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A CORRUPTION PRIMER: AN OVERVIEW OF CONCEPTS IN THE CORRUPTION LITERATURE

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A Corruption Primer: An Overview of Concepts in the Corruption Literature
Patrick Meagher and Melissa Thomas

Introduction

There has been a growing interest in the subject of corruption, as policymakers and academics have traced its impact on economic growth and the quality of governance. The purpose of this paper is to give the policymaker a brief, critical overview of some of the key ideas and debates regarding corruption, drawn from the several literatures of political science, political economy and economics. Section I considers the definition of corruption. Section II examines explanations of the causes of corruption. Section III considers some typologies of corruption. Section IV looks into the dynamics of corruption. Section V briefly discusses some of the challenges of measuring corruption[24] (and thereby determining its impact). Section VI presents conclusions.

I. What is Corruption?

The word "corruption" is a strange term for social scientists to use, in view of its normative implications. The Webster New World Dictionary defines "corruption" as, " the act of making, becoming, or being corrupt," while "corrupt" is defined as "1. orig., changed from a sound condition to an unsound one; spoiled; contaminated; rotten; 2. deteriorated from the normal or standard; specif., (a) morally unsound or debased; perverted; evil; depraved. (b) taking bribes; venal. . . ." (Webster (1970) 1980). A number of alternate definitions of corruption have been advanced, and researchers and policymakers should check their implicit assumptions whenever the term is used. According to Nye, "Corruption is behavior which deviates from the formal duties of a public role because of private-regarding (personal, close, private clique), pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence" (Nye (1967) 1997, p. 966).

"Corruption" may not be an appropriate term to describe behaviors that are the norm in a given society and which may enjoy broad local legitimacy or even legality. While a small current in the literature objects to the culture-bound condemnation of corrupt acts, the continued use of the term and its definition do find some justification in the fact that today most governments condemn corruption publicly, and most corrupt acts are illegal. (For a review of legal provisions aimed at curbing corruption, see Ofosu-Amaah et al. 1999.) Few governments will openly claim the right to engage in corrupt practices as an expression of local culture (but see Box 1).

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[24] The following chapter, "Measuring the Economic Impact of Corruption: A Survey," addresses the literature on the economic impact of corruption in greater detail.

> **Box 1: In His Own Words**
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> Defending his overseas bank account through which hundreds of millions of French francs had transited, President Omar Bongo of Gabon explained why he needed large sums of money–for redistribution. President Bongo explained that he paid from his own pocket for student expenses in Paris, for cars for professors, for demonstrations, for agricultural meetings, for women's day, for agricultural equipment. "A leader who does not have money to redistribute receives neither respect nor consideration." he said. He implied that he also paid for the secret service from his own money. In response to the journalist's question of why he had to pay such expenses in place of the state, President Bongo asked rhetorically, "Was the Palace of Versailles built with the money of France or of Louis XIV?" (Bongo 2001, 287-291; Louis XIV of France, the Sun King, was famous for his statement, "I am the state.")

The definition currently most widely used is "the use of public office for private gain" (see, e.g., Gray and Kaufmann 1998). While many people think first of bribe exchanges when they think of corruption, the definition of corruption as the "use of public office for private gain" encompasses a wide range of behaviors. Any form of government authority can be sold; any government property can be embezzled; any special access to information can be exploited. In addition to bribe solicitation and bribe taking, the definition includes embezzlement, self-dealing, insider trading, selective law enforcement, and the passage of special interest legislation, if done for "private gain." "Private" gain is for the gain of the official herself or any group of private persons with which she is affiliated, including family, friends, business associates, fellow political party members, or fellow members of an ethnic group. "Gain" need not be monetary. The definition of corruption encompasses a government official's submission to threats to keep herself from harm, or the staffing of government jobs with party activists as a reward for their work during the campaign, or attempts to bias an election process in order to remain in power. Corruption can encompass coercion and violent crime, as where police conduct executions for hire or prisoners are left in cells beyond their terms because they have not paid bribes (see Box 2).

The definition of corruption as "the use of public office for private gain" differs from Nye's definition, which hinges on violations of rules and formal duties. "The use of public office for private gain" does not depend on the legality of the act in question. Although most corrupt acts are criminal, others may be legal, or even specifically endorsed by law. For example, Ugandan law provides that incumbents can use all the resources of their public office in their own re-election efforts;[25] while many Europeans regard U.S. corporate contributions to political campaigns as a legal form of corruption.

As discussed in Section II, the definition of "corruption" as "the use of public office for private gain" implies the existence of a particular type of political system. Where this is lacking—as where, for example, neither citizens nor government actors believe that the role of government is to serve the public—the use of public office for *public* purposes will only be possible with a fundamental redefinition of the purpose and role of government.

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[25] See Republic of Uganda, *The Presidential Elections (Interim Provisions) Statute,* 1993, Art. 8; *The Parliamentary Elections (Interim Provisions) Act,* 1995, Art. 52.

Box 2. Examples of Corruption

- Politicians make policy decisions to ensure their own re-election, rather than policy decisions in the public interest. Government services, such as phones, transportation or franking privileges, are used by incumbents for campaign purposes.
- Police take bribes rather than write tickets.
- National government officials demand bribes from local government officials to release routine transfers.
- Central Bank and Treasury officials steal money from the Central Bank.
- Businesses that want public contracts must stop at the headquarters of the political party and "make a donation" before signing papers.
- Customs agents, judges, teachers, and police must purchase their posts and pay substantial fees to remain in them.
- Government officials give contracts to themselves, their family members, their party members, or persons who pay large bribes.
- Police and soldiers rent their guns to bandits at night.
- Health care workers ignore dying patients unless the patients or their families pay bribes.
- Educators charge bribes to enroll children in school or to release transcripts or diplomas.
- Safety officials overlook dangerous conditions in return for bribes.
- Police torture and assassinate, as paid private agents.
- Judges render decisions based on the party that paid the most, or based on instructions from a high-ranked government or political party official.
- Directors of pension funds invest them in businesses in which they have an interest.
- Forestry concessions are given to military generals or other persons of political influence; violations of environmental regulations are overlooked.
- Customs officials accept bribes to classify goods at a lower tariff.
- Oil ministry officials buy shares in oil projects that they themselves regulate.

The definition "the use of public office for private gain" has been criticized because it focuses *exclusively* on the behavior of government officials. Some have objected that the definition should be broadened to include the actions of private actors in public/private transactions (such as giving bribes to public officials), or even actions that take place entirely within the private sphere (such as embezzlement from a private company). Accordingly, they have broadened the definition to include "private corruption," stressing abuse of confidence. The definition of corruption used by Transparency International (TI), the leading non- governmental organization in global anticorruption efforts, is an example: corruption is "the misuse of entrusted power for private gain."[26] Similarly, the Asian Development Bank states: "Corruption involves behavior on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich

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[26] http://www.transparency.org/faqs/faq-corruption.html#faqcorr1.

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themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed."[27]   Following the more common practice, however, in this paper we focus on public corruption.

II. Causes of Corruption

Analyses of the causes of corruption can be loosely divided into two main approaches. The first focuses on structural causes, such as the structure and legitimacy of the political regime, history, culture, values, norms and loyalties. While these analyses contribute to a deeper understanding of the drivers of corruption, and help explain variation in extent and forms of corruption, they are often difficult to translate into policy solutions for the reduction of corruption. The second approach relies on individualist analyses rooted in New Institutional Economics (NIE), focusing on the incentives that drive individuals to choose corrupt acts.   While the tighter focus of these analyses lends itself to the generation of policy solutions, there remains the question whether corruption problems can be treated without regard to the broader context in which they are situated.

