capital. Contrary to the efficient 'grease' theory, they find that firms that pay more bribes are also likely to spend more, not less, management time with bureaucrats negotiating regulations, and face higher, not lower, cost of capital.

It is easy to find anecdotes as well as theoretical arguments that support both the functional and dysfunctional views of corruption. Positive and negative effects of corruption are both plausible, and without a systematic review of evidence there is not much basis for deciding which side gets the better of the argument (Goldsmith, 1999).

7.2 Corruption and public sector regulations

Is corruption caused by extensive regulations, or are the regulations caused by corruption? Some scholars argue that extensive public sector regulations are the result of a deliberate strategy by civil servants to increase their clients' willingness to pay bribes (Myrdal, 1968b; Rose-Ackerman, 1978; Tanzi, 1998). Assuming that bureaucrats are driven by rational, self-serving motives, the logical presumption is that they will seek even more ways to create bribe-producing delays. This line of reasoning may also contribute to explain observed resistance from bureaucrats for public sector reforms. For instance, Myrdal (1968b), citing the 1964 *Committee on the Prevention of Corruption* appointed by the Government of India, argues that corrupt officials, instead of speeding up, actually caused administrative delays to attract bribes. According to Winters (1996:166), the strongest resistance to tax reforms in Indonesia came from the tax officials themselves, since they had the most to lose from the depersonalisation and simplification of the tax system. Flatters and Macleod (1995:409), also referring to Indonesia, assert that tax collectors actively opposed simplifications in property tax administration, income tax laws and tariff structures.

In other cases, many regulations may be introduced in genuine efforts to avoid corruption, in which they may be at least partly successful. Nevertheless, an observed covariation between corruption and the extensiveness of regulations may be observed, but in this case the main causal link is from corruption to regulation, not from regulation to corruption.

Lui's (1985) theoretical equilibrium queuing model is meant to question Myrdal's hypothesis that corrupt officials cause administrative delays to attract bribes. In Lui's model it is assumed that both sides in the corrupt transaction are honest in the sense that they stick to a deal, that no new bribe offers are made by the waiting clients after the new entrants have arrived, and that there is no moral hazard about the reliability of the sale by the server of a priority in the queue. However, as Andvig (1991) points out, due to imperfect information and strategic considerations queues as allocation mechanisms are more complex and many-sided than has been recognised in the literature. Furthermore, different ways of organising the queue may give rise to different outcomes on the average waiting time. Thus, the results in Lui's model may not be robust to such considerations.

7.3   Corruption and the rate of investment

An influential empirical study of the impacts of corruption is Mauro (1995). Mauro aims to 'identify the channels through which corruption and other institutional factors affect economic growth, and to quantify the magnitude of these effects'. He uses various indexes provided by *Business International*.[41] For the period 1980-83, BI published indices on 56 'risk factors' for a sample of 68 countries. The respondents (i.e., BI correspondents and country analysts) were asked to rate the risk factors on a scale from 1 to 10. One of the 56 factors is corruption, defined as: "*The degree to which business transactions involve corruption or questionable payment*". According to Mauro, a more precise indicator of corruption is the simple average of three of the indicators, i.e., the judiciary system, bureaucratic red tape and corruption. These three indicators correlated well, and by aggregating them the risk of measurement errors

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[41] Business International is now incorporated into the Economist Intelligence Unit (EIU), see chapter 3.2.

were expected to be reduced. Mauro calls the composite index *"bureaucratic efficiency"*.

Mauro (1995) finds that corruption has a negative impact on the ratio of investments to GDP, its investment rate. For example, if Bangladesh improved the integrity of its bureaucracy to the level of that in Uruguay, its investment rate would increase by almost five percent. [42]

An empirical study by Keefer and Knack (1995) supports Mauro's findings, using a different corruption indicator with observations from *Political Risk Services* (PRS).[43] The authors include "corruption in government" among other explanatory variables into one single index of "institutional quality" to explain economic performance. Thus, the corruption variable is not tested in isolation. Other empirical studies support Mauro's results: Brunetti, Kisunko and Weder (1997), using a corruption index developed by the World Bank and the University of Basel (WB/UB-index) for a sample of 41 countries, find that corruption significantly reduces the ratio of investment to GDP. This is also the conclusion of Brunetti and Weder (1998), in a larger sample of 60 countries and by making use of corruption data by PRS. Mauro (1997a) uses the same source and shows that corruption reduces the ratio of investments to GDP in a sample of 94 countries. Elliot (1997) using *Transparency International's* 1996 Corruption Perception Index, presents similar results.

Wedeman (1996) questions the generality of Mauro's findings. According to Wedeman, the correlation between corruption and investment might be strong for countries with little corruption, but it looses power for countries with higher levels of corruption. [44] Thus, the assumption that corruption systematically lowers growth through the investment rate is not entirely justified.

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[42] In statistical terms, a one-standard-deviation improvement in the corruption index is estimated to be associated with an increase in the investment rate by about 3 percent of GDP.

[43] PRS is a consultancy located in New York. At present, 135 countries are ranked according to their estimated levels of politcal, economical and financial risk. PRS, like *Business International*, collects its data from a network of country analysts.

[44] Thus, in statistical terms, there appears to be problems of heteroskedasticity in Mauro's regression analysis (see Lambsdorff, 1999a).

Wedeman's major critique is that Mauro treats corruption as an "undifferentiated phenomenon", and argues that the impacts of corruption depends not only on its amount, but also on its form: In cases where government elites are engaged in looting, corruption is likely to undermine growth and development (e.g., Zaire under the late president Mobutu). Furthermore, in cases where governmental power is used to distort the economy in order to create rents that the elites then can siphon off, it is likely that corruption results in structural inefficiencies and irrationalities that will undermine development in the long run (e.g., the Philippines under the late president Marcos and Indonesia under Suharto). However, in countries where corruption is linked to a political strategy that seeks to stimulate growth, the contradiction between high growth rates and corruption need not be antagonistic (e.g., South Korea in the period 1963-93). Thus, the impact of corruption on investments and growth is likely to be a joint function of incidence and structure, not incidence alone as argued by Mauro.

Wedeman's ideas have later been elaborated and investigated in several studies in which not only the level of corruption but also its "predictability" is determined. For instance, Campos et al. (1999) are motivated by the seemingly paradox that despite high levels of corruption, East Asian countries have grown faster than most other developing countries. Why have these countries managed to attract significantly higher levels of investment than other developing countries?

Using World Bank data in a cross-section of 69 countries, the authors provide empirical evidence that different corruption regimes have different effects on investment. In particular, regimes in which corruption is more "predictable" (i.e., whether a corrupt service is actually delivered as agreed), *ceteris paribus,* have a smaller negative impact on investment than those in which it is less predicable However, the regressions also show that the level of corruption matters. Given the same degree of predictability, lower levels of corruption result in higher levels of investment.

The authors categorise countries into three broad groups: (i) those with high levels of corruption and low predictability are the worst off in terms of attracting foreign investments; (ii) those with high levels of corruption but greater predictability are better off than those in group (i) in terms of attracting private investment; and (iii)

those with low levels of corruption and high predictability are the best off. The East Asian economies fall mainly in the second group.

Wei (1997a) explores the impact of corruption on foreign direct investment. His database includes bilateral capital flows between 14 source and 45 host countries in 1990 and 1991. Controlling for other factors such as GDP per capita, Wei shows that the impact of corruption in isolation on foreign direct investment (FDI) is no different in East Asia relative to other countries. His general conclusion is that corruption has a significant negative impact on FDI. For instance, he finds that an increase in the corruption level from that of Singapore to that of Mexico is equivalent to raising the tax rate by over twenty percentage points. These findings, thus, imply that in East Asia other factors swamp the negative effect that corruption has on FDI. However, Wei's analysis has one problem (Campos et al., 1999): The inflows and outflows of FDI are dominated by OECD countries. It is quite possible that the results would be different if the OECD countries were excluded from the sample as 'host' of FDI, or alternatively if the dependent variable used was private investment – both domestic and foreign.

In a following up study, Wei (1997b) constructs measures of unpredictability of corruption, and finds its effect on FDI to be economically and statistically significant. As those who pay bribes have no legal recourse, contracts though bribery cannot be enforced. This is why corruption, according to Wei, is more harmful than taxes.

7.4 Corruption and economic growth

There is a strong correlation between GDP per capita and a country's ranking on corruption indexes. However, no causality between GDP and corruption can be derived from this (Lambsdorff, 1999a). Is a country poor because of corruption, or is a country corrupt because of poverty? While Lambsdorff leaves the answer to this question quite open, Paldam (1999a) tends to emphasise the impact of overall poverty levels on corruption.

A number of studies have explored the possible influence of corruption on the growth of GDP. The correlation here is less robust than for corruption and GDP levels.

Brunetti, Kisunko and Weder (1997) found insignificant impacts. Paldam (1999a) finds the effect of corruption on economic growth to be small and fragile. Thus, he argues, honesty is a weak and dubious factor of production (see chapter 6.1).

In contrast, Mauro (1995) found a slightly significant impact in a bivariate regression, but this impact disappeared when the ratio of investment was included as an explanatory variable. However, both Mauro (1997a), using data on corruption provided by PRS, and Leite and Weidmann (1999) report a significant positive impact. According to Lambsdorff (1999a), the mixed evidence may be due to the fact that corruption primarily has impacts on the accumulation of capital, but does not clearly effect the productivity of capital. This may indicate why a direct link between corruption and growth is not clearly observed.

There are many channels through which higher corruption may reduce economic growth. For instance, the quality of investments plays an important role in the productivity of capital, and, consequently, on GDP. Tanzi and Davoodi (1997) examine the impacts of corruption on the quality of public investments. They use indexes of corruption from two sources: *Business International* (BI) and *Political Risk Services* (PRS). The cross-country data covered the period 1980-95. The authors find that higher corruption is associated with (i) higher public investment; (ii) lower government revenues; and (iii) lower quality of public infrastructure. However, Lambsdorff (1999a) sheds some doubt on the robustness of the findings. Based on regressions for a cross-section of countries using the Corruption Perception Index (CPI) of TI, he was not able to reproduce the significant results of Tanzi and Davoodi.

7.5 Corruption and public expenditures

Impacts of corruption on public expenditures are explored in a number of studies. Intuitively, we would expect that high level corruption will distort the entire decision-making process connected with public investment projects. By favouring large and capital intensive projects at the expense of smaller social infrastructure projects, those who allocate resources may have better opportunities to extract illegal incomes. Anecdotal evidence also supports this assumption. Blaine Hardin's (1993:208-13) description of the construction of the Turkwell Gorge Dam in Kenya is a telling tale.

However, empirical research does not provide clear support that corruption increases public investments. Mauro (1997a) suggests that corruption may increase public investments, but his regressions do not provide any significant evidence (Lambsdorff, 1999a). More convincing is Mauro's (1997) evidence that corruption lowers expenditures on education. Tanzi and Davoodi (1997), using cross-country data and regression analysis, also find that corruption significantly increases public investment as well as reducing its productivity.

7.6 Corruption and international trade

The possible impacts of corruption on trade have been explored in several studies.[45] Lambsdorff (1998 and 1999c) makes an extensive inquiry into the effects of corruption on the geographic composition of international trade. These studies provided major inputs to the development of the Bribe Payers Index (BPI) discussed in chapter 3.2.2. Lambsdorff (1998) examines bilateral trade data between 1992 and 1995 for the leading 18 exporting and 87 importing countries. While controlling for common languages, geographic distance, export composition and trade blocks, Lambsdorff concludes that Belgium, France, Italy, the Netherlands and South Korea have competitive advantages in trade with countries perceived to be corrupt. In contrast, Australia, Malaysia and Sweden have disadvantages. These differences are explained by differences in exporter's willingness to offer bribes. Thus, according to the author, exporting countries must share part of the responsibility for the level of bribery in international trade.

