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Corruption as an Institution: Rethinking the Nature and Origins of the Grabbing Hand

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Abstract

The predominant view of corruption within political science and economics today is the principal-agent model. Corruption is modeled as criminal behavior on behalf of some agents entrusted to act on the behalf of some principals. According to this view the criminal behaviour of corruption could be made to disappear by fixing the incentive structure or the institutional setting. The purpose of this paper is to question this way of conceptualizing endemic corruption. By modelling corruption as an institution in itself, rather than as some form of illicit behaviour, both the causes and consequences of corruption appear in a different light. Most importantly, whereas the principal-agent model stresses a vertical dimension of conflict produced by and reproducing corruption, that between rulers and ruled or electors and elected, an institutional view of corruption instead stresses horizontal conflicts between different sectors of society which may benefit or loose from corruption. An application of this perspective is sketched in which corruption is seen as a regressive tax, which opens up for applying a set of theoretical models of distributional conflict to the study of corruption in relation to economic inequality and democracy.

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Political corruption...is, indeed, a unique and highly complex thing; an institution, if you please, rather than a condition of society or a temper or tendency of any class of individuals.

Francis McGovern (1907, 266)

Introduction

As a Swede, coming from a small language area, you are not used to reading an important book in Swedish that has not already appeared in English or some other of the world's dominant languages. Recently I did. Even more surprisingly, this was a book about China. Titled "Röd Åklagare", *Red Prosecutor*, this book is an autobiographical story of Xiao Rundcrantz, who served as a prosecutor within the Chinese legal system from 1984 to 1998, when she emigrated to Sweden (the reason why the book first appeared in this language). *Red Prosecutor* is not only a great read. It is an intriguing case narrative with potential to contribute to the social sciences. I doubt that many more detailed and revealing portraits of the Chinese legal system from the inside has ever been written. For me, however, this is first and foremost a book on corruption.

When Xiao, aged 18, starts working as an apprentice in a country-side district attorney's office in the mid 1980's, she does not encounter widespread corruption; neither among the criminal cases she investigates, nor within the legal system itself. When one of the mid-ranking attorneys is found guilty of having used his official position to get cheaper construction material for his house, for example, he is publicly criticized by the local disciplinary committee of the Communist Party, and reassigned a less prestigious position (Rundcrantz 2006, 91-2). When Xiao herself is offered gifts in return for favorable treatment by criminal suspects, she refuses to accept them with the argument that if her colleagues and the police would learn about it, her career prospects would be hurt (ibid., 133). Some 10 years later, when leaving China in the mid/late 1990's, the picture has changed radically. Large-scale investigations into bribery and kickbacks in dealings between private business firms and state officials are now part and parcel of Xiao's everyday's work. What is more, corruption has afflicted the judicial system itself. Gifts in return for favors are commonplace; informal deals between influential firms and the attorney's office reoccurring. This also includes the court judges, who now cooperate with lawyers in order to attract as large material payback as possible from being allocated the most lucrative legal cases. Cynicism is widespread. The

district attorneys spend several hours a day playing cards instead of doing their job. And so on.

A particularly intriguing feature of Xiao's story is that it actually identifies a critical tipping point in this process of change. This is the point where she herself appears to reestimate the net gains of being a non-corruptible and justice-seeking prosecutor. We are set in the early 1990s. Xiao discovers that one of her suspects has bribed a higher-ranking officer at the attorney's office, which means that she has to drop all charges—despite clear evidence in favor of conviction. She then burst out to one of her colleagues: “That is the difference between being and not being one of the bosses. There is no point in being clean when nobody else is. We should rather take our share of the pie in the future. We might as well all be corrupt.” Her colleague replies, grudgingly: “This is the beginning of the end. Another revolutionary has rotten and dissolved” (ibid., 250-1).

This story not only illustrates, very neatly, how extremely difficult it is to uproot corruption with a corrupt legal system (Transparency International 2007). More generally, it illustrates the importance of thinking about corruption as “the rules of the game”, that is, as an institution. When almost everyone is corrupt, honesty is the deviant behavior. What needs to be explained under those circumstances is not why any one public official takes bribes, steals from the public coffers, or distributes administrative advantages in return for material gain. What needs to be explained is how corruption became the rules of the game.