A. Structural causes

Structural causes of corruption include: (1) what might be termed the "political prerequisites" for the definition of corruption to be applicable; (2) the pattern of dominant loyalties and obligations in the society; and (3) the degree to which government is constrained from within or without by other centers of power.

1. Missing Political Prerequisites

The definition of "corruption" as "the use of public office for private gain" implies a political system that many countries lack. In particular, the definition implies:

- The existence of a government. If there is no government, then there are no public offices.
- A population ruled by the government. If there is no agreed population, then there is no "public" for the government to serve.
- A separation between public and private spheres. If there is no such separation, then it is meaningless to insist that government offices are "public" offices to be used for "public" purposes.
- An established norm that "public" offices should be used for "public" purposes. If there is no such understanding, then the implicit assumptions of the corruption definition mask a fundamental disagreement about the purposes of government.

These factors are discussed in greater detail below.

(1) No government. Trivially, zones in anarchy lack public offices and the definition of corruption does not apply. For example, the extortion of protection fees by local warlord militias to be used for their private enjoyment, while deplorable, is more easily termed "banditry" than "corruption."

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[27] http://www.adb.org/Documents/Policies/Anticorruption/anticorrupt300. asp?p=policies.

(2) No nation (no "public"). Where there is no sense of national identity, there is no "public" in whose interest "public power" should be wielded. A number of states, recognized as such by the international community, have a citizenry that is unaware that they share membership in an entity known as a nation; alternatively, the membership may be disputed. Countries emerging from a history of colonialism often struggle to build a sense of nationhood. The fragility of this sense of nationhood is seen in the resurgence of parochial interests, such as the renewed importance of clans in Kazakhstan. Where ordinary people do not feel any sense of "public" duty, or where they are honestly unable to identify the "public" to whom such a duty might be owed, it is not clear that a public exists for whose purposes an office might be used. Such citizens will not feel any compunction about demanding that friends and relatives in government perform services and favors that are at odds with a "public" duty that they do not recognize. Cultural values can further aggravate this problem. Some groups do not acknowledge duties of honesty to a stranger, while some in fact actively reward stealing from others for the benefit of the group. (See, e.g., CNN 2000) This can support corrupt behaviors where, for example, government officials steal from government for the benefit of their clan or village.

(3) No separation of public and private spheres. Alternatively, the government may exist and be effective, but there may be no recognized separation between public and private spheres. An extreme example is absolute monarchy. Where the monarch "owns" the territory, its inhabitants and their assets to dispose of as he wishes, there is no distinction between the government and the private person and purposes of the monarch. He cannot steal state assets because he cannot steal from himself. (See Rose-Ackerman 1996).

Absolute monarchies are an example of patrimonial regimes (Box 1). Max Weber (1964-1920), one of the founders of the field of sociology, defined "patrimonial" systems as a sub-type of traditional authority systems in which the leader has a purely personal administrative staff and a military force under his control, and in which the leader makes the claim of full personal powers (Weber 1964 (1947), p. 347). The administration is staffed "from persons who are already related to the chief by traditional ties of personal loyalty. . . . In traditionalistic organizations, it is very common for the most important posts to be filled with members of the ruling family or clan" (Weber 1964 (1947). p. 328). Patrimonial retainers can be supported by allowances from the stores of goods or money of the chief, usually allowances in kind; by right of use of land, or through "benefices," a right of extraction of property income, fees or taxes. "When an administrative staff, according to its fundamental principle of organization, is supported in this form, it will be said to be based on 'praebends'" (Weber 1964 (1947), p. 351). Although the leaders of such systems may not have the same broad authority as absolute monarchs, there is no distinction between their persons and the government.

Few modern governments are officially administered according to Weber's definition of the "patrimonial state." Colonialism has left behind formal laws and institutions that mirror those of the former colonizers; some countries, however, have never been organized around the legitimacy of these rules. Accordingly, although Weber was drawing on historic regimes to develop his taxonomy, his work has influenced many political scientists who felt that his description of patrimonial regimes describe some

modern governments.   Drawing on Weber's vocabulary, political scientists have described such governments as "patrimonial", "neopatrimonial" and "praebendial" or "prebendial" states (Joseph 1987). The leader's political authority is based on his ability to distribute government assets and authorities as private goods to his supporters (Scott 1972). In these systems, there is no clear distinction between public and private purposes and assets, and "corrupt" behavior is implied by the political structure of the state. (See Box 3).

Box 3. The Patrimonial Regime

The political scientist James Scott observed that in 17th century England the state was the reigning family and the offices of the state were the personal property of the monarch. No office holder

> ever conceived of himself as a servant of that abstract entity known as the state, much less a servant of the public. Some regarded themselves simply as personal servants of the monarch while others considered themselves the owners of valuable posts which they were free to use to their advantage. . . . Thus the traditional concept of office-holding prevailing in the seventeenth century led directly to practices we would now consider corrupt. . . . It was thus not thought unseemly for an official to sell off the subordinate offices in his department or give them to favorites, to speculate with the revenues he collected before passing them on, or to make a profit from the inside information he acquired. . . .

Much the same may be said for administrative behavior in less developed nations which, despite formal norms to the contrary, is influenced by more traditional norms of office holding.

– Scott 1972, pp. 38-39.

Alternatively, public and private sectors may be fused. The intermingling of enterprise, finance, and public sectors – as in many rapidly industrializing and transition countries – provides a convenient vehicle for high-level cronyism and organized corruption. These behaviors appear to have increased several East Asian economies' vulnerability to crisis in the late 1990s, and intensified their distress. At the root of their problems was "crony capitalism," fostered by the prevalence of conglomerate structures in major industries. These structures had narrow capital bases, designed to keep control within the family, but they were therefore vulnerable to external shocks. Indonesia provides some notable examples. In one scandal, the central bank and the bank restructuring authority were accused of funneling over $60 million through an insolvent bank and a front company to the former ruling party. The Bank Bali affair led to detention and criminal charges against the governor of Indonesia's central bank.[28]

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[28] "Indonesia Jails Central Banker," *International Herald Tribune*, June 22, 2000, p 14. A comparative empirical study found increased government ownership of banks, generally, to be associated with a range of governance problems. These include: (i) lower overall quality of government (i.e., greater intervention in the economy, lower efficiency, less legal security, higher incidence of political and financial crises); (ii) more restricted political rights; (iii) worse bureaucratic performance and higher corruption (though the latter is affected by income levels);

Another form of mingling public and private spheres is designated in the literature as "*state capture*," whereby individuals, groups or enterprises seek to influence the formulation of laws, regulations and policies so as to secure special advantages. This concept refers not to lobbying per se, but to illicit provision of private gains to policymakers in exchange for informal, nontransparent and preferential channels of access to government policy making. This reflects the earlier notion of "regulatory capture," in which government agencies come under the influence of regulated industries and do their bidding. For example, a Russian oligarch who controls a network of mining, energy, and banking concerns could exert a powerful influence on the Kremlin or a regional government, extracting tailored policies and laws reflecting his private interests. (World Bank 2000.)

While the concept of state capture has some utility, it is not entirely adequate. It assumes a non-state captor infringing on the pre-existing autonomy of public and private sectors. This infringement is presented as partial, perhaps involving a sector, policy, agency, or branch of government—and due in part to unfamiliarity with standards of public/private interaction. In many countries, however, it would be more accurate to say that state institutions continue to operate as tools of a ruling elite or network that may also control most non-state economic, social, and political activity. In transition countries, members of the former party elite (*nomenklatura*) converted official position into wealth as the transition got underway, and have continued to interminge state office and commerce for private gain. Either business and the state "capture" each other, or the public-private distinction is so soft as to be meaningless. Mafias play a major role alongside state agencies in enforcing oligarchic rule—an arrangement that has been described as a "criminal syndicalist state" (CSIS 2000).