In the study of Wei (2000a) on natural openness and corruption he also reports the effects of corruption on imports. Wei finds that "natural" openness gives both low corruption levels and high import propensity, while the effects of corruption on the reported levels of international trade is surprisingly low. In part of his discussion corruption appears to be an intervening variable that in itself cause barriers to trade. Thus, corruption is both caused by low degree of openness - hence the discussion of Wei's paper about the causes of corruption in chapter 6.5 - and causing the observed trading propensity.

A similar two-way relationship between corruption and trade barriers is proposed in Gatti's (2000) study of the diversity of tariff rates across import-goods and observed corruption: Greater variation (i.e., complexity) of import duties increases the opportunities for customs officials to earn corrupt income by manipulating the classification of the imported goods. Thus, more corrupt bureaucracies will tend to develop greater diversity in tariffs. Gatti presents a (rather weak) empirical confirmation of a two-way relation in the sample of 35 countries for which data for both variables are available. Despite the theoretical welfare losses involved, the prevalence of corruption makes Gatti to arguing for uniform import duties in corrupt countries.

Again, combining the studies of the impact of international trade on corruption from chapter 6.5 and corruption's possible impact on trade, the empirical relationship between trade barriers and corruption appears surprisingly weak. This is surprising given the fact that much anecdotal evidence indicates that customs officers in highly corrupt countries receive a large share of aggregate bribes supporting the presumption that tariff barriers go together with corruption. How can we then explain the lack of empirical relationship, disregarding the possibilities of faulty data or ineffectual statistical techniques?

The simplest explanation may simply be that even if tariff rates are low, in most cases legal imports have to pass custom houses for inspection and clearance. Clearing the goods, however, is a cumbersome and time-consuming affair in many developing countries. Thus, even if tariffs may be low, by refusing or delaying clearance custom officers may receive a larger share of the import price compared to the situation where importers have to pay high tariffs. This may countervail the effect that higher tariffs means that custom officers have more to "offer" importers in the form of tariffs not paid.

Secondly, the transaction costs involved in collecting bribes (as for legal taxes) may be lower when controlling the border. Thus, when the sum of export and import constitutes a large share of GDP it may imply that it is easier for the bureaucracy to

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[45] See also chapter 6.5 which discusses low trade volume as a possible root to corruption.

skim a larger share of GDP. Again, an increase in tariffs means at the one hand that the degree of openness is reduced which makes a smaller share potentially available for grabbing. On the other hand a larger share of the resulting foreign trade may be collected in the form of bribes. These opposing effects may weaken any empirical association between openness and corruption.

Another, more "roundabout" explanation is that higher tariffs in a country with a weak customs administration, may imply more smuggling which may lead to less aggregate corruption. However, in this situation the bribes lost in the customs may partly be collected by, for instance, the police chasing smugglers. - This is obviously an area that requires further research.

7.7   Corruption and the ability of open economy management

Several studies have explored the possible relationship between a country's corruption level and its macroeconomic policy capabilities. For instance, Wei has argued in several papers that corruption is associated with controls of capital flows (e.g., Wei 2000b). This is also shown empirically in Bai and Wei (2000). However, somewhat surprising, rather than arguing against such controls Wei indicates they may be second best instruments in curbing this type of corruption (Bai and Wei, 2000; Wei, 2000c). Two reasons are pointed out:

 (1) The more corrupt the country is the less able it is to collect taxes. The marginal costs of tax collection increase steeply. Capital controls generate implicit taxes for the government, *inter alia* through reducing the returns on private investment. The level of corruption is a slowly moving variable in most cases, so it may be better to accept that capital controls should remain in order to ensure a sufficiently large public sector.

 (2) As shown in several papers of Wei, Foreign Direct Investments (FDI) constitute a lower share of capital imports in corrupt countries than in less corrupt ones. Since FDIs, in general, are moving relatively slowly and in a less herd-like manner, corrupt countries have a capital portfolio more exposed to volatility. In the short run it may, therefore, be more feasible to keep or increase the friction involved by

the capital controls, rather than to make a head-on attack on corruption in order to reduce the exposure to destabilising capital movements.

7.8 Corruption and the size of the underground economy

The size of the underground sector in different economies has been explored empirically in numerous studies during the last two decades. Different methods of exploration have been developed often leading to very different results. There are obvious two-ways links between corruption and underground economic activities. On the one hand it is clear that any regular illegal economic activity of some scale needs bureaucratic and political protection that only can be supplied illegally, most often through corruption. Thus, it may be argued that underground economic activities lead to corruption. This demand for illegality may often be derived from the costs involved in legal registration and establishment, and the behaviour of the bureaucracy in their legal capacity. Legality represents considerable fixed costs. De Soto (1989) describes this process for a number of enterprises in Lima, making it obvious that the relative size of the underground economy must be expected to be larger in poor countries. He also finds that illegal establishments have to pay a much larger fraction of their net income in bribes compared to legal ones.

Nevertheless, corruption also causes firms to go underground. In an extensive empirical study of the size of the underground in 69 countries, Friedman et al. (2000) claim that corruption, rather than tax rates, is the main determinant of the size of the underground economic activities. In most of these observations the share of the underground economy varied between 10 % and 70 % of the total economy. Furthermore, with the partial exception of the group of transition countries, the incidence of perceived corruption appears to increase with the share of the underground economy.

To briefly summarise this discussion, the positive empirical association between the underground's share of the economy is well-established, and is likely to be one of the major mechanisms through which corruption becomes deeply entrenched in the society.

7.9   Concluding remarks

This chapter has reviewed research on economic and political consequences of corruption. Initially, costs and benefits of corruption were discussed by linking the old debate from the 1960s whether corruption enhances efficiency in a bureaucracy by cutting red tape or whether corruption causes administrative delays, with more recent empirical research. It is easy to find theoretical arguments and anecdotes that support both the functional and dysfunctional views of corruption. While a systematic review of empirical evidence does not give any definite answer, it clearly tend to support the dysfunctional view in most situations.

Corruption, and the effects of corruption, will often feed back into the various phenomena that we have labelled "causes". In other words, the "causes" and "effects" of corruption are closely interrelated and can hardly be separated. This observation seems to be valid for the relationship between corruption and economic growth; corruption and international trade; corruption and public expenditures; corruption and the rate of investment; and corruption and the size of the underground economy. For instance, recent research questions the generality of the much-cited finding of Mauro (1995) that corruption has a negative impact on the ratio of investments to GDP. More recent studies find that the correlation between corruption and investment might be strong for countries with little corruption, but it looses power for countries with higher levels of corruption. Thus, the assumption that corruption systematically lowers growth through the investment rate is not entirely justified. It is found that it is not only the level of corruption that matters, but also the way corruption is "organised" in the specific contexts. In particular, "predictability" seems to matter, i.e., whether a corrupt service is actually delivered as agreed.

Regarding the impacts of corruption and public expenditures, empirical research does not provide clear support that corruption increases such expenditures. However, there are some indications that corruption may have an impact of the composition of public investments, for instance, by lowering expenditures on "soft" sectors such as primary education.

8 Microeconomic analysis of causes and cures of corruption

Inspired mainly by the CPI-index of Transparency International, the empirical studies of what we may call the macro-economic issues of corruption such as the level of (perceived) corruption and economic growth, the level of GDP and corruption, corruption and the legal system, etc. have almost exploded. The same has not happened with the microeconomics of corruption. Here one has to rely more on direct observations, always difficult to get. The situations studied are often quite different, demanding different types of models. Thus, there is less likely to be important positive spillover of results of research from one situation to another.

Given the multitude of situations analysed it is not possible to cover all the research here. The main criterion used in selecting research for this review is the inherent importance of the research field described, and the degree of recent scientific progress.

8.1 Micro-economic bureaucracy-models; principal-agent theory

Most public and private organisations are organised as a kind of hierarchy. The key relationship in a hierarchy is the one between a subordinate employee and his or her superior(s). Economic theory of organisations focuses on this relationship, discussed under the heading of incentive or principal-agent theory. This relationship is also important in the construction of many of the micro-economic explanations of corruption, as well as in designing institutional reforms to curb corruption.

Incentive theory provides a conceptual framework for analysing the role played by public officials in designing incentives and defining penalties, and in shaping the institutional environment in which corruption takes place (Bardhan 1997; Campbell 1995; Klitgaard 1997, 1988). Especially Klitgaard's (1988) principal-agent-client approach has been widely promoted and applied in different developing country contexts, in particular in Africa and Latin-America. This approach illuminates the potential of recruitment and promotion mechanisms, and different wage incentive

systems in improving the efficiency of public agencies (Besley and McLaren 1993; Rauch and Evans 2000; Mookherjee and Png 1995; Mookherjee 1997).

The basic intuition goes as follows: A public institution (for instance a ministry) must co-ordinate the activities of its constituent parts to be successful. Effective co-ordination is, however, problematic when the different activities are managed by individuals whose primary concern is personal gain, not the success of the institution. Incentive problems in the public sector are related to three matters (Campbell, 1995; Hirshleifer and Riley, 1992; Kreps, 1990).[46] The first has to do with conflicts of interest or divergent objectives between the superiors (management) and the executives. Divergent motivations open up the door to strategic behaviour where agents are pursuing their personal self-interests, and not the objectives of the institution.

The second matter has to do with the fact that the executives often possess relevant information which their superiors lack. Such informational asymmetries may be significant in many public institutions, such as the tax administration, customs, and immigration and harbour authorities. For example, tax collectors are often better informed about the revenue potential of a particular tax base than is the top management of the Treasury. The third is related to the difficulties of establishing incentive systems that foster the institution's goals. Imperfect information and divergent motivations between the actors involved lie at the core of understanding these problems.

As pointed out in the pedagogical work of Robert Klitgaard (1988), many corrupt transactions may fruitfully be analysed as the outcome of the interaction between three actors where one, the principal (P) is assumed honest. In the simplest case the agent (A), an inferior in the hierarchy, is bribed by a non-member, a client (C). For example, in tax administration, the tax collector (inter)acts as an agent (A) on behalf of the principal (P) with the taxpayer (C). Within this theoretical framework we assume that tax collectors (A) and taxpayers (C) are motivated by narrow self-

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[46] This approach builds on the economics of crime analytical framework developed by Becker (1968) and Becker and Stiegler (1974).

interest.[47] This implies that their decision to behave honestly or illicitly are based on calculations of potential personal gains and losses that may result from their behaviour.

Most definitions of corruption cover both transactions between A and C (e.g., bribery and extortion) and the direct abuse of A's relationship to P (e.g., internal fraud and embezzlement). If C abuses her relationship with P (e.g., through tax fraud and illegal capital transfers) this is not considered to be corruption since it does not include active or passive collusion of an agent of the state (Galtung, 1998). In this set-up there might be several layers of dishonest agents (Cadot, 1986), but in the end the approach demands an honest principal at the top.

As noted above, the core of the principal-agent-client problem are divergent objectives and asymmetric information between the actors involved. The principal's problem arises when, as is usually the case in the public sector, he has poor knowledge about the agent's type, either honest or dishonest, and poor information about the agent's (and the client's) activities, either productive or corrupt. For instance, the principal cannot tell how much of the outcomes of tax collection he observes are due to the agent's activities on his behalf. After all, the agent has incentives to mislead the principal into thinking he is working only on productive activities, never on corrupt ones. In general, the bureaucracy is not subject to competition and can set its own agenda, which (may) have nothing to do with the principal's (the government's) objective.