A variant of this has played out in Russia's regions. Severely constrained revenues and unfunded mandates encouraged aggressive revenue-seeking by regional governors. Many have translated their authority into major economic gain, whether through direct ownership and control of regional monopolies or via the sale of private bills[29] to oligarchs (Polishchuk 2002). China provides a contrast, in that adequate revenue instruments and more effective vertical checks appear to have preserved local markets from Russian-style official monopoly and predation (Qian and Weingast 1997)—though not from corruption (Pei 2002). Here again, we have a situation of mutual capture, or better, oligarchic interests operating through linked regional governments and companies.

(4) No norm of use of public office for public benefit. The definition of corruption as "the use of public office for private gain" implies a norm that public office should not be used for private gain (but rather, presumably, for public purposes). When public and private sectors are effectively fused or do not exist, it may not be meaningful to speak of public office used for private gain. This is even more the case if such fusion reflects a

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(iv) slower productivity growth and financial development (subsequent to state intervention in banking); (v) misallocation of resources (lower proportion of credit allocated to firms outside the top 20 and higher interest rate spreads); and (vi) lower overall economic growth (La Porta et al 2000).

[29] A private bill is a law that is not universally applicable, but grants powers or benefits to a particular person, corporation or association.

common accord that the purposes of government are something other than to serve the public.

Most countries have legal codes that criminalize corrupt actions (although there are notable exceptions). But such laws may not accord with popular beliefs of right and wrong. Tyler studied why people comply with law, and found that although the threat of sanction plays some role, legal compliance is primarily explained by a sense that the laws themselves are fair, fairly applied, and promulgated by legitimate authority (Tyler 1990). Accordingly, while the law may prohibit corrupt acts, where legitimacy and fairness are lacking, the law may be little regarded, including by government actors. Moreover, the government may lack the capacity to implement and enforce law. Without social norms that prohibit governmental self-dealing, there is no reason to expect that government offices will be used for public purposes.

In some cases, norms describing appropriate government behavior may be lacking altogether. Norms regarding conflict of interest and insider trading, for example, developed in Western countries only in the 20th century and are as yet undeveloped in many countries. Alternately, weak norms may be trumped by more strongly held norms and loyalties. Examples of specific cultural norms that may trump the obligation to use public office only for public benefit include norms that tie social status to wealth, or tie leadership to conspicuous consumption and wealth redistribution. This can foster what is sometimes called "big man politics." (See Boxes 1 and 5). Another example is that of traditional gift-giving practices (Mauss 1954). The suggestion is that the concept of "corruption" is a *post hoc* condemnation of traditionally acceptable gift-giving practices, or that the existence of such traditional practices makes it hard for people to distinguish between appropriate and inappropriate behavior. (See Box 4.)

Any shock that threatens one of the political prerequisites for corruption is likely to have implications for the use of public office for public purposes. For example, a coup disturbs settled expectations of how government office should be used and may give rise to corrupt behavior. A civil war that leaves the population divided without a sense of nationhood or a sense of mutual duty may call into question the existence of a "public" for whom government office should be used. Rapid social change that requires the government to act in domains where there are as yet no settled expectations can also present an opportunity for increased corruption.

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Box 4. Gift Giving and Bribes

In Thailand gift giving is highly valued, and people believe that if an official provides good service, they should show their appreciation with a gift. These gifts are part of the patron-client relationship between ruler and ruled. In a recent study, people differentiated between gifts and bribes in terms of value. Small gifts were tokens of appreciation; large ones were illicit bribes. . . But value is relative. A businessman may view an automobile as a gift. A person observing the transfer may view it as a bribe. If the "normal" commission is 10 percent, anyone asking for 20 percent will be viewed as corrupt.

-- Rose-Ackerman 1999, pp. 91-92 f. 2.

It makes little sense to complain about corruption in countries that lack even the pretense of government for the people. In other countries, although the constitution and laws may provide for government for the people, in practice, these objectives as well as any limits on government power are ignored. Examples include Kazakhstan and Cameroon which, though nominally republican democracies, operate as authoritarian dictatorships. Such countries are often classed as "systemically corrupt." when a better characterization would be that they lack a commitment to government in the public interest notwithstanding their formal rules. The difference is more than semantic. It is a recognition that where the political prerequisites are lacking, supporting the use of public office for public purposes will require a fundamental redefinition of the role of the government, rather than marginal technocratic fixes to current institutions.

Box 5. Corruption in Papua New Guinea

The 'wantok system,' a good thing in many situations, is an abuse when officials appoint friends and relatives to high paying positions for which they are not qualified. This is a form of corruption that encourages incompetence and is detrimental to the common good. Many corrupt practices of leaders arise because of pressure from wantoks who have unrealistic and even illegal expectations of their "Bigmen." We all share blame for corrupt behavior if our own demands force our leaders to behave this way.

-- from Catholic Bishop's Conference of Papua New Guinea and Solomon Islands. "Statement On Corruption in PNG." Annual General Meeting, Goroka (April 27, 2001).

One reason why the focus more often rests on the degree of corruption than on the nature of the political system is that development agencies are the principal participants in research and dialogue on corruption. The World Bank, for example, has played a leading role in research on corruption. However, its charter forbids it to consider political factors in lending. While bilateral aid agencies are permitted to address political factors, they may stop short of demanding a change of political regime. As a consequence, proposed policy solutions may focus unduly on shallow technocratic reforms that are unlikely to accomplish their objectives within the given political context.

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2. Competing Loyalties

Where the actions of government actors are not regulated by law, and where norms prohibiting governmental self-dealing are weak or non-existent, government actors tend to privilege other loyalties. Several lines of literature focus on various social relationships that command loyalty. These relationships play a role in corruption to the extent that government actors find the obligations associated with these relationships more compelling than the obligations of formal laws regulating corrupt acts. These relationships flow from individuals' memberships in families (or other kinship groups), school groups/classes, religious organizations or secret societies, gangs or criminal organizations, villages or regions. (See, e.g., Cartier-Bresson 1997; Clapham 1982; Eisenstadt and Lemarchand 1981; Joseph 1987; Lemarchand 1988; Olivier de Sardan 1996; Schmidt et al. 1977.) Ties to societies such as the Masons and the Rosicrucians are thought to have facilitated Franco-African corruption (see, e.g., Fitchett and Ignatius 2002). In ethno-linguistically fragmented Papua New Guinea, duty to "wantoks"— literally, "one talk," or those who speak a common language—is considered to be a key factor in prevailing high levels of corruption (see Box 5). Because strong bonds are often built in the military, military ties can also facilitate corruption where such ties take precedence over duty to law. In Uganda, according to some observers, one cause of corruption is President Museveni's loyalty to the "historicals," the fellow fighters who were with him in his guerilla days and who expect financial reward. One paper argues that elite networks, facilitated by the stability of the elites, contributes to Chinese corruption (Yao 2002).

One important strand of the literature on other loyalties focuses on patron/client relationships. In patron/client relationships, people offer their personal loyalty to a more powerful patron in return for protection and opportunities for advancement. In the absence of strong impersonal institutions, such alliances may be the only way for people to protect themselves and their property. Patronage relationships are implicated in corruption insofar as the exchange of favors or services relates to public powers or assets, as where a powerful government actor uses his influence to place his client in a government job. Where these relationships are an important part of the way in which power is organized, political scientists write alternately of patronage or clientelist politics or states. (See Eisenstadt and Lemarchand 1981.) Such relationships are essential elements of neopatrimonial regimes.