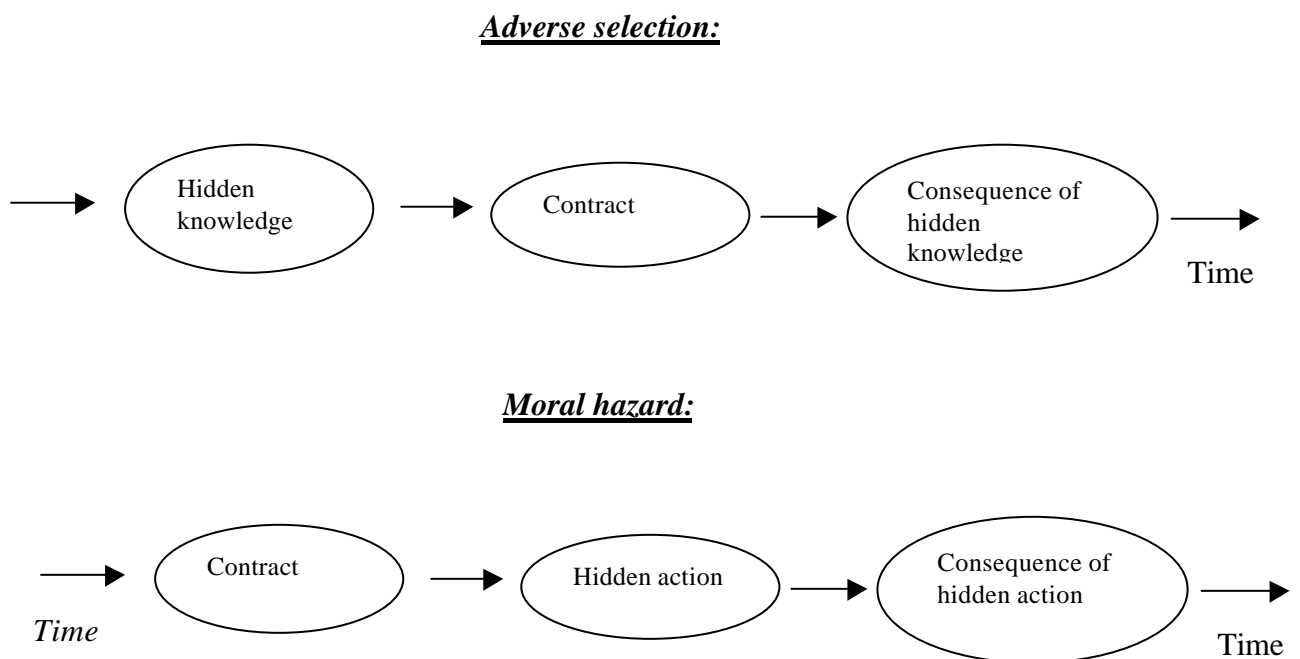Consequently, the principal faces two problems (see figure 8.1):

1. How to screen and detect opportunists before they are employed, i.e., how to solve the problem of adverse selection?
2. If opportunists are employed, how to design an incentive scheme that makes them choose to be honest, i.e., how to solve the problem of moral hazard?

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[47] In economics they are referred to as 'rational utility maximisers'.

The first question is about recruitment procedures, while the second question focuses on how potentially corrupt individuals (opportunists) make their decisions.

If the requirements regarding skills and qualifications to a job are low, and the monitoring of applicants is poor, opportunists may easily enter the system (i.e., *adverse selection*). The problem of *adverse selection* is not so central to the explanation of the causes of corruption as moral hazard, but may be very important in the propagation of corrupt acts. It has to do with the fact that the agent has *hidden knowledge* prior to contracting with the principal. The agent will, for instance, have more knowledge about his own competence and qualifications, including honesty, than will the principal who employs him.

Figure 8.1 Problems of asymmetric information

Adverse selection:

Hidden knowledge → Contract → Consequence of hidden knowledge → Time

Moral hazard:

Time → Contract → Hidden action → Consequence of hidden action → Time

The problem of *moral hazard* is more directly linked to the initial cause of corruption. It arises after contracting when the agent takes *actions hidden* or unobserved by the

principal. For instance, when the principal employs an agent to collect taxes the agent will evidently be in a better position to know about the opportunities for shirking. Since the agent's actions cannot be observed without costly monitoring, the agent may take bribes and/or embezzle funds, or he may put little effort into the job.

The principal has two options – a carrot and a stick – to solve this problem of moral hazard: The carrot is to provide incentives for honest behaviour. The stick is to increase the probability of being detected and punished. Intensifying monitoring and controls of the agents can increase the probability of being detected. Punishment may be in the form of dismissals, imprisonment and/or confiscation of incomes and wealth that the agent has acquired through corruption. Thus, the principal may influence the acts of the agents by changing the risk of behaving corruptly, and by increasing the personal costs through reduced incomes and wealth if detected. However, it may be expensive for the principal to tackle these problems.

To summarise, numerous variables are influencing the agent's decision to either behave honestly or corruptly. The principal may also try to influence some of these variables to reduce the problems of asymmetric information. Box 8.1 presents a list of some key factors (Rijckeghem and Weder, 1997:21). Most of these fit neatly into the theoretical framework presented above. In the following sections we discuss some of these variables.

8.1.1 Payment and recruitment policies

What impacts have wage incentives on the performance of civil servants? A common observation about the wages received by public sector employees in many developing countries is that they are so low as to invite corrupt behaviour (Chand and Moene, 1999; Mookherjee, 1997).

Many scholars, including, Palmier (1983); Gould and Amaro-Reyes (1983), and Klitgaard (1988) seem to argue that increasing civil service wages will reduce corruption. The implication here is that corrupt behaviour is induced by poor pay, and would therefore reduce or disappear if incomes were to rise. The basic idea is that a rise in, for example, the tax collector's salary is like an increase in his fine for bribery, since that is what he will lose if he is caught and fired. This is also part of the World Bank approach (see chapter 9.2), which is reflected in recent reforms of tax authorities (e.g., in Ghana, Tanzania and Uganda). Another example is the World Bank's support to developing Leakey's so-called "dream team" in Kenya. In this case a core of very competent officials are paid at least 10 times the regular salaries for

their kind of work, in order to prepare comprehensive reforms in the country's public sector, including an anti-corruption policy package.

Theoretical critique of wage incentives

In a theoretical paper written in the P-A tradition, Besley and McLaren (1993), [B&S (1993)], challenges the simplistic view that feasible pay rises will always solve fraud in public administration. In their article they focus on tax administration. B&S (1993) assume that the principal's (i.e., the state or the tax authorities) objective is to maximise tax revenues net of wage costs, monitoring costs and revenue fraud. Tax collectors (the agents) are divided into two categories - the honest and the dishonest. Honest tax collectors are predisposed to honesty. They put an infinite value on their integrity, and are unwilling to accept a bribe at any price. Dishonest collectors seek to maximise their private income and can be induced to behave honestly. Dishonest collectors collude with taxpayers (clients) to defraud tax revenues, and the penalty if detected is dismissal.

Ideally the government or tax authority (the principal) would like to hire only the predisposed honest collectors, but *ex ante* it cannot distinguish between them and the corruptible ones. Thus, the principal faces not only the moral hazard problem (hidden action), but also an adverse selection problem (hidden information). Let γ be the fraction of potential tax collectors who are corruptible in the pool from which tax administrators is recruited. This fraction, indicating the level of honesty among collectors, could be thought of as positively correlated with the degree of cynicism with the government, and negatively with a well-established ethic of loyalty and honesty within the civil service (see McLaren, 1996).

There is a probability q that an act of bribery will go undetected. However, if a collector is detected he is fired. The parameter q can be thought of as negatively correlated with the sophistication of accounting procedures and information management in the tax administration. Three different wage regimes are modelled. First, there is a *reservation wage* that is equal to the opportunity cost, or the wage the tax collector could earn in alternative employment. Second, is the *efficiency wage* which is strictly above the wage the tax collector could receive in his next-best

alternative occupation, and thus embodies a rent component that is supposed to deter corruption. The efficiency wage premium must be an increasing function of q. Third, there is the *capitulation wage* which is below the opportunity cost, since at least the potential corruptible tax collectors would be willing to work for less than their opportunity wage, knowing that they will be able to make additional income from bribery. Besley and McLaren (1993) analyse each of these wage regimes in terms of their implications for government net tax revenue.

In the model, the *reservation wage* regime makes sense where monitoring is effective (a low q), and dishonest tax collectors are dismissed when detected. Moral hazard problems are present under this wage regime because of the mixture of honest and dishonest collectors. A dishonest collector will always accept a bribe if he is paid the reservation wage, since it is assumed this is the wage he can earn anyway in alternative employment. However, a fraction ($1 - q$) of the time dishonest collectors are caught and replaced, with the evaded taxes recovered by the government. Over time, the dishonest fraction of tax collectors will therefore be weeded out, leading to increased tax revenues. If γ is small, the reservation wage is optimal (from a net revenue standpoint), since it would not be worth paying a premium to all tax collectors just to motivate honest behaviour in a tiny minority of them. Furthermore, it is not worth economising on the wage by paying less than the reservation wage if that will convert an almost entirely honest tax administration into an entirely dishonest one.

If tax collectors are paid the *efficiency wage*, they all refuse bribes, and all taxes owed are collected. However, this regime is only effective from a net revenue standpoint (i.e., the objective function of the principal) if monitoring is strong enough (a low q) and wage incentives high enough to make corruption a rare occurrence. Thus, if γ is large and q is small (effective monitoring), the premium required for the efficiency wage is small, and with a largely corruptible workforce (high γ) it is worth paying. In this case, efficiency wages are optimal. However, if both monitoring is weak and the workforce is highly corrupt (γ and q are both large), efficiency wages are too expensive to be attractive, i.e., the wage that deters dishonesty will be so high that wage costs could exceed tax collections.

If the government pays *capitulation wages*, only dishonest collectors will be attracted to the tax administration. In this case, the government is giving in to the problem of corruption altogether, since it will be accepting an entirely dishonest workforce that will be accepting bribes all the time. However, in a situation where γ and q are both large, efficiency wages are too expensive to be attractive (as discussed above), and paying reservation wages would simply allow most of the tax collecting force to enjoy bribery most of the time at the government's expense. Under these circumstances, the government might as well lower their wages to reclaim those rents. Thus, capitulation wages become optimal. In this situation, the government will collect revenues only when it catches corruption in action, i.e., (*1-q*) of the time.

Under efficiency wages, tax collectors are rewarded for not exploiting opportunities to behave dishonestly, and under capitulation wages, collectors are invited to supplement their incomes through corruption. While a reservation wage regime which seeks to augment honesty over time through monitoring and appropriate hiring and firing policies represents the most suitable long-term objective, it may make sense to pay tax collectors efficiency wages in the short and medium term, provided adequate monitoring can be guaranteed. Table 8.1 summaries the "optimal" wage regimes under different institutional and administrative conditions.

Table 8.1 The "optimal" wage regime (X) under different institutional and administrative conditions

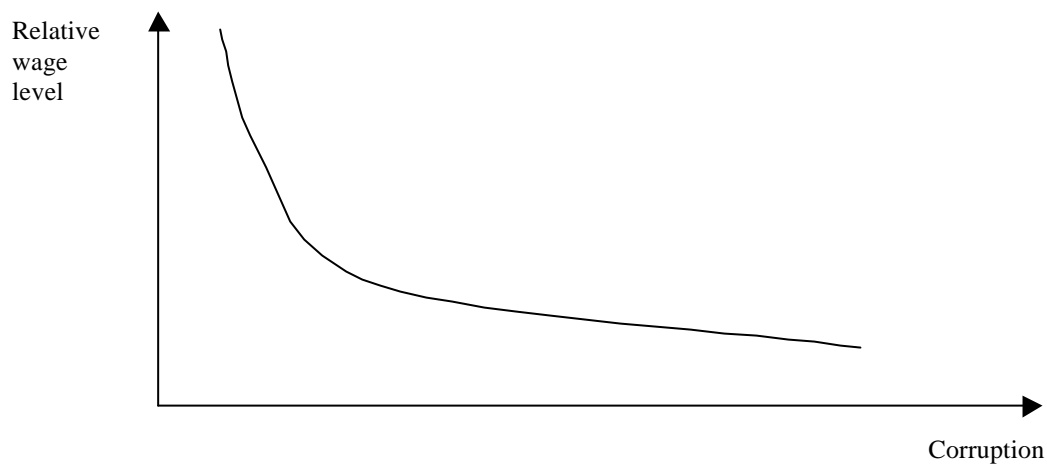|	Q – low (efficient monitoring) γ - small (few potential dishonest agents)	q – low (efficient monitoring) γ - large (many potential dishonest agents)	q – high (inefficient monitoring) γ - large (many potential dishonest agents)
Reservation wage	X		
Efficiency wage		X	
Capitulation wage			X

The model presented above may help explain some observations about public administration in developing countries. Anecdotal evidence indicates the existence of pay structures resembling capitulation wage regimes (where the official salary is well below the opportunity incomes), however, where the staff receive unofficial incomes far in excess of the reservation (opportunity) wage level, and where there is strong demand for the specific jobs. Tanzi (1995:174) reports, for example, that in an African country, *"...three years ago, the government reduced the wages of customs officials to zero for six months under the assumption that 'they could take care of themselves'."* A probably extreme position taken in this context refers to the late President Mobuto Sese Seko who advised Zairian civil servants that: "if you want to steal, steal a little in a nice way".[48]

Empirical evidence on the effects of wage incentives

What does empirical evidence tell us about the relationship between public sector wages and corruption? Rijckeghem and Weder (1997) explore empirically to what extent the level of public sector salaries is linked to the level of corruption (see chapter 6.4). Based on microeconomic theory, they hypothesise that low salaries force public officials to supplement their incomes by taking bribes, while high salaries imply higher alternative costs if detected for fraudulent behaviour. In a sample of 28 countries they find a significant negative influence of public sector salaries relative to wages in the manufacturing sector on the level of corruption. Corruption seems to be less in countries where bureaucrats are relatively well paid compared to private sector employees. This relationship is illustrated in figure 8.2.

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[48]Quoted from Sandbrook (1986:95).

Figure 8.2 The association between corruption and wages in the civil service

The figure shows that an increase in the public sector wage level relative to wages in the private sector may contribute to reduce corruption. Rijckeghem and Weder (1997) argue that: *"If public sector wages were doubled, the corruption index of a country will be improved by the order of 2 points in the corruption index (CPI) of Transparency International."* However, in order to eliminate corruption very large increases in salaries are needed. Thus, fighting corruption only on the basis of wage incentives may be extremely costly to the authorities, and will most likely only have limited impacts if not combined with other measures. For instance, under circumstances with weak – or non-existent - auditing and monitoring capacity, and pervasive propensity for corruption, the low salary level observed in some public institutions in poor countries, may actually be too high in the sense that even lower salaries would not lead to increased corruption (Besley and McLaren, 1993). Furthermore, there may also be a problem of causality in their Rijckeghem and Weder's analysis since corrupt (and poor) countries tend to have poor budgetary performance and, thus, may keep civil service wages low as a consequence.

Treisman (2000) also investigates the impact on corruption of the average government wage as a multiplier of per capita GDP. The results of this study are ambiguous and mostly insignificant. Rauch and Evans (2000) do not find robust evidence for any impact of public salary levels and corruption. Other aspects of public administration appear more important: Security of employment is significant, but, in particular, application of employment and advancement along meritocratic principles have a strong negative impact on corruption levels.

8.1.2 Monitoring and penalty

What impacts do controls and monitoring have on the agent's performance? In addition to wage incentives, the agent's decision whether to behave honestly or corruptly depends on the anticipated costs of the decision. Two variables matter: First, the probability of being detected, and second, the size of the penalty. However, the behaviour of the bureaucrat does not need to be influenced by a high probability of being detected if the penalty is insignificant. Similarly, the size of the penalty may be unimportant if the probability of being detected is minimal.

A paper which carries a lot of insight into the problem of monitoring is Mookherjee and Png (1995). The paper studies the optimal incentive arrangement for a bureaucracy in which a pollution inspector must monitor a firm for compliance with pollution regulations. The insights of the model can, however, be applied directly to the monitoring (and auditing) problem in other public institutions, for instance, in the tax administration if the word "compliance" is taken to mean compliance with the tax law instead of pollution regulations.

The goal of the monitoring policy is to identify and report fraud in the institution. If corrupt agents are caught they are fired. Hiring an auditor, however, does not automatically solve the problem. The problem for the principal is that the auditor is difficult to control, along two dimensions:

- The auditor may simply not work very hard to find violations (low effort).
- The auditor may, on revealing fraud, fail to report and offer to take a bribe from the agent instead (collusion).

These are both problems of *moral hazard*. The problem of collusion can to some extent be dealt with by engaging an (external) auditor to audit the (internal) auditor ("hawk over hawk"). Thus, the principal may, with some probability, catch the (internal) auditor in the act of taking a bribe, and can fire him in that case. However, the problem of low effort cannot be detected through control mechanisms, since the principal cannot observe how hard the auditor is working. The solution for the principal is to design an incentive scheme that stimulates effort. However, a pure wage solution for auditors has its limitations in reducing corruption. For payment to influence effort, payment must be related to the fulfilment of certain goals, in this case to detect and report fraud. Thus, a bonus system linked to the number of fraudulent cases reported to the principal may provide the auditors with the right incentives. The reward (or bonus) to the auditor detecting fraud must, however, match the potential bribe from the agent. In a situation where bribes are large, this may therefore result in a very expensive monitoring system.

The main point made by Mookherjee and Png (1995) is that the implementation of monitoring contracts is sensitive to strategic behaviour from the parties involved (see also Khalil and Lawarree, 1995). In summary, lack of effective controls facilitates corruption, and monitoring systems may also be part of the corruption structures within some public institutions.

8.1.3 Public sector regulations

What impacts do public sector regulations have on the incidence of corruption? Some studies argue that a country characterised by large government involvement is more likely to experience high levels of corruption (Tanzi, 2000a). The basic argument is that the more governments intervene in the economy, the more there is likely to be room for discretionary interpretation of regulations and allocation of resources by civil servants. However, the public sector is extensive in some of the least corrupt countries, for instance, Canada, Denmark, the Netherlands, Norway and Sweden. At the same time corruption seems to have increased in some countries, including China, Russia and Tanzania, that have gone through economic liberalisation and privatised public companies. According to the *Commission on Corruption* in Tanzania (URT, 1996), economic liberalisation has significantly contributed to increase corruption in

the country by facilitating new opportunities for culprits. Thus, empirical evidence indicates that it is not the size of the public sector, but the way the public sector works that are of importance for the level of corruption.

8.1.4 Bureaucratic and political structures

What impacts does the institutional set-up of a bureaucracy have on the incidence of corruption? In the principal-agent literature focusing on the public sector it is usually assumed that the principal (P) plays the determining role in any reform process: P selects A; P sets A's rewards and penalties; and P affects A and C's moral costs of corruption (Galtung, 1998). Thus, the principal embodies the public interest, in other words, it is a highly principled principal (Klitgaard, 1988). It is therefore implicitly assumed that the principal is committed to systemic reform, improvements in efficiency and greater integrity in the public administration.

While the principal-agent-client model is a useful analytical framework to explore incentive problems in public institutions, it's dependency on P reveals one of the greatest obstacles to reform. There are (at least) two objections to this approach: First, there may be several principals involved each with incoherent objectives and interests. Second, the principal(s) may also be corrupt and not acting in the interests of the society but pursuing his or her narrow self-interests:

Multiple principals

Principal-agent models are sometimes constructed for situations where the P-A relationship is not established within a given hierarchy, but where A may be a head of one and P represents another that in some sense have a superior role. The applicability of a principal-agent model is less clear in many of these cases, however. For example, a parliament is often considered as the principal of the public bureaucracy, and the voters the principal of the parliament, and so on. These are both cases characterised by several principals that may make the direct applicability of the simple P-A model less clear-cut. For well-known reasons, the preference structure of a parliament may be ill-defined. Monitoring by such a large group of actors as the voters may give rise to severe collective action problems.

Another case with multiple principals is when the formal principal of a public institution competes with a number of informal ones (Fjeldstad, 1999, 2001). In societies where family and ethnic relations are strong and important, it is expected that civil servants provide services to these. Traditional networks may thus impose heavy constraints on the agent's actions. Once civil servants begin to make distinctions among people they deal with according to the degree of family relationship or friendship, they have abandoned the arm's-length principle (i.e., the principle of objectivity). This principle requires that personal or other relationships should play no role in economic decisions that involve more than one party (Tanzi, 1995a).

Agents may, thus, receive different and often contradictory messages and expectations from their principals. Empirically, it may prove difficult to test the importance of several principals in the context of public institutions. However, what we may observe is that the principals fail to co-ordinate their strategies, either because they do not observe the same variables, or because they cannot commit to collaborate. The effect is severe weakening of the power of the incentive schemes provided to the agents. The more the principals' interests diverge, the more room for the agents' discretion, and the less effective monitoring and control of the agents. Thus, by identifying the "principals" involved, we may get an indication on the severity of this problem in specific public institutions. In addition, this approach may also contribute in explaining why corruption (and collusion) is more pervasive in some organisations than others.[49]

Corrupt principals

The political and administrative leaders may themselves be corrupt. Thus, the principal may to some extent not bother about corruption at lower levels in the public sector. The risk of being involved in corruption will then be lowered. In addition, corrupt leaders will contribute to reduce the moral and stigma costs connected with corruption. Thus, in such a situation we would expect the general level of corruption to increase (see chapter 2.4). In this case the P-A model framework breaks down, however. Here the formal principal and the agent makes a coalition in order to

perform illegal, corrupt acts. If the principal is the same, we may, of course, regard this illegal hierarchy in the same way as a legal one: If the agent neglects to exploiting opportunities to collect corrupt incomes on behalf of the principal, this can be understood as a kind of moral hazard, and paid whistle blowing as corruption. For the problems considered here, corruption as illegal acts performed by members of legal organisations, this interpretation, however, becomes rather artificial.

8.2 How corruption may corrupt - multiple equilibrium models

The principal-agent-client approach presented in the previous sections may contribute to explain some of the fundamental incentive problems that arise due to imperfect information. However, it has (at least) two limitations: First, in situations where the wage incentives and monitoring devices are apparently similar, how do we explain observed variations in corruption levels between public institutions (for instance between local government tax administrations)? Second, the actual levels of audit and penalty rates if detected are often set at such low levels or are almost non-existent in many developing countries, that, following the standard approach we would expect that most civil servants would be corrupt if they pursued their self-interests in a rational (consistent) manner, because of the low probability of being detected and penalised. It seems that while the odds are heavily in favour of bureaucrats getting away with it, surprisingly many behave honestly. It therefore appears that there is some discrepancy between the way in which civil servants (for instance tax collectors) actually behave and the models that have been used by economists to explain this behaviour.