3. The Unchecked Government

Other structural explanations focus on the absence of constraints on government arising from competing social groups or organizations (such as the business sector, political parties or labor movements), from financial needs, or from checking institutions within the structure of government itself. Where checks on government are weak, government actors are not prohibited from engaging in corrupt activities. The absence of competitors means that the government is "virtually uncontrolled, responsible only to itself, and thus free to pursue a policy of self-aggrandizement" (Scott 1972 14-15).

Where the private sector is comparatively small and weak, government jobs present an unparalleled opportunity for prestige and financial gain. The government attracts wealth-seeking candidates who, in other countries, would find their ambitions better satisfied in

the private sector. Bayart, studying hungry Sub-Saharan Africa, wrote of "the politics of the belly," calling attention to the fact that corruption is described by eating metaphors across the continent (Bayart 1993). Ugandans speak of making someone "vomit up what he is eaten," Nigerians argue about division of the "national cake," and Cameroonians call a government job a "meal ticket."

The balance between state and society could tilt in either direction, with imbalances fostering corruption. Johnston (1997) places corruption in a comparative framework in order to shed light on its political impacts: for example, whether it supports political stability, whether it galvanizes movements for reform, or whether it leads to violence and collapse. In an effort to explain these disparate effects, he suggests the concept of "sustainable democracy." This concept looks beyond the existence of liberal political and economic institutions to the "existence of multiple and broadly balanced political forces" (discussed more fully in the following section). Two balances are involved here:

- between the *accessibility* and *autonomy* of political elites: i.e., although private interests can influence policy, officials can formulate and carry out policies authoritatively;

and

- between *wealth* and *power*: i.e., political and economic paths of advancement are sufficiently numerous and available that trading wealth for office (or vice-versa) is not a serious temptation.

When these factors are in balance, corruption remains under control and does not destabilize politics—but serious imbalances foster corruption. Particular combinations of imbalances give rise to characteristic systems and problems of corruption.

Another potential check on corruption is the government's budget constraint, which affects the relative power of government with respect to its citizens. Governments that depend on citizens for their income must bargain with their citizens, while governments funded from other sources have wider latitude to ignore citizen demands. Knack found that "aid dependence can undermine institutional quality by weakening accountability, encouraging rent seeking and corruption, fomenting conflict over control of aid funds, siphoning off scarce talent from the bureaucracy, and alleviating pressures to reform inefficient policies and institutions" (Knack 2000). Moore et al. found that "governments that are dependent on their own citizens for critical resources appear more effective at converting material resources into human development" (Moore et al. 1999). Because this factor affects government accountability, it may also affect levels of corruption.

Checks and balances may also be provided by the formal institutions of government. This literature emphasizes the importance of clean elections, an independent judiciary, effective audit systems, and good record keeping, all complemented by a free press. This literature often declares that "corruption is a symptom of institutional dysfunction"; the suggested policy solutions tend to be laundry lists of technocratic fixes to formal government institutions.[30] Informal institutions receive little attention in this literature,

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[30] This phrase is often repeated at the World Bank. See:
http://www.worldbank.org/html/extdr/gc/governance/governance.htm;

and the underlying reasons for the weakness of internal checks and balances are not explored.

4. *Summary*

The causes of corruption include societal or structural causes such as the structure of political power and cultural values, norms and expectations. At the limit, the concept of corruption may not be a useful one in countries where the government does not rule in the public interest. The strength of the work on structural causes is that its depth contributes to our understanding of why corruption in Russia may not have the same causes or take the same forms as corruption in Gabon or in the United States. However, much of this work does not focus on corruption *per se*; rather, behavior that could be characterized as corrupt is a feature of the political system under discussion, or a reflection of a norm that is being analyzed. Accordingly, this work does not have much to say about either the dynamics of corruption or policy interventions that might be used to reduce or control corrupt practices. Moreover, factors such as history, legitimacy, loyalty, culture and norms are hard to operationalize, which makes it difficult to test hypotheses about them or to design policy interventions that would affect them. To the extent that the causes of corruption are society-wide, changing corruption levels means changing an entire society, a daunting project. To date, therefore, the policy relevance of the structural literature has been limited.

B. Individualist Causes

While political scientists, sociologists and anthropologists focus on issues of legitimacy, identity, culture, history and values, economists and political economists (as well as some political scientists) have applied New Institutional Economics (NIE) to approach the study of corruption differently. Their unit of analysis is the individual, who has rational preferences[31] and expectations, and who makes choices so as to maximize his own utility. NIE scholars analyze the incentives of individuals who choose corrupt actions, and their policy solutions focus on changing those incentives. Because the prospect of attempting to change society-wide structural factors is daunting, and because most of the policy work on corruption is written by and for aid donors who have two- to five-year project cycles, most policy recommendations relating to corruption have been drawn from this more narrowly focused literature.

An example of an individualist analysis is Klitgaard's oft-repeated formula explaining corruption: Corruption = Monopoly + Discretion – Accountability (Klitgaard 1988). When a government actor has a monopoly of some good, service or authority, with discretion about how it is to be allocated, and no accountability for how the agent allocates it, the agent is liable to allocate it in such a way as to ensure his own gain. The policy recommendations that flow from such an analysis are evident: provide competition in service delivery to break up monopolies of authority; reduce the discretion of the actor; and increase accountability for the actor's actions.

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http://www.worldbank.org/html/extdr/spring99/corruption-pb.htm;
http://www.worldbank.org/publicsector/overview.htm.

[31] The term "rational" is a term of art, meaning that preferences are complete, reflexive and transitive.

More broadly, NIE scholars have looked to the incentives of government actors to engage in corrupt acts, focusing on (1) opportunity (discretionary authority), (2) temptation (salaries), (3) monitoring and supervision, and (4) sanctions (such as job loss or reputational damage).

1. Opportunity

The Klitgaard formula defines discretion as a contributor to corruption. Because all power is discretionary by definition, some reduce the formula to an assertion that corruption is a function of public power, and that it can be eliminated by eliminating public power, as where a corrupt public bureaucracy is privatized and becomes a corrupt private bureaucracy. There has similarly been an attempt to determine who holds public power by consulting the law, and to limit power by revising the law. This effort is not likely to be successful in countries with weak rule of law. However, where a simple transaction is rendered costly because of the number of officials who can demand bribes — it is not unheard of for government claims processing to involve 80 different steps, forms, and officials — reformers have often advocated streamlining bureaucratic processes and creating "one-stop shops" for functions such as business regulation and licensing.

Rose-Ackerman has suggested that competitive service provision might be an answer. If service providers competed, they would bid down the equilibrium level of corruption (Rose-Ackerman 1978). Monopoly, as noted above, figures as one of the chief determinants of corruption in Klitgaard's formula (Klitgaard 1988). A number of scholars have explored the impact of competition on corruption (see, e.g., Shleifer and Vishney 1993). Finally, a literature focuses on the effect on corruption of specific government policies such as rationing, price controls, privatization and exchange rate setting.

2. Temptation

In considering incentives for corrupt acts, a number of scholars and practitioners have argued for the need to raise civil service salaries. Certainly, civil servants in developing countries often flag low pay levels as one of the principal causes of corruption. A number of arguments have been advanced that better-paid officials will have less incentive to participate in corrupt acts:

In a number of poor countries, a significant percentage of full-time civil servants are below the poverty line. Because they are not paid a "living wage" that enables them to meet basic needs such as rent, food, medical care and children's school fees, they are obligated to supplement their incomes through side businesses or through the creative use of their offices. If their urgent needs were met, they would be able to work honestly.

- The temptation to engage in corrupt acts is reduced when civil servants are better paid, implicitly because of the diminishing marginal utility of consumption.
- Based on efficiency wage theory from economics, another argument holds that if a civil servant is paid more than his next-best opportunity, he will not want to lose his job and will work honestly. (See Box 6.)