One possible explanation why different corruption levels may arise is that "corruption corrupts". Thus, the expected profitability of engaging in a fraudulent transaction compared to not engaging in it hinges upon the number of other people doing it. In other words, the compliance of each depends on the compliance of others.[50] Therefore, similar incentive systems (and institutions) may lead to different levels of corruption. Differences in the corruption levels of, for instance, tax departments in

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[49] Wilson (1989) and Dixit (1996) provide interesting arguments on the importance of multiple principals to understand incentive problems in organisations.

[50]In principle, this can be interpreted as a *collective action problem*, in the way that the individual's decision is dependent on the actions of others.
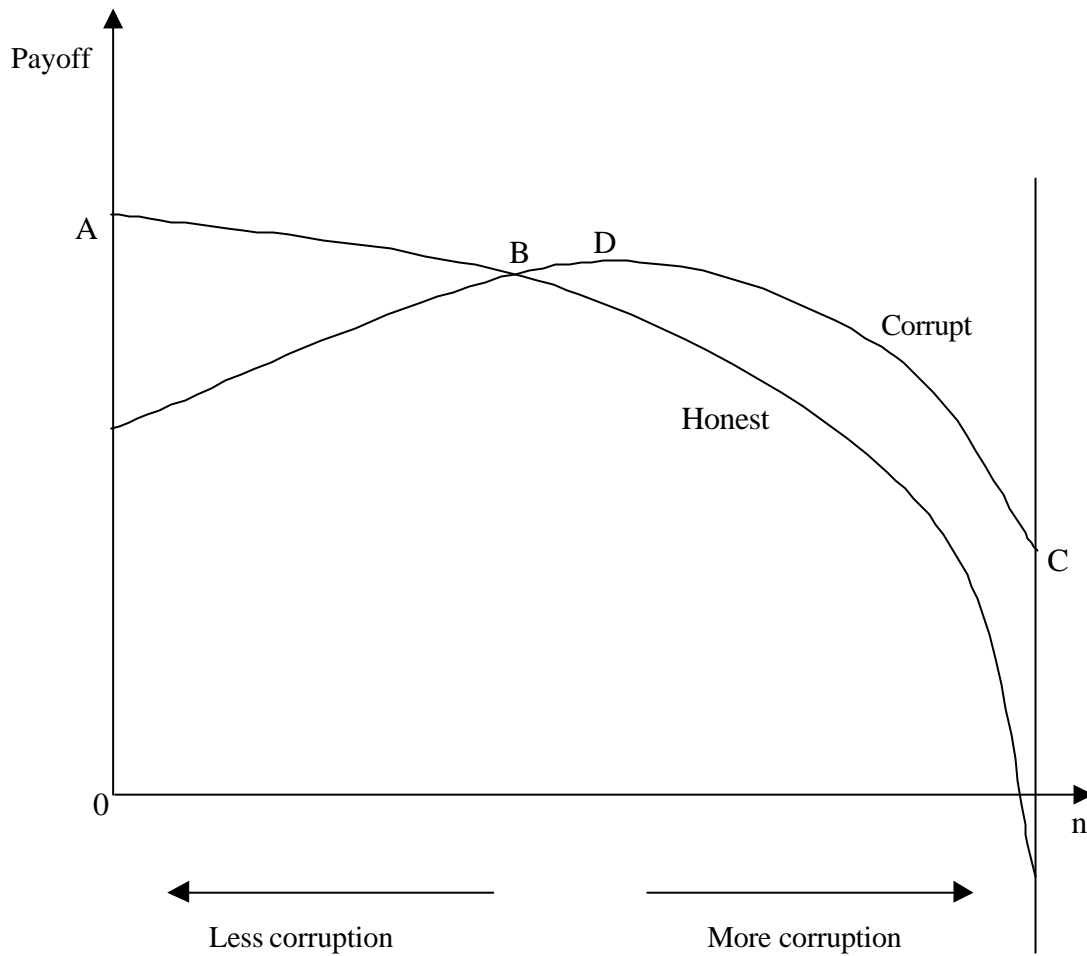
various local authorities may be explained by them having settled in various "equilibria", for instance a "high-corruption" equilibrium and a "low-corruption" equilibrium (Fjeldstad, 1999). An equilibrium is established where the individual actor has no incentive to change his behaviour.

The basic idea used by economists to explain variations in corruption levels is illustrated in figure 8.3 (Andvig and Moene, 1990; Andvig, 1993; and Bardhan, 1997).[51] Using the tax administration as our case, the number of corrupt bureaucrats (i.e., tax collectors) is measured from left to right along the horizontal axis of the diagram. Each point along the horizontal axis indicates a given distribution of tax collectors between the corrupt and non-corrupt category. The payoff (profit or "utility") of the transaction is measured along the vertical axis. Non-economic variables such as feeling of guilt, fear of loss of reputation (stigma) or actual punishment are incorporated into the tax collector's payoff (utility) function. The two lines *Corrupt* and *Honest* then describe the payoff for a potential corrupt, respectively honest collector for all possible allocations of the remaining ones between the two categories. The *Honest* curve is falling throughout the whole area, reflecting the payoff for a completely honest tax collector in a tax administration with increasing corruption. The payoff for an honest collector is larger than the payoff for a corrupt one when the number of corrupt collectors is low (to the left of point B). The *Corrupt*-curve has a turning point in D: As the number of corrupt collectors is rising, corruption becomes less scarce and bribe-paying taxpayers may only be willing to pay a lesser bribe for a given corrupt favour (to the right of point D).[52] Furthermore, the way the figure is drawn assumes that corruption has negative welfare consequences in the sense that everybody is better off in A than in C (although corruption may increase welfare in a restricted area of corruption levels).

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[51]This figure is often referred to as a Schelling diagram (Schelling, 1973:388).

[52]The "Corrupt curve" in figure 8.3 refers to a situation with collusion between taxpayers and collectors (i.e., bribery). However, in cases where embezzlement of tax revenues by collectors are the most common type of corruption, the curve may have a different form. Nevertheless, it is reasonable to assume that the Corrupt curve still has a turning point (such as D) since the amount embezzled per tax collector (and, thus, the payoff) will be less the larger the number of corrupt officials involved.

Figure 8.3 Multiple corruption equilibria

Source: Andvig (1993)

In the figure, the payoff for the potential corrupt tax collector (*Corrupt*) increases throughout the area to the left of point D. There are at least three arguments supporting an increasing *Corrupt-curve:*

1. Eventual internalised moral feelings of guilt by fraudulent behaviour decrease as the number of corrupt bureaucrats increases.
2. When many others are involved in corruption, the loss of reputation (stigma) for each employee when discovered is likely to decrease.

3. When many others are corrupt, this lowers the probability of being revealed, due to the fact that the capacity of internal and external investigation units may be strained.

There are three equilibrium points in the figure: A, B and C. Why are these equlibria? At A all are honest, and will prefer to stay that way since their utility levels are above that of any tax collector who tries the corrupt option. Hence, the tax administration will stay in the "clean" position. At C all are corrupt since it will not "pay" to be honest. At B, any given tax collector is indifferent between the corrupt and the non-corrupt strategy. The major difference between these equilibria is that A and C are stable, while B is unstable. The reason why B is unstable is that if one more person is becoming corrupt, then it will pay to become corrupt. However, if only one less person is corrupt, the last collector will choose to become non-corrupt too. Thus, if the tax administration starts out with higher corruption levels than B (for some historical reason), it will move towards the stable high equilibrium level at point C. However, if it starts off with a lower level than B it will end up at point A.

This theoretical approach may thus contribute in explaining several observed phenomena of corruption in public institutions:

 • We may observe widely different levels of corruption with the same institutional set-up, wage structures, monitoring and auditing mechanisms.
 • Small changes in the number of corrupt agents may have huge effects on the corruption level if the administration (e.g., tax administration, customs, harbour authority etc.) initially is located at a point close to B: If a short-lived, but strong anti-corruption campaign is able to move the administration from C and beyond B, the administration will move by its own momentum to A. However, if B is close to A, small shocks may be sufficient to make the administration slide down into a high corruption level trap. Therefore, although the administration may be close to a "clean" point, one should still take corruption seriously.

It is problematic to test empirically the relevance of the model discussed above. However, the major objective of many anti-corruption campaigns is to shift the administrative equilibrium from a high-corruption to a low-corruption equilibrium.

8.3 High level versus low level corruption

In her book from 1978 that effectively opened up the field of corruption phenomena for economic analysis, Rose-Ackerman also discusses several features that characterise corruption at high levels.[53] Both the restraints and maximands of politicians will differ from the ones that lower-level bureaucrats are exposed to.

Among her assertions based upon theoretical considerations are the following:

- Unlike the situation for lower-level bureaucrats, the formal system for discovering and punishing corrupt acts is not any important restraint for corruption at higher political level (see section 8.1).

- It is rather the media-attention and its effects on the probability of political survival that acts as the important restraint at higher level. The probability of political survival is a central argument in their maximand together with their private income, not the expected value of any legal punishment.

- Accepting bribes is assumed to have a negative impact on the probability of political survival. Only democratic systems are considered, but her arguments are also relevant for non-democratic regimes where there is a negative trade-off between accepting bribes and the likelihood of political survival.

- Politicians who are highly secure in power and politicians doomed to loose their power are more likely to accept bribes than politicians whose survival probability is close to 0.5 (50 %), i.e. politicians with hotly contested seats.

The last result will only apply when there is a negative trade-off between bribes and political survival. However, in cases where a clientelistic policy is dominant, the relationship between corruption and the probability of political survival is likely to be the opposite: bribe collection makes political survival more likely (see chapter 4.2). Ideally we should be able to determine the circumstances where trade-offs between corruption and political survival turn from being negative to becoming positive.

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[53] The distinction between political and bureaucratic corruption is discussed in chapter 2.4.

8.3.1 Corruption in international business transactions

Although important, the determinants of high level corruption are a research area where economists have made little theoretical progress during the last two decades. However, recently several interesting empirical observations have been made.

One observation is based on everyday observations of a concerned businessman (Moody-Stuart, 1996). He observed that certain industries and the size of contracts are typically involved when international businesses are bribing politicians in developing countries. Moody Stuart claims it to be well known that international construction and engineering companies and the arms industry are among the most exposed industries. They are typically involved in political or "grand" corruption, since the suppliers here colludewith at the highest levels of the public hierarchies. "Big money" is usually involved since large-scale projects often characterise these two industries.

Moody-Stuart ranks the four most attractive supply contracts from the point of view of a politician who seeks bribes: (1) Aircraft and defence supplies; (2) Major industrial supply units; (3) Major civil works; (4) Consultancies. With the exception of consultancies, projects of interest for a head of state may represent contracts up to USD 200 million; for a minister contracts up to USD 20 million will suffice. Projects of less than USD 2 million will only rarely catch the eye of a person in a higher political position. A 5 % commission (bribe) will be a fairly standard rate, although Hardin (1993) reports that "kickbacks" representing 15 % of the contract value is institutionalised in Kenya.

Inspired by the highly technical and theoretical work of Laffont and Tirole (1993:475–514), empirical work on the distinctions between high and low level corruption has taken place in the *World Bank* and the *European Bank of Reconstruction and Development*. The focus of this research has partly been on the question of how many enterprises are trying to "capture" the governmental apparatuses by paying bribes or hand out other illegal economic favours in order to influence the formation of rules and regulations. Moreover, the researchers aim to explore how many of the enterprises that try to influence the given public procurement decisions though corruption.