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- Another argument states that civil servants are more likely to be corrupt if they or others perceive their wages as unfair.
- Yet another argument holds that higher wages will attract better quality (more honest) civil servants.
- Another argument, often raised by civil servants in developing countries, is that wages are insufficient to allow civil servants to meet social expectations and to support their social status. If wages were raised, they would not need to meet these needs by corrupt means.

These discussions have been accompanied by a debate on whether civil service salaries are currently too high or too low compared to private sector wages, a discussion complicated by the very poor quality of data in developing countries. Paradoxically, while civil service wages may be too low to allow urban civil servants to house and feed themselves and their families, much less to meet the aspirations of an educated urban elite, civil service wages are often dramatically higher than those of the average citizen. While a living wage may be necessary to reduce corruption, the prevalence of corruption among higher-paid government actors shows that this is not sufficient. (See Box 6.)

3.   *Monitoring and supervision*

Much microeconomic work on corruption uses a principal-agent model as the basis of analysis. The principal/agent (or "P/A") model was developed in the context of the theory of the firm. There, the principal is the business owner and the agent is her employee. The principal would like to ensure that the agent is productive, but cannot monitor her perfectly or costlessly. P/A problems revolve around the principal's decision about how much to spend on monitoring, and how to structure the agent's incentives so as to encourage her to work.

Some NIE scholars have applied P/A models to the problem of corruption, treating the government actor's hierarchical superior as the principal confronted with the problem of preventing the agent from engaging in corrupt acts. (See, e.g., Becker and Stigler 1974; Banfield 1975; Rose-Ackerman 1975, 1978; and Klitgaard 1988, 1991.)   Klitgaard suggests that the principal has several possible avenues of recourse: select agents less susceptible to corruption, change the rewards and penalties for the agent's acts, or change the structure of the relationship by, for example, changing a rule so that the agent does not have discretionary powers (Klitgaard 1988).

It is important to note that the P/A model rests on two assumptions: that the principal is interested in using his power to halt the agent's corruption; and that the principal has control over the agent's incentives. Although some P/A models cast the government actor's hierarchical superior as the principal, the assumptions of the model are unlikely to be met in systemically corrupt governments. The superior may be driving corrupt activities as reflected in the saying that "the fish rots from the head." Moreover, it is by no means clear that the agent's hierarchical superior can control his or her incentives. The subordinate may have a powerful patron, or be well-protected by civil service regulations. Alternately, it may be the case that the agent's gains from corruption are so attractive or the social pressures on the agent are so great that they eclipse any threat of sanction that the superior could hope to muster. Similar problems attend models that cast the electorate as the principal.

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4.   Sanction

Scholars have explored the optimal punishments to discourage corruption (Polinksy and Shavell 2001), as well as the reputational consequences of corruption (Andrianova 2001).

 The NIE work is attractive insofar as an incentive-based analysis leads easily to policy recommendations. However, the incentive focus of NIE overlooks other explanatory factors for behavior that may be critical. Tyler, for example, finds that most people comply with law not because they fear punishment, but because they believe that the laws or the institutions that generate them are fair and legitimate (Tyler 1990). Moreover, although the NIE focus on the individual makes the problem of corruption seem more tractable, the impression may be deceptive. "Fighting corruption is like squeezing a balloon full of gas," complained one donor, "it just pops out somewhere else." While acknowledging some of the structural arguments about the causes of corruption, Klitgaard rejects the notion that it is necessary to change the structure or values of a society in order to reduce corruption. But a number of the vignettes that purport to show successful anticorruption efforts end in defeat. Advances are made by an individual reformer, who is then fired, transferred or resigns; the reforms are not sustained (Klitgaard 1988).

Box 6. Applying Efficiency Wage Theory to Corruption

The "shirking" models of efficiency wage theory argue that paying employees more will make them perform better. By raising salaries, employers raise the cost to the employee of losing the job; anxious to keep the job, employees will work harder. (See, e.g., Shapiro and Stiglitz 1984.) Some scholars have argued that, similarly, raising wages will reduce corruption. *But the efficiency wage theory is premised on the idea that shirking employees will lose their jobs.* In systemically corrupt governments, however, officials do not risk job loss for corrupt acts. Indeed, they may risk their jobs by refusing to participate in ongoing corrupt schemes (see Van Rijckeghem and Weder 1997). Besley and McLaren also point out that the success of an efficiency wage scheme depends on a number of preconditions, and that in most cases, simple monitoring may be preferable (Besley and McLaren 1993).

One problem is that the NIE work is usually a partial analysis, focusing on some key aspects of the problem while ignoring others. This means that assumptions about the incentive environment are often unrealistic. Much NIE work focuses exclusively on formal institutions as represented through laws and organizational charts, assuming that laws describe behavior. But where Rule of Law is weak, corruption systemic, and social causes of corruption are powerful, formal institutions do not operate as described on paper and the incentives that they provide may be dwarfed by those provided by social or informal institutions. An example of how these kinds of assumptions can lead to benighted policy recommendations is the periodic attempt to apply efficiency wage theory to reduce corruption. (See Box 6.)

5. *Summary*

In sum, the literature on the causes of corruption is divided between those who look at systemic factors—history, culture, values, legitimacy, the distribution of power between government and private organizations —and those who focus on the individual's decision to engage in a corrupt activity. The "big picture" analyses are problematic in that they do not lend themselves easily to policy recommendations. Instead, they imply that the entire society must be changed for corruption to be reduced. Moreover, they are often difficult to test rigorously. The "individualist" analyses lend themselves more easily to policy recommendations, but are often unnecessarily shallow and based on unrealistic assumptions about individual incentives, raising the question of the extent to which corruption can be treated discretely without regard to its social and institutional context. Accordingly, current NIE analyses may be most useful in understanding corruption in those countries where corruption is an individual act and the rule of law is strong, rather than where corruption is an organized, systemic, or society-wide pattern of behavior. While many of their hypotheses are more easily operationalized for statistical testing, such testing is compromised by the quality of available data on governance and corruption, as will be discussed in the next section.

What both approaches imply is that the causes of corruption vary from one country to another, and even from one institution to another. Moreover, causality is complex, with the same factors appearing both as causes and consequences of corruption. For example, a government may lose its remaining legitimacy because of its corruption; as its legitimacy diminishes, fewer and fewer people feel bound by the government's laws, and corruption increases. Corruption and lack of legitimacy are both cause and consequence.

III. Typologies of Corruption

Because the catch-all term "corruption" includes many different behaviors, with different causes and impacts, scholars have attempted to draw distinctions between different "types" of corruption or even to create complete typologies. No effort is made here to present idiosyncratic typologies. Some common distinctions drawn in the literature are as follows.

A. "Systemic" versus "individual" or "opportunistic" corruption

Scholars differentiate among those governments in which corruption is systemic, and those in which corruption is aberrant and individualized. In governments with systemic corruption, corruption is organized, and the formal institutions charged with ensuring the legality of government actions—such as the police, the judiciary, the legislature, and the electoral system—are themselves compromised.

In countries with individualized or opportunistic corruption, the formal institutions are sufficiently free of corruption to be able to play their constraining roles. Corruption is not generally organized, but instead is an individual deviant act. An intermediate case may be where the formal institutions are partially compromised, as, for example, the Rampart Division in the Los Angeles Police Department,[32] or the Cook County court system, which was the subject of two major FBI operations (Lockwood 1989). As the

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[32] http://www.pbs.org/wgbh/pages/frontline/shows/lapd/scandal/cron.html.

number of people and agencies in a scheme of corruption grows, not only is more money needed for sharing, but a greater investment is required for secrecy and coordination (see Box 7). Elaborate group arrangements of this kind are variously termed collective, institutionalized, or structural corruption—as well as organized or white-collar crime (Karklins 2002; Gong 2002). Examples include organized smuggling, collective embezzlement, moonlighting enterprises using government property, and state enterprise asset-stripping.