The defining characteristic of capture versus procurement is not the administrative level, but rather the impact of bribes on the governance of the countries in question, including the feedback effects on the enterprises themselves. Nevertheless, since rules normally are formulated at the political or higher administrative levels while procurement usually are made at intermediate levels, these categories are highly overlapping. Important exceptions exist, however. For example, while court decisions in principle are implementation of existing laws, in practice they are also making new ones. Hence, if judges are bribed by enterprises, this is included in capture. On the other hand, regular public procurement contracts may in practice be decided by high level politicians, but is nevertheless included in the procurement category, considered to be administrative corruption.

As indicated in chapter 3.3, an important aspect of this large research venture, is the extensive data it has been able to create, i.e., the 1999 *Business Environment and Enterprise Performance Survey* (BEEPS). More than 3 000 owners and senior managers at the firm-level from 22 so-called "transition countries" were asked a detailed set of questions about their experiences with corruption, as well as on the economic performance of their firms.[54]

Countries with much state capture, reflecting "grand" corruption are found to be more harmed by capturing compared to a situation with much administrative ("petty") corruption. Furthermore, enterprises that spend much resources on capture, were found to be more successful in terms growth than their country average while enterprises that spent much on administrative corruption were less successful than average. The correlation between the degree of state capture and administrative corruption appears, however, to be surprisingly weak. While the social costs are much higher, the economic costs of administrative corruption are quite significant, close to 20 % of profits.

This research contains many other interesting results about the behaviour and the experience of foreign-owned firms, state-owned firms, and new firms in different countries, and differences in experience between countries. For example, while more

than 50% of the firms in Azerbaijan reported the sale of parliamentary votes as an obstacle, less than 10 % of the firms in Belarus and Slovenia considered this to be a problem. Regarding "petty" corruption, the difference was found to be even greater. While 60 % of the firms in Azerbaijan considered this to be a problem, less than 10 % of the firms in Hungary did.

 The most striking property of this research so far is not these single results, but that it portrays private enterprises as very active agents in moulding the different kinds of corrupt governance structures. It is, however, an inherent weakness of this research that the research group has been less able to collect corresponding information and insights from the public administration and politicians. Given this bias of the information basis, the role of firms in the corruption gamble is likely to be overemphasised. Thus, many questions about high level corruption remain unresolved, or are only highlighted through theoretical propositions or more or less informed presumptions.

8.3.2   *Fighting corruption in international business transactions*

The policy implications of the notions of capture versus administrative corruption have so far not been particular clear. Nevertheless, the attention given to the role of firms is likely to improve our knowledge of their share of the responsibility for the development of corrupt governance structures. Furthermore, while foreign-owned firms are found to pay less procurement "kickbacks" than domestic firms, they are found to be as heavily involved in the more harmful capture processes (Hellman et al, 2000 c). This may imply that the OECD-initiatives for rooting out trans-national commercial bribery may, if successful, have stronger impact on the serious "grand" corruption in developing countries than many experts initially believed. However, the same article also gives support to the cynic: More than two decades after USA introduced the *Foreign Corrupt Practices Act* the percentage of US firms that paid "kickbacks" to foreign officials in order to gain public procurement contracts, were above 40 %, even higher than the percentage of Russian firms that did so. Furthermore, the increasingly closer linkages between development aid and business

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[54] The questionnaire is described in Hellman et al. (2000a). The data may be downloaded from http://worldbank.org/wbi/governance/govdata/capdata.xls.

interests in the donor countries, aimed to create spill-over effects between aid and export promotion and foreign investments, is likely to make the issue of corruption even more troublesome.

8.4   *Public procurement and corruption*

Public procurement is important for foreign aid policy. In the end, a large share of development aid is spent on procurement partly organised by the poor, recipient countries themselves, but where donor agencies also have some shared responsibility. Procurement is an area that has received increased theoretical attention from researchers. This attention is partly due to increased interest in privatisation of public assets, and activities that followed the Thatcher reign in the 1980s. Moreover, it is partly due to the game theoretical exploration of auctions that started in the 1950s (Vickrey, 1961), but that gained momentum in the 1980s. Applied to public procurement, and the problem of corruption in public procurement, the central work here is Laffont and Tirole (1993).

The possibility of corrupt influences has always been important for the way procurement is organised in practice, and in particular in connection with procurement to larger public projects. An overview of many of the possible corrupt entry points in procurement, relying mainly on World Bank experience, is found in Aguilar et al (2000). Here the standard separation in the purchasing organisation between the economic departments that receive the price information in the bids and the technical departments that evaluates the quality specifications of materials and technical solutions is kept.

The academic literature has still not been able to explain the details of these precautions and their limits. Andvig (1995), however, is an attempt to link the practical organisation of the bidding system in the North Sea oil industry to more academic analyses of bidding systems (auctions). This analysis shows how the separation between the price and technical information in the purchasing organisation gives rise to middlemen with fairly high technical competence. These information brokers try to buy technical information from employees in the purchasing organisations and thereafter try to sell it to bidders. Similar processes is also well

known from developing countries, but the middlemen there often need more political and less technical expertise.[55]

While naturally not catching up with every aspect of practical organisation, the theoretical work yields considerable, nontrivial insights. A recent survey (and some models of their own making) is Celentani and Ganuza (2000). Inspired by an observation in Langseth and Bryane (1998) that both corruption and international competition apparently are increasing, they demonstrate the over-simplicity of the widely held view that opening up public procurement for more extensive international bidding will reduce the problem of corruption in procurement.

One way to realise this, is simply to note that the increased number of potential sellers does not increase the number of buyers. One single buyer remains. If the purchaser is in a position to control the bidding system completely, a larger number of bidders implies a larger spread in offers and also a higher bribe to the organiser. Lien (1986) studies the simple case where the bidder who is able to pay the highest bribe, is the one that wins the contract. In the case where no moral costs are involved, the contract will go to the most efficient bidder since he is able to offer the highest bribe. Thus, one should not worry about corruption since the most efficient project is chosen. Furthermore, bribery only means a transfer from international firms to public officals or politicians in a developing country. Therefore, while international competition in this case leads to more corruption, it also leads to improved economic efficiency.

Celentani and Ganuza (2000) model procurement as a principal-agency relationship.[56] They show that in the case where the principal not only organises an international bidding, for instance for a large public construction project, but also an international bidding among technically competent procurement agents (e.g., consultancies and engineering companies), and thereby not only relying on the local staff of public employees, the possibility of corruption leads to an equilibrium where they are given less discretion. The possible loss in efficiency of *not* using the technical expertise fully in this case, is higher because of the higher (potential)

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[55] Aburish (1985) is a delightful autobiography of a Lebanese information broker mainly operating in the Arab world. Another practical piece of work is Marsh (1989) that, presents a brief guide on how to bribe successfully in international construction businesses.

expertise acquired through international competition. Moreover, in addition to increasing the efficiency loss of corruption, an internationally more competitive environment may in certain cases lead to a higher incidence of observed corruption. However, the model also shows that in some other cases it will lead to lower incidence.

In many procurement games that give rise to corruption, it is asymmetric information between the bidders, not between the principal and the agents that determines the bribing process and the size of bribes. In a model of Mukherjee (2000), where the "principal" accept bribes it is the fact that the principal is unable to distinguish between inefficient and efficient suppliers that makes the efficient one to offer an excessively high bribe to signal his efficiency. These bribes may become part of a separating equilibrium where he will not regret his high offer. An interesting paradox of Mukherjee's paper is that if the principal develops red tape to tap bribes at lower levels, the screening of supplier that also results, makes the efficient producers to reduce their bribe payment since they do not need to pay so much in order to signal their efficiency.

A large number of studies have been made on specific project scandals of various kinds, and where procurement issues are dealt with. However, we are not aware of any systematic collection of such "stories". So far, most of the systematic research into corruption in public procurement has been of theoretical nature. The main exceptions are Hellman et al (2000 a, b) studies of the transition countries where data on procurement is included. Andvig (1995) applies some data from courts, police and private security offices, but these data have low discriminatory power.

8.5 Corruption in queuing situations

 A situation that frequently gives rise to corruption is queues administered by a central agent.[57]. Since the demise of central planning, open queues are relatively rare in most countries: Ships waiting at a harbour;, people lining up for customs declaration at

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[56] The principles of this type of models are explained in section 8.1.
[57] When not administered centrally corruption is less likely. For instance, while they may well cheat each other, motorists are unable to bribe themselves ahead in the morning rush.

airports or for entrance into popular night-clubs, or somewhat less visible, but still formal queues like telephone calls, emigration licences, admissions to hospitals, etc.. Nevertheless queue-rationing is relevant for a larger set of activities than the obvious ones. In fact, almost any public administrative act may have a queue-like aspect: Cases which arrive at the desk at some intervals, each case needing some consideration before the next one may be handled. Backlogs of cases may easily arise, for instance, waiting in line, which may or may not be organised as a formal queue. Moreover, queuing models allow a rather direct attack on the economic efficiency problems involved in corruption which is difficult to do in most other microeconomic specifications of corruption since they normally don't bring in the third party who is the one likely to eventually be be harmed by corrupt deals. Queuing models, however, do since the people waiting in line are directly involved. The central question is the classical one (see chapter 7.1): Will bribing the central agent speed up or reduce the speed of the queue? Both answers are possible depending on the specification of the properties of the line, the preferences of the line and the mechanics of the bribing process. Somewhat surprisingly, this has been a rather neglected field of corruption research recently. Thus, for a non-technical survey of the main models, we may still refer to Andvig (1991).

8.6 Concluding remarks

In this chapter, some of the micro-oriented theoretical analyses of corruption are discussed, emphasising principal-agent models (incentive theory) and models of multiple corruption equilibria. Furthermore, some typical situations where corruption may arise, and which are important for foreign aid policy are analysed. These include corruption and public procurement, and corruption and administrative queuing processes.

While the principal-agent-client model is a useful analytical framework to explore incentive problems in public institutions, its dependency on the principal for implementing reforms reveals one of the greatest obstacles to reform. There are (at least) two objections to this approach: First, there may be several principals involved each with incoherent objectives and interests. Second, the principal(s) may also be corrupt and not acting in the interests of the society but pursuing his or her narrow

self-interests. This critique is consistent with the discussion of the nature of the state explored by political scientists, and in particular the analysis of neo-patrimonial regime types (see chapters 2.5.3 and 4.2). Corruption is here understood as an integrated part of the dominant elites' extraction and rent seeking practices. Because neo-patrimonial elites are the main profiteers of widespread corruption, they have limited will for reform. In the following chapter we will explore approaches to designing and implementing anti-corruption reforms in more detail.

9   Combating corruption

Historical evidence shows that attempts to curb corruption are about as old as corruption itself (Riley, 1998:132). In recent years, anti-corruption rhetoric has been on the rise among governments in both the North and the South, often as lip-service response to the increasing media attention and activism of civil society, as well as from actions taken by some international agencies to fight corruption (Kaufmann, 1999).

This does not mean that no country and institution have undertaken serious efforts against corruption.[58] But there are many whose commitment to addressing the problem is rather dubious. It is therefore important to be aware of the fact that the fight against corruption can present few success stories. The only clear-cut successes have been Hong Kong and Singapore, both city-states that had fairly authoritarian governments when they initiated their anti-corruption efforts. A few other countries, including Italy and Uganda, have made inroads on corruption but have by no means destroyed the problem. Uganda, for instance, has in recent years improved its ranking in the corruption index, but remains below even Africa's gloomy average.