Box 7. Many Hands Grabbing

An example of a highly successful organized corruption scheme is the smuggling enterprise that operated in Zhanjiang, a city in China's Guangdong province, during the late 1990s. An estimated 100 officials were involved in the smuggling of more than 60 million RMB[33] (US $7.3 billion) worth of goods, in return for bribes or smuggling opportunities. Among those involved were:

- the customs office, code-named the "vehicle for smuggling";
- the anti-smuggling investigation office, known as the "smuggling office," which arranged auctions of smuggled goods;
- the city's party chief, nicknamed the "umbrella for smugglers," who arranged a city loan to finance his son's smuggling and was himself a smuggling "king";
- the vice-mayor, himself a major smuggler;
- the port authorities;
- the state tax bureau.

The ring was eventually broken. A trial of conspirators in 1999 led to six major offenders receiving the death penalty and 25 others being sentenced to prison terms of five to fifteen years. (Gong 2002.)

B. "Grand corruption" versus "petty corruption"

Another distinction is sometimes drawn between *grand corruption* and *petty corruption*. These terms have been variously defined, but are used to distinguish between the corrupt acts of higher level government actors (involving larger amounts of money) and the bribe-taking of lower-level service providers such as policemen and health workers. Jain provides a much narrower definition, equating grand corruption with "the acts of the political elite by which they exploit their power to make economic policies," in contrast to "bureaucratic corruption," which he defines as "corrupt acts of the appointed bureaucrats in their dealings with either their superiors (the political elite) or with the public" (Jain 2001).

C. "State capture" versus "administrative corruption"

We alluded previously to "state capture," i.e., the provision of illicit favors to politicians in order to influence the formulation of laws, regulations and policies, so as to secure special advantages. By contrast, "administrative corruption" refers to the use of illicit favors to distort the implementation of existing policies. This distinction underlies the

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[33] *Remnimbi*, more commonly known as *yuan*, is the Chinese unit of currency.

World Bank's analysis of corruption challenges and priorities in the transition countries, categorized according to their level (high or medium) of these two broad types of corruption. Thus, in the high state-capture countries, the concentrated power of economic interests obstructs reform and restricts access to policymaking processes. Moreover, a high level of state capture suggests insufficient overall attention to market-oriented restructuring of the economy, in favor of dividing spoils among influential oligarchs and arrivistes with the cash to buy policies. Hellman et al. (2000) find support for these propositions in a multi-country analysis of data from the 1999 World Bank BEEPS[34] surveys. High state capture creates a "capture economy" in which officials sell basic public goods such as contract and property security to the newer large firms, while established firms are protected by long-standing influence—and the rest suffer from officials' weak incentives to provide these public goods free of charge. In other words, the policy and legal environment is shaped to the captor firm's advantage and at the expense of the business sector (and the populace) generally. This situation obtains once a private sector with civil liberties is in place (prior to this, there is in effect nothing to capture and no means to attempt capture), and before transition has ushered in effective competition and constraints to corruption.

D. "Good" versus "bad" corruption.

 One line of economic literature has argued that corruption can be good if it allows businesses to circumvent bureaucratic obstacles that impair market efficiency by "buying" less red tape (Leff 1964; Lui 1985). Kaufmann and Wei point out that these models are partial equilibrium models that fail to take into account the fact that bureaucrats may control both the regulatory burden and the delay; accordingly, firms that pay bribes would not necessarily face less harassment (Kaufmann and Wei 2000).

E. Centralized versus decentralized corruption

One strand of literature argues that corruption does less harm if it is centralized. There are several arguments in support of this thesis. One is that centralized corruption is more predictable. If businesses can predict the amount that they must pay in bribes, they can factor it in as any other tax; it is the unpredictability that cripples business (see, e.g., Campos, Lien and Pradhan 1999). Others argue that a centralized authority that determines the amount taken in bribes will limit bribe amounts so as not to destroy businesses, which would lower long-term revenues (see, e.g., Olson 1993; Shleifer and Vishny 1993). This claim has never been tested, and rests on unarticulated assumptions concerning the discount rate of centralized authorities, the marginal utility of consumption, and the degree to which destruction of individual businesses will reduce the authorities' overall take.

IV. Dynamics of Corruption

Understanding patterns in the breadth and persistence of corruption is of central importance to policymakers. Yet, the dynamics of corruption are not well understood, and relatively little work has been done in this area. Political scientists have focused on the process of democratization, either seeing corruption as incompatible with a healthy

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[34] Business Environment and Enterprise Performance.

modern democracy or alternatively, seeing democratization as creating new constraints and opportunities (see, e.g., Scott 1969). Several economics papers have presented corruption as stable at different levels (multiple equilibria) and explore the impact of individual factors that may result in a higher- or lower-level equilibrium (see, e.g., Celentani and Ganuza 1999). A small literature explores the persistence or "stickiness" of corruption (see, e.g., Dawid and Feichtinger 1996). Bardhan (1997) neatly summarizes the findings in this area. In general, the literature in this area is much more theoretical than empirical.

A. Societal Balance and Change

What causes corruption levels to remain steady at high or low equlibria, or to shift? One framework for analysis is proposed by Johnston (1997), who argues that the political balance of forces shapes corruption trends. Where a balance exists between economic and political power, and between autonomy of and access to elite officials, corruption remains under control. Imbalances can destabilize politics and foster corruption, and particular combinations of imbalances give rise to characteristic systems and problems of corruption. Moreover, these situations are dynamic, with social ferment, economic change, and political contention shaping opportunities—and influencing where society draws the line between the state and the market and between acceptable and unacceptable influence.

1. Johnston's four scenarios

Johnston's analysis yields four ideal-typical "syndromes" or scenarios, where particular imbalances generate different political dynamics and forms of corruption. These scenarios are:

- Moderate-corruption scenarios:

(1) "*Interest group bidding*," typical of industrial countries where economic opportunities exceed political opportunities and the accessibility of elites (i.e., their vulnerability to interest-group pressure) outweighs their autonomy.

(2) "*Patronage machines*," such as those in Suharto-era Indonesia or 19th century U.S. cities, where a dominance of political over economic opportunities and greater elite autonomy produces significant, but reasonably well-organized, corruption.

- High-corruption scenarios:

(3) "*Elite hegemony*," as in some military regimes and authoritarian East Asian states during the 1980s and 1990s, where both economic opportunity and elite autonomy have been high, and lack of accountability at the top can lead to extreme corruption.

(4) "*Fragmented patronage,*" typical of many African countries and of Russia during the 1990s, where high elite accessibility and predominance of political opportunities leads to indiscipline, oligarchic fiefdoms, and potentially extreme corruption.

2. Equilibrium and shifts

Corruption appears to move in chaotic patterns, comparable to those of street crime, disease, and financial markets. Some periods experience a steady state, while in others

the equilibrium becomes unstable and shifts. A number of possible mechanisms might account for such trends. The basic theoretical construct employed here is the "frequency-dependent equilibrium," occurring between the polar extremes where either everyone or no one is corrupt. Individuals choose strategies based on their expectation that their transacting partners are either more likely than not to be corrupt, or less likely, or indifferent. Initial conditions and external shocks determine trends in one direction or the other. Several mechanisms are potentially at play here. For example, corrupt agents may prefer to transact with other corrupt agents, and hence would seek them out and revise upward their general estimation of likely corruption with each corrupt partner they meet. Further, higher rates of corruption increase the probability that supervisors and watchdogs are compromised, making punishment less likely. Reputation mechanisms are also at work. Certain players, such as middlemen or "fixers," have an interest in spreading rumors of corruption and giving the impression that bribery is rampant. Once such an impression takes hold, it may be difficult to change (Bardhan 1997).

Instabilities can arise during periods of rapid social or economic change, consolidation of a new regime, or a successful anti-corruption campaign. For example, both the late 19th-century "Gilded Age" in the U.S. and the period from late communism through early transition in Russia witnessed rapid change and proliferating opportunities. These changes apparently led to substantial increases in the amounts and forms of corruption. First of all, social changes attending modernization and urbanization can generate excessive demands on antiquated political systems. In particular, where dominant groups could previously exert mild informal pressure on elites without resorting to bribery, changes in political and social structures may now require them to buy off policymakers to get their way (Scott 1972).

Second, economic change creates instabilities that can cut in either direction. As the economy expands and becomes more complex, public and corporate officials discover more opportunities to profit from their official decisions. In transition settings in particular, a dual-track economy creates endless possibilities for profitable collusion and self-dealing (Bardhan 1997, Aslund 2003). The insecurity of property rights in these environments is also thought to increase corruption. It encourages the use of alternative means, including rent-seeking accompanied by bribery, to protect investment interests. In these environments, restructuring, and especially establishing the key infrastructure for competition in the economy, is necessary to restrain corruption. GDP growth alone is insufficient. Some empirical evidence is emerging to support these points (Broadman and Recanatini 2002, Kaufman and Kraay 2002, Keefer and Knack 2002).

Changes in regimes and political systems can also have destabilizing effects. Political scientists have studied the process of democratization and widening public participation (See, e.g., Huntington 1993). Introducing democracy in a given context may enhance transparency and the enforcement of laws, while increasing the cost and difficulty of coordinating corrupt transactions; however, it may at the same time make it harder to protect the integrity of lawmaking processes (Bardhan 1997). Further, where polities do not demand clean government, or where they are unable to monitor corruption levels in government, democratization alone is unlikely to lower corruption levels.

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Perversely, to the extent that democratization widens political participation to include people who do not demand clean government, or who are less able to monitor corruption, it could actually *increase* corruption. It is no accident that Tammany Hall, the corrupt political machine that ran New York City, was born in the wake of the elimination of property holding requirements as voting eligibility criteria in 1821. For the next century, Tammany drew its political power from the waves of poor uneducated immigrants who traded their political support in exchange for facilitation in interacting with the U.S. system, for the possibility of jobs, or even for a bucket of coal in the winter.

A high level of corruption appears exceedingly difficult to reverse. Theoretical models, reflecting the difficulty of reducing corruption, characterize it as "sticky." This suggests that both upward and downward shifts in the level of corruption may happen in a sudden, catastrophic fashion, but only after a long build-up of favorable conditions. Why is this so? The few attempts to answer this question seem to suggest that this pattern reflects the particular interests being advanced by means of corruption. Most obviously, an increase in corruption attracts stakeholders in corrupt benefits—and once vested, these interests will not be surrendered lightly. Indeed, as networks of corruption emerge, members defend their interests by weakening institutions of restraint (in some cases by murdering rivals and watchdogs), thereby further increasing the level of corruption. This has classically been the pattern with illegal narcotics trade, smuggling rings, organized criminal enterprises, and other black markets arising in response to government controls (see, e.g., van de Mortel and Cornelisse 1994, Morris 1999, Jain 2001, Gong 2002).

In practice, a high-corruption equilibrium is likely to shift downward only as a cumulative result of many types of changes—economic, political, social, domestic and international. Rapid reversals are rare, but they do exist, Hong Kong since the early 1970s being the leading (if somewhat idiosyncratic) example. This last case suggests that dramatically reducing corruption means concentrating efforts to create a "tipping point" that leads to reversal of a trend. By contrast, keeping corruption under control sometimes means acting comprehensively to stop small infractions and an incipient atmosphere of impunity from growing into a wave of corruption.

B. The Normative Dimension

Levels of corruption also seem to reflect shifts in social norms. Some relevant work has been done on the dynamics of norms and rule obedience, such as the acceptance of womens' voting rights or other human rights, or the disappearance of once-accepted practices such as dueling (see Box 8). Socialization and expectations about others' behavior reinforce the individual's tendency to follow broadly accepted standards and to avoid practices clearly within the society's definition of corruption. Individuals will normally interpret others' behavior consistent with such norms as indicating their acceptance of those norms—and will tend to derive satisfaction from others' adherence to the norms. Should the individual be tempted, she/he would be restrained by "expectation-dependent remorse" or feelings of shame derived from the individual's expectation that others will disapprove. In some cases this expectation (and the underlying interpretation of wide support) may be false, with the result that observed behavior supports an unpopular norm that appears too costly to break (Clague 1993, Huang and Wu 1994, Bicchieri 1997). Posner (2000) interprets these dynamics in terms

of *signaling*. In this view, social norms are self-enforcing, because people feel compelled to signal their "type," i.e., "good" types comply with the norm.

Box 8. Women's Suffrage: An Example of Norm Dynamics

Research on women's suffrage globally provides support for the idea of the life cycle of norms and the notion of a "tipping point" or threshold point of normative change. Although many domestic suffrage organizations were active in the 19th century, it was not until 1904, when women's rights advocates founded the International Women's Suffrage Association (IWSA), that an international campaign for suffrage was launched. In fact, rather than a single international campaign for women's suffrage, there were three or four overlapping campaigns with different degrees of coordination. A quantitative analysis of the cross national acquisition of suffrage rights reveals a different dynamic at work for early and late adopters of woman suffrage. Prior to a threshold point of 1930, no country adopted woman suffrage without strong pressure from domestic suffrage organizations. Between 1890 and 1930, western countries with strong national women's movements were most likely to grant female suffrage. Although some original norm entrepreneurs came from the U.S. and U.K., this was not a case of "hegemonic socialization," as the first states to grant the right to vote were not hegemons (New Zealand, Australia, Finland), and the United States and U.K. lagged 10-20 years behind. After 1930, international and transnational influences become far more important than domestic pressures for norm adoption, and countries adopted woman suffrage even though they faced no domestic pressures to do so. For woman suffrage, the first stage of norm emergence lasted over 80 years: it took from the Seneca Falls Conference in 1848 until 1930 for 20 states to adopt woman suffrage. In the 20 years that followed the tipping point, however, some 48 countries adopted woman suffrage norms.

-- Finnimore and Sikkink 1998.

Importantly, examples set by leaders and the surrounding equilibrium of behavior help to sustain (or erode) the individual's rule-obedience. An individual who desires to break the rule will tend to seek out examples of rule violation in order to resolve the cognitive dissonance caused by inconsistent behavior (or desires). Changes in the surrounding social environment can undermine a rule, setting off a behavioral cascade in a new direction. In some cases, a determined minority with commitment to a norm can block the wholesale reversal of a behavioral equilibrium and indeed initiate a move to re-establish widespread adherence to the norm (Clague 1993, Bicchieri and Rovelli 1995).

This work is relevant to the extent that corruption declines in response to the establishment of political norms such as those discussed in Section II (see "Missing Political Prerequisites"). Those norms call for the separation of public and private spheres, emphasize that the purpose of government is to serve the people, and hence disapprove of self-dealing in public office. More broadly, it seems likely that the level of corruption is primarily a function of the norms of those in power. Changing the level of corruption would therefore either involve changing the norms of those in power and those to whom they answer, or replacing them with people who hold norms against corruption and who are answerable to constituencies that demand clean government.