The lack of successful anti-corruption campaigns is partly due to limited knowledge related to causes, effects and cures of corruption, and partly because the distant past appears to be more important than current polices in many countries. There is now fairly strong empirical evidence that the process of successful economic development

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[58] Klitgaard (1988) provides some interesting cases of successful anti-corruption reforms, including the reform of the tax administration in the Philippines under the late president Marcos. However, without exception the "successful" cases presented by Klitgaard have proved to be unsustainable.

reduces corruption considerably in the long run, but little in the short run. The mechanism through which this works, however, is not yet clarified. One possibility is through a rationalisation of public and private roles and spread of education, which makes abuses harder to conceal (Treisman, 2000). Thus, policies that boost growth, if successfully implemented, are likely to reduce corruption *in the long run* (see chapter 6.1). Paldam (1999a:20) suggests that "[i]nto the complex transition from a poor traditional country to a wealthy liberal democracy also comes a dramatic reduction in the level of corruption. The corruption transition is not placed at a precise location along the transition path, but follows an *underlying transition-trend toward less corruption."*

At the macro-level, the policy implications of these studies are therefore somewhat discouraging. Policy decisions themselves either have little significant impact on corruption or else work painfully slow (Treisman, 2000). Democratisation does not have statistically noticeable effects until it has lasted for decades (chapter 6.2), and decentralisation polices may – at least in the short run – lead to increased corruption (chapter 6.3). Furthermore, although openness to foreign trade seems to reduce perceived corruption, the size of this effect is small (chapter 6.5). A very radical trade liberalisation is needed to make a noticeable reduction in corruption.

9.1   The importance of others

The negative results of anti-corruption reforms reported above are in one sense not surprising. At the core of the corruption problem is the fact that many public sector officials (both bureaucrats and politicians) are in positions where their actions have considerable impact on and economic value for private persons, companies and other organisations. If officials are paid illegally for making certain decisions (choices), it is often impossible to prove, even with increased monitoring (see chapter 8.1.2). Moreover, in the isolated incidences, the ones likely to discover corruption are often agents working with the corrupt agent(s). If they do not report it, i.e. they implicitly accept it, misbehaviour most likely spreads. Thus, the monitoring agent will only become a part of the corrupt system. However, if other colleagues accept corrupt behaviour while the monitor does not, it may be extremely difficult for him to come in a position to get the information needed for efficient monitoring.

Organisations characterised by entrenched corruption are likely to have developed a system where agents are protecting each other. They may have a history of partly dyadic "infection" of corrupt behaviour. The mass of agents that needs to be turned around often has to be convinced dyadically, too, or complex corruption networks have to be torn apart. In general, serious inertia is involved.[59] However, if agents employed by the government pursue their private short-run economic interests, dyadic healing processes are less likely, because corruption pays, particularly when most other officials are corrupt.

A number of so-called multiple equilibrium models (explained and surveyed briefly in chapter 8.2) catch the shift in profitability when few or many employees in an institution accept bribes. These models are somewhat optimistic in the sense that if a credible signal is sent that makes everyone believe that everyone else will change from corrupt to honest behaviour, each individual will change. The rationale behind the change is partly because the probability of being detected for corruption is expected to be higher the fewer corrupt agents in the institution. Moreover, the stigma and moral costs connected with misbehaviour are higher in a situation when few other staff members are corrupt. Thus, the model predicts a low-corrupt equilibrium, and no long-lasting process of dyadic deliberations is needed.

However, as long as the memory of the old corrupt structures is still existing, and the "reformed" agents believe that recent non-profitable, non-corrupt relations are only temporary, the initial "shock-therapy" is not sufficient. A new, detailed and credible structure of non-corrupt transactions has to be built where the individual's motivation needs to change from purely economic ones.

Such considerations tend to be pessimistic in the short run, but in the long run, development and social maturity are likely to result in declining corruption. However, this does not mean that reducing corruption by any means in the short run will increase growth rates and lead to reduced poverty (Khan, 1999). Keeping these

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[59] The modelling of such processes often becomes quite complicated. Among the attempts we may mention the early work of Sah (1987) and the more recent work of Verbrugge (1998)

possible shortfalls in mind, we will briefly review some current approaches to fighting corruption in the following sections.

9.2 Typologies of anti-corruption strategies

Anti-corruption strategies can be typologised in different ways:

(A) By the type of *policy instruments* suggested, for example whether it is monitoring and controlled focused or focused on the motivation of the corrupt agents.

(B) By the *motivation of the campaign*, for example whether its major aim is to improve the efficiency of government, or rectify injustices, or to get rid of political opponents.

(C) By the *position of the agents targeted,* for example whether they are clustered in a few sectors or are in high or lower level positions and so on.

(D) By the likely *effect of the policy*.

(E) By the type of *organisation initiating* the anti-corruption strategy.

Currently, referring to type (E), four broad levels or types of anti-corruption strategies can be identified in operation in developing countries:

      (1) International;

      (2) national;

      (3) local or 'citizen' level; and

      (4) populist.

These strategies are outlined in Table 9.1.

Table 9.1 **Typologies of anti-corruption strategies**

1. INTERNATIONAL	
	World Bank and IMF policies
	OECD efforts to criminalise transnational bribery
	UNDP and UN policies
	Transparency International's interventions
2.TRANSNATIONAL	USA 's *Foreign Corrupt Practices Act'* (FCPA)
3. NATIONAL	
	Procedures and training within state or public sector institutions
	'Service culture' approaches
	'Islands of integrity'
	Capacity-building to 'design out' corruption
	Legal approaches, including state funding of parties and patronage appointments
	Anti-corruption agencies
	Auditor Generals and Parliamentary oversight
	The police and 'Inter-agency' co-operation
3. LOCAL or 'CITIZEN' LEVEL	
	Minimising petty-corruption by protection against the extractive and arbitrary nature of the state
	Structural reform, e.g., decentralisation and deregulation
	New administrative procedures (e.g., overlapping jurisdictions, customerisation of public services and service delivery surveys)
	Complaints and redress
	Community oversight
	The media
4. POPULIST	
	Purges (e.g., of civil servants)
	Making examples (public humiliations and executions, quasi-offcial tribunals)
	Moral rearmament campaigns and 'the new citizen'

Source: Riley (1998) based on Doig (1995) and Doig and Riley (1998)

9.3 The World Bank's approaches

So far, the World Bank is the organisation that has developed the broadest and most elaborated set of policies aimed at reducing corruption. We will therefore organise much of the policy discussion around World Bank approaches. Huther and Shah (2000) mention four dimensions of World Bank policy:

(a) Preventing fraud and corruption in World Bank projects.
(b) "Mainstreaming" a concern for corruption in the organisation.
(c) Lending support to international efforts to curb corruption.
(d) Helping countries that request assistance to fight corruption.

While (a) - (c) are dimensions focusing on the World Bank as an organisation - although relevant for most international aid organisations, (c) is clearly focused on corruption as a general policy issue.

Much of the present policy debate on anti-corruption strategies has at its roots the principal-agent theory of corruption outlined in chapter 8.1. Thus, Robert Klitgaard's (1988) popularisation of this approach has been widely promoted and applied in a number of developing countries during the 1990s. At the theoretical level this theory explains how public officials almost by necessity have a number of incentives and opportunities for engaging in corrupt transactions. At the more practical, policy level the approach indicates that the policy instruments may be fruitfully divided into those that influence the number of corrupt opportunities, and those that influence the incentives:[60] These include policy instruments that influence the expected (gross) gain of the corrupt act, the probability of being caught and the size of the penalty if detected. If expected gains are higher than expected costs, the agent will, according to the theory choose to be corrupt. For example, the expected gain for public officials are higher when they have wide discretionary powers and considerable monopoly power in their jobs. The expected probability if detected is reduced by decreased accountability. This leads to an (E) type classification of anti-corruption policies (see section 9.2).

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[60] According to the multiple equilibria type of models (chapter 8.2), this neat division is somewhat misleading since they indicate that the number of possibilities influence the expected profitability of each single act.
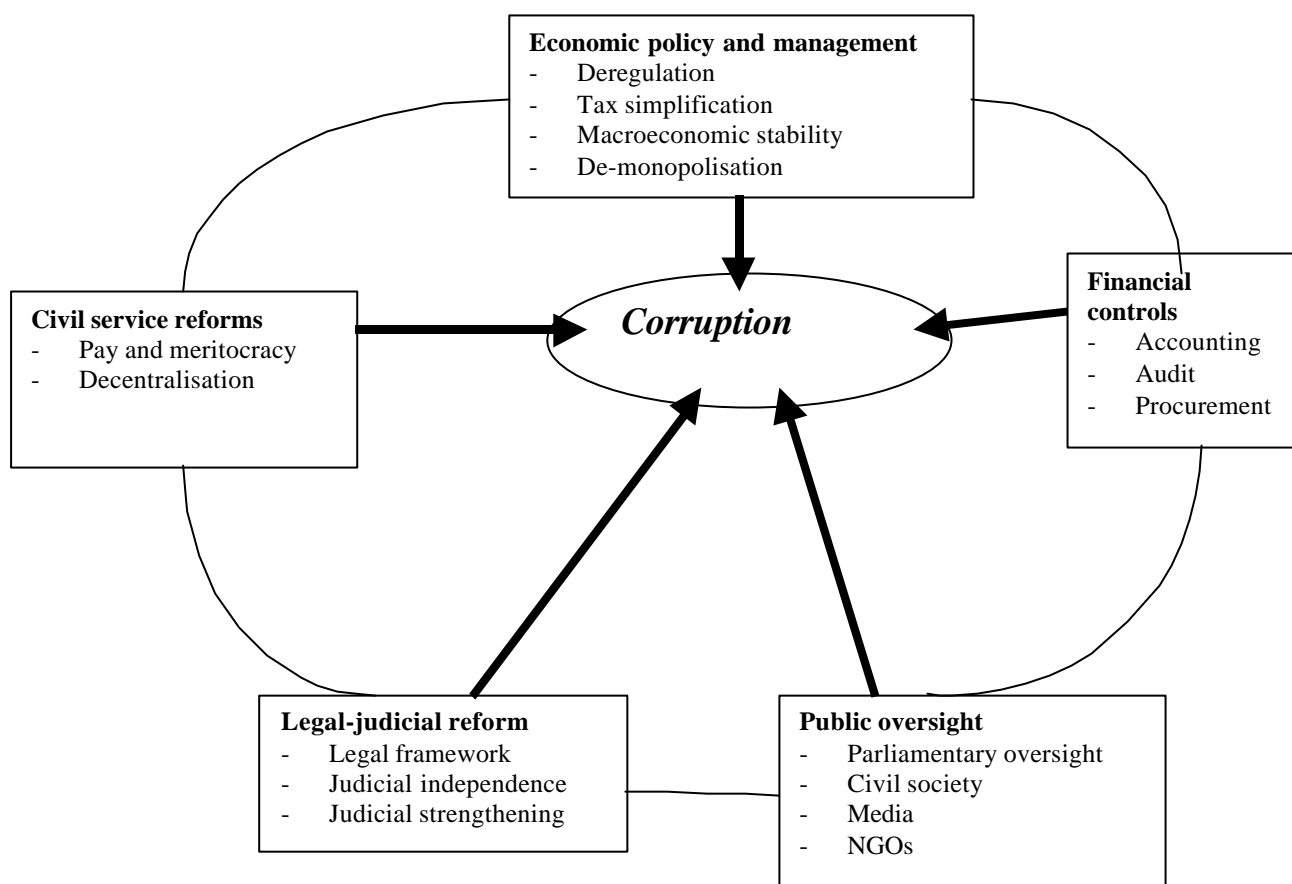
Klitgaard's work has, as noted above, been very influential and appears to be at the core of the World Bank's recent analysis (Riley, 1988:135). Thus, a representative World Bank policy formulation prescribes that an effective anti-corruption strategy should (World Bank, 2000:21):

(1) encourage the reduction of rents by means of economic liberalisation, deregulation, tax simplification, de-monopolisation and macroeconomic stability;

(2) reduce discretion through administrative and civil service reform, including meritocratic recruitment and decentralisation; and

(3) increase accountability

- by building up institutions such as auditing and accountancy units,

- through legal reforms such as judicial strengthening, and

- by encouraging public oversight through Parliament and a more vibrant civil society.