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V. Measuring Corruption and Its Impact

Measuring any corrupt practice is difficult because corrupt behaviors are usually criminal and take place in private. While the impact of corruption could presumably be determined by examining financial and inventory records, it is perhaps not a coincidence that governments with systemic corruption have very poor record keeping (and can be prone to inexplicable documents fires). It is impossible to know how much government property has been stolen if no inventories of government property are kept. Similarly, audits of government contracting are not effective unless there is a complete trail of documentation regarding a government purchase (but see Box 7). Attempts to measure corruption by counting the number of complaints to the police are unsatisfactory because they confound the incidence of corruption with recognition of corruption and faith in the honesty and effectiveness of the police. Similarly, attempts to measure corruption by counting press reports of corruption confound the incidence of corruption with the freedom of the press, the professionalism of the press, the availability of information on corrupt activities, and popular concern about corrupt acts. Because of the variety of types of corrupt practices, and the inability to directly measure any of them, *all* measures of corruption are partial measures. Estimates of the costs of corruption are often thinly supported.

Efforts to measure corruption have focused primarily on survey data of perceptions or experiences. *Perception questions* ask interviewees to rate the levels of corruption in particular government agencies, or to report whether they think levels of corruption have gone up or down. But public perceptions may not be well informed. A household survey of perceptions of corruption in the justice system, for example, is not a good proxy for evaluating the level of corruption in the justice system because so few people have contact with the system, and even fewer understand it. Perceptions may also be heavily influenced by media reports. It is not uncommon for people to report that corruption has increased when an anti-corruption campaign results in more public attention to corrupt activities. Finally, perceptions often lag years behind reforms.

Experience questions in surveys ask interviewees how frequently and to what government agencies they have paid bribes. While surveys targeting personal experience may produce more reliable data, people may hesitate to report their own involvement in corrupt activities. They may also have difficulty interpreting their experiences. When no official fee schedule for government services is posted, or where fees have been adjusted by custom over decades, people may not know whether they paid the official fee or a bribe. When a government office lacks paper, or the police lack a car, and a citizen is asked to provide paper or transportation services in order to receive a government service, it is not clear whether furnishing such supplies or services counts as a bribe.

Survey techniques have another drawback. Survey questions must be drafted in advance, and administered in precisely the same way to a substantial pool of respondents. This means that survey techniques are well-adapted for learning about types of corrupt practices that are widespread and well-understood, such as bribe exchange, but much less useful in learning about types of corruption that do not involve a large number of people, or that are not known to survey designers in advance. More flexible investigatory and interview techniques are required to learn about less common corrupt practices or

particular corrupt schemes that involve smaller numbers of people. *Qualitative research* using skilled interviewers and investigators may be needed to learn more about patterns of corruption in a particular agency or locale, and to supply complementary information that can better help researchers formulate survey questions and understand the answers. But while these techniques help paint the broader picture, they provide only a partial view and do not produce "measures" of levels of corruption either.

Because the business community is particularly interested in knowing about levels of bribe exchange between the private sector and government, there are business risk information services (such as Business Environment Risk Intelligence and International Country Risk Guide) that conduct surveys of foreign investors, asking about their perceptions of and experiences with corruption. Transparency International, a non-governmental organization that combats corruption, provides an annual ranking of the perceived levels of corruption in various countries. The ranking, used to pressure governments to take action, draws on such surveys conducted by business risk services as well as other surveys of foreign investors. The World Bank and other donors conduct household surveys that explore public perceptions and experience with various government agencies.[35] Another approach to measuring corruption is that of the World Bank's "public expenditure tracking surveys" (PETS), which attempt to determine the flow of funds from the treasury to schools and health clinics by means of a series of surveys administered to the different levels of administrative officials (Reinikka 2001).

More recently, researchers at the World Bank have developed an aggregate index (Governance Research Indicators Country Snapshot, or GRICS) that makes use of the other available surveys to calculate a "Control of Corruption" variable. While GRICS pulls together the sum of what is known, for some countries there is very meager information. There is an unfortunate relationship in fact between poverty, poor governance and poor data. In the words of the authors, "Our main finding is that the available data do not permit very precise estimates of governance. . . . The most striking feature . . . is that these confidence intervals are large relative to the units in which governance is measured" (Kaufmann et al. 1999, p. 15).

Because development is dominated by economists whose primary empirical tools are statistical techniques, most of the empirical work on corruption is statistical and therefore most of it focuses on bribe exchanges. Moreover, most studies focus on bribe exchanges between foreign investors and government, or between the average householder and government. *This does not necessarily mean, however, that these are the most important bribe exchanges, or even that bribe exchanges are the most important form of corruption.* For example, the Goldenberg scandal in Kenya involved the embezzlement from the treasury and central bank of approximately U.S.$1.1 billion by a small network of

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[35] In addition, as the World Bank moves to allocate aid based on the quality of governance, it is using an internal measure called the "Country Policy and Institutional Assessment" (CPIA). The CPIA is a survey of the World Bank staff who work on a given country, and among other ratings, it asks staff to rate the "transparency, accountability and corruption in the public sector." The utility of this measure depends on the actual knowledge of World Bank officials, and as yet there is no systematic collection of information on these topics by the World Bank. The CPIA is confidential to the World Bank.

government officials and private sector actors; in Mozambique, three people investigating banking corruption were murdered (CNN 1999; Hanlon 2002).

While researchers are obliged to use available data to test hypotheses about the causes and consequences of corruption, these efforts are made more difficult by the poor quality of data. Notwithstanding, a number of researchers have made use of these indices for empirical analysis. (See, e.g., Mauro 1995 and Knack and Keefer 1995.) Economists have studied the impact of corruption on variables of economic interest, such as growth, distribution, government expenditures and foreign direct investment. (This literature is discussed in more detail in the companion paper, "Measuring the Economic Impact of Corruption: A Survey.") Non-economic impacts, while less studied, are equally important. These include the impact of corruption on a range of public issues, including the quality of public service delivery, public policies, public administration, morale, the rule of law, and mortality or life expectancy.

VI. Conclusion

The literature on the causes of corruption can be loosely divided into two types: the literature that addresses systemic and structural reasons for corruption; and the literature that addresses the incentives facing individual government actors. Because of the separation of the disciplines, these two perspectives are not yet adequately integrated. Both sets of factors are likely to be important in explaining variations in the levels of corruption across countries, regions and institutions, and it seems unlikely that a solution that neglects either of these facets could succeed in reducing corruption. Indeed, where the political prerequisites are lacking, it is reasonable to ask whether we need to focus on corruption or on the political system.

Overall, the literature on corruption has the feel of theoretical exploration. Some effort has indeed been made to test the many hypotheses about the causes and effects of corruption. Nevertheless, the many faces of corruption, the difficulty in operationalizing variables, and the poor quality of data—complicated by the incoherence created by the division of the discussion into different academic disciplines—have prevented the literature from building on itself and moving forward in a definitive way.

There is no shortage of policy recommendations for reducing corruption, most deriving from the NIE literature: promote competition, increase salaries, improve monitoring, reduce discretion, reduce public power and the size of government, increase sanctions. More broadly, policy recommendations advocate strengthening the institutions that check government. These include the government institutions that check government from within, such as the legislature, the judiciary, administrative law and procedure, audit systems and record keeping. They also include institutions that check government from without, including the free press, human rights associations, government watchdog associations, think tanks, universities and business associations; and international organizations. The recommendations also include informational campaigns and improved access to government information. While these recommendations are intuitively appealing, it is unclear how well they can be implemented in systemically corrupt environments, or what the expected impact might be. The poor quality of data certainly hampers efforts to test hypotheses about the causes and consequences of corruption. Aside from a few successes that have become iconic—like the cleanup of

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Hong Kong under the Independent Commission Against Corruption—it is not clear to what degree these interventions have been successful, or whether we have sufficient data to determine which interventions have been successful.

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