While (1) and (2) are mainly believed to effect the number of corrupt possibilities arising in an economy and to reduce the gross gain, (3) influences the expected probability of being caught. We may add that the Bank's advocacy of *wage increases* in the public sector also is based on principal-agent theory. The Bank's advocacy of *scaling down the public sector* to core areas will, according to theory, mainly reduce the number of corrupt opportunities.

Until recently the World Bank was criticised of playing down more indirect means of reducing corruption such as the strengthening of public institutions and increasing public education and awareness (Riley, 1998:138). This critique has been advocated by for instance *Transparency International* that emphasises the importance of civil society and public awareness in fighting corruption. The World Bank now seems to have taken some of this critique seriously, and now incorporates many of this issues (some will say too many) in its AC-strategy (see figure 9.1).

Figure 9.1 The World Bank's "multipronged" anti-corruption strategy

Economic policy and management
- Deregulation
- Tax simplification
- Macroeconomic stability
- De-monopolisation

Civil service reforms
- Pay and meritocracy
- Decentralisation

Corruption

Financial controls
- Accounting
- Audit
- Procurement

Legal-judicial reform
- Legal framework
- Judicial independence
- Judicial strengthening

Public oversight
- Parliamentary oversight
- Civil society
- Media
- NGOs

Source: World Bank (2000)

The cluster of policy measures to fighting corruption suggested above, rest all on the assumption that the principal's objective is to reduce corruption (Klitgaard, 1988; Mookherjee, 1997; Rauch and Evans, 2000). These measures include the reforms in incentive systems and organisational procedures.

The principal-agent approach to reforms requires that the principal is not corrupt. This is often not a reasonable assumption in the most corrupt countries (see the discussion in chapter 8.1.4). Recently, the World Bank has modified its policies to accommodate this fact. Policies have to be different in high corrupt and medium-corrupt regimes. For example, as pointed out in their exceptionally clear presentation of the World Bank anti-corruption policies (Huther and Shah, 2000) it makes little sense to invest foreign aid resources on special anti corruption investigative units in highly corrupt

societies. Such units are likely to become corrupt themselves, it is argued. And even if staying honest, their efforts are likely to be wasted if the judiciary system is corrupt. Huther and Shah (2000) also make the reasonable modification that a high-wage policy is not likely to reduce corruption in highly corrupt countries, but most likely will increase the number and rate of attractive positions bought.

9.4   A brief evaluation of the World Bank's policy packages

The World Bank's work for bringing forth information about corruption and initiate public discussions on corruption issues is likely to assist in any conceivable anti-corruption policies. However, there are reasons to question several aspects of the Bank's specific policy proposals. For instance, it sometimes appears that the Bank uses as an argument (often somewhat superficially) that controversial aspects of itspolicies also have a corruption reducing property.

The empirical foundation for this critique can be found in the World Bank's own studies. For example, one aspect of its advocacy of decentralisation is development of *performance contracts* where public sub-units simulate some aspects of market behaviour. One of the most extensive empirical studies of how performance contracts works in developing countries is entitled "Bureaucrats in business", published by the World Bank (1995). This study focuses on incentive schemes for managers in state owned companies in 12 developing countries. The study finds that performance contracts either did not improve performance or, in some cases, exacerbated the incentive problems. Why? Performance contracts failed to address all three performance problems (see chapter 8.1): Firstly, they did not reduce the agents' information advantage. Instead agents were able to use their knowledge to negotiate soft targets that were easy for them to reach. Secondly, such contracts rarely included rewards and penalties that could motivate the agents to put in more effort into their jobs. For instance, when bonuses were offered they had little effect because they were not linked to better performance. Thirdly, the leadership (principals) proved little commitment to the terms of the contracts, giving the agents incentives to use their information advantage to negotiate soft targets.

As later admitted by Huther and Shah (2000) significant above market rate wages in specific public institutions in order to reduce shirking and corruption, may imply that one get two prices for the same type of service. This we know may in general make a fertile ground for corruption and rent-seeking. In a high-corrupt environment, attractive jobs are likely to be sold, and the sales price has built in the capital value of the salary surplus. Thus, by inflating the wage levels in some public institutions, consultancies etc., donor agencies, and in particular the World Bank, may have had an unhealthy influence on the public administration of the poorest countries.

In order to work properly, regular wage schemes must be combined by rules that may make it easier to fire public employees. In some situations this might be done by improved monitoring. However, the rationale behind high public sector wages is to reduce the asymmetric information problem which also makes it difficult to prove that any agent is involved in a corrupt act. Hence, the demands for proof are likely to be relaxed if the probability of being detetected is to increase. Moreover, this means that the standard principal-agent approach requires that the security of employment for public officials has to be lowered. This fits well with the ideas of the *new public management* in which the public sector is to be made more like a private business. However, this approach weakens one of the Weberian principles for creating an honest, non-corrupt and efficient government, which also, as far as we know, is supported by historical experiences from Germany and the Nordic countries, and more recently in an econometric study (Rauch and Evans, 2000) for a sample of developing countries.

The recent fad of market simulation in the public sector, also aimed at reducing corruption and improve the efficiency in the public sector, may often have the opposite result. For example, public activities are to be partitioned in such ways that the sub-sectors are headed by directors with short-term tenures "selling" administrative outputs to other units of the same kind. Such "modernising" or "decentralisation" of the public sector may lead to a re-clientalisation of the state, where all the directors are competing for political patrons to protect themselves and their units against the new forms of insecurity fed into the public sector. Thus, a re-centralisation may be created under the guise of decentralisation, where all the new

cash-points created give new opportunities for bribing between sub-units of the public sector, and between the new type of political patrons and their clients.

There are of course examples where such reforms may lead to improvements. However, one problem with the approach advocated by the Bank, is that some aspects of public sector management reforms seem to have become 'ideological'. Furthermore, the theoretical arguments behind several of the Weberian arguments of public management have not been developed to the same extent as the new public management arguments in recent microeconomic theory. [61]

9.5 Concluding remarks

This chapter has reviewed some current approaches to anti-corruption reforms and the theoretical foundation behind these reforms. So far, the World Bank is the organisation that has developed the broadest and most elaborated set of policies aimed at reducing corruption. Thus, much of the policy discussion in the chapter is organised around World Bank approaches. According to the World Bank, corruption is a symptom of deep-seated economic, political and institutional weaknesses. Consequently, to curb fiscal corruption it is essential to focus on its causes and rationale. Emphasis is therefore placed on preventive measures that contribute to reduce the opportunities for and payoffs of corruption. Relevant measures include economic, political and institutional reforms, including reforms of the incentive schemes in the public administration. Political will from the political leadership is considered a necessary condition for implementing the reforms.

However, policy issues on corruption cannot be discussed without including the larger question of the nature of the state that is supposed to implementing the policies. In particular, the analytical framework of neo-patrimonialism developed by some French political scientists working on Africa provides a pessimistic view on the issue of political will to implementing reforms. Within this analytical framework corruption is understood as an integrated part of the dominant elites' extraction and rent seeking practices (see chapters 2.4 and 4.2). Because neo-patrimonial elites are the main profiteers of widespread corruption, they have limited political will for reform (Bayart

et al., 1999; Chabal and Daloz, 1999; Médard, 1986, 1992, 1995). Thus, durable effects of institutional and administrative reforms may be dubious. In this context, such reforms might even be aimed at securing the politcal and economic power of the ruling elites.

However, as Bardhan (1997) points out, to assume that all states are predatory, as in the literature referred to above, and also in much of the public choice literature in the context of developing countries, does not help in understanding why corruption is more extensive in some countries than in others, in spite of fairly similar extent of state interventions. Neither does it explain why countries with seemingly similar aggregate levels of corruption, differ with respect to productivity and economic growth.

According to Bardhan (1997), some African states in recent history have become predatory in their rent-extraction not because they are strong, but because they are weak. The state cannot enforce the laws and property rights that provide the minimum underpinnings of a market economy, leading to disloyalty and theft among public officials. In sharp contrast stand the strong East Asian states with their centralised rent-seeking machinery and their encompassing network with business interests, although the level of corruption are quite substantial (Khan and Jomo K.S.). Credible pre-commitments to both domestic and foreign business interests may be an important feature of the strength of these states. Acknowledging these differences between centralised and decentralised corruption (Shleifer and Vishny, 1993), and the importance of predictability (Wedeman, 1996; Campos et al., 1999), getting rid of many of the public dysfunctional regulations remains a major first step in anti-corruption policy, whatever the nature of the state. Furthermore, both economists and political scientists seem to emphasise the importance of institutionalising various kinds of accountability mechanisms at different levels of the government.

Rauch (1995) is, however, an exception.

10 Challenges ahead for research on corruption

Recent research on corruption often underscores the importance of formal institutions in consolidation of democracy and good governance. It is argued that well-functioning legal, administrative and institutional institutions are necessary requirements for development (Robinson 1998; Robinson and White 1998; Young 1998). However, research on corruption in poor countries should also look beyond the formal structures of the central state to the informal networks of patronage and social domination that often determine how political power actually is wielded, including the local community or district level. The concrete interlinkages between state institutions and society ought to be probed, to explore the multiple ways in which they influence and shape each other. Weight should also be given to the legacy of historical antecedents, including the legacy of colonialism.

Although institutions may have traditional and patrimonial functions in addition to their formal roles, citizens do relate to and are dependent on the formal institutions (constitutions, electoral arrangements, party systems, legal orders, and administrative procedures) to gain their full and basic political and civil rights. In particular, when it comes to democratic consolidation, there is a question of the spread of democratic norms, of political crafting, and the design of political institutions. Thus, research on corruption should focus on both informal and formal institutions.

Country specific knowledge and thematic knowledge on corruption ought to be combined. For instance, studies of particular countries that have managed to contain problems of systemic corruption, or specific institutions designed to fight corruption directly, may offer insights that are potentially replicable in other situations, and also clarify the extent to which the experiences of one country or institution are transferable to others. Such research may also produce evidence on the limitations of universal anti-corruption prescriptions. Furthermore, there is a need for more research and documentation of why many anti-corruption initiatives have not succeeded, as well as on the possible role of civil society in fighting the problem.

The implementation of anti-corruption strategies will also need a focus on public agencies. Reforming tax administration has emerged as a priority in many anti-

corruption plans, but while there is some clarity regarding what type of improved agency is desired, there is considerably less understanding on how to make this happen. Accordingly, what is the link between the level and arbitrariness of taxes and regulations, the resulting corruption and bribery, and the evolution of the shadow economy?

Another specific area of research is to study the role of institutional checks and balances (the power sharing formulas as well as the actual power balance) between the executive branch, the legislative branch and the judiciary. There are various forms of power sharing mechanisms, and the way power is institutionalised is to some extent determining the forms as well as the levels of corruption. For instance, little is known about the way constitutions are moulded, on how legislation and regulations on administrative processes are formulated and judicial processes are carried out, on what competence and resources parliaments hold, on what control, audit and watchdog-bodies are established (and their weight), on electoral codes and other institutional factors influencing the possibilities and constraints of corruption.

One potentially important research topic concerns the roles played by international organisations and multinational companies, in fostering as well as combating corruption. This approach could examine both the opportunities and constraints of multilateral agreements and donor initiatives in reducing corruption, and may also offer some guidelines on the potential of external intervention. Such knowledge is of particular relevance for governments and aid agencies when developing strategies for institutional development and administrative reforms.

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