Evident as this may sound, this is not the way corruption has been theorized within comparative political economy. The predominant theory of corruption within both political science and economics today is instead based on the principal-agent model. Corruption is modeled as criminal behavior on behalf of some agents entrusted to act on the behalf of some principal (Rose-Ackerman 1978; Klitgaard 1988). Who is the agent and who is the principal in these models may differ. Sometimes rulers are the principal and the bureaucracy the agent (e.g., Becker & Stigler 1974). Even more common is to model rulers as agents, and citizens as principals, stressing institutional determinants of corruption such as electoral rules, democracy and other mechanisms of accountability (e.g., Persson & Tabellini 2000: chap. 9; Adzerà et al. 2003; Besley 2006). Regardless of exactly what principal-agent relationship is modeled, according to this view corruption could be made to disappear by fixing the incentive structure of the institutional setting within which it occurs.

The purpose of this paper is to question this way of conceptualizing endemic corruption. I will work from the premise advanced by Jain (2001, 72), that “to understand the conceptual and theoretical links between corruption and the functioning of society’s economic and political institutions” is by far the most challenging task facing corruption researchers today. I will thus primarily sketch an alternative theory of corruption, although in the process of doing this I will also hint towards empirical regularities that are in need of theoretical explanation. More precisely, I shall argue that by modeling corruption as an institution in itself, rather than as some form of illicit behavior, both the causes and consequences of corruption appear in a different light. Most importantly, conceiving of corruption as an institution highlights another dimension of social conflict produced by and reproducing corruption. Whereas the principal-agent model stresses a vertical dimension of conflict, between rulers and ruled or electors and elected, an institutional view of corruption instead stresses horizontal conflicts between different sectors of society which may benefit or lose from corruption. This, I shall argue, has important ramifications for the way we understand and explain corruption.

The Limits of Principal-Agent Models of Corruption

Consider the model of corruption developed in Becker & Stigler’s (1974) classical treatment. The problem is set up as how to raise the quality of law enforcement by discouraging malfeasance, such as that of taking bribes, among law enforcers. The state, being the principal in this model, cannot perfectly observe which law enforcers behave honestly. This opens the possibility for bribery. Taking bribes is of course rewarding for the agents (individual law enforcers/bureaucrats), but it is also risky: being detected means being fired and forced to take up another occupation, possibly at a lower wage rate.

Although this simple setup has been elaborated in various ways (see, e.g. van Rijckeghem & Weder 2001), it is immediately clear that the extent of corruption in this model hinges on three factors: the value of the bribe offered (the motivation), the probability of being detected when collecting bribes, and the loss incurred by being detected (in this case the wage difference, more generally in terms of the legal remedies applied as punishment). As a way of understanding and remedying bureaucratic corruption in situations where there is a clear political will to tackle the problem, this approach certainly has its strengths. Di Tella and Schargrodsky (2003), for example, document that inferred levels of corruption in procurement

by public hospitals in the city of Buenos Aires, Argentina, fell as a consequence of a crackdown on corruption organized by the local authorities. Moreover, the inferred level of corruption responded to efficiency wages among the procurement officers some 9 months after the crackdown was initialized, when the level of auditing was arguable at intermediate levels. Both these findings are consistent with Becker and Stigler's (1974) model.¹

Nevertheless, a key theoretical problem with the Becker-Stigler model, severely restricting its domain of applicability, is that it presumes the existence of a benevolent principal (Aidt 2003). More specifically, it is assumed that the leaders, such as autocrats, high-level officials or elected politicians, are genuinely interested in curbing corruption. This is a fairly heroic assumption on a general scale. If the main problem concerning corruption in the world today was how to make corrupt bureaucrats respond to the cues of benevolent state leaders, we would arguably already have taken a gigantic stride towards a solution to the problem. Apart from a limited number of countries and situations, however, this is not the current state of affairs. Most "principals" must be assumed non-benevolent, which by implication means that both corruption deterrents in this model may be easily cheated upon: there is hardly any risk of being detected if there is no one seeking detection; similarly, no severe punishment will be enacted if those responsible for enacting legal remedies are themselves corruptible. In other words, apart from the obvious fact that the potential gains involved motivates the extent of corruption, there is, under most circumstances, not much knowledge on the forces driving corruption gained by this model.

The more pressing problem from a principle-agent perspective, then, seems to be how to control the principals, i.e. state leaders. In terms of theories of corruption, the response to this has been to develop models which instead turn these "principals" into agents. The richest set of such models, instead of assuming benevolent politicians, takes an institutional attribute for given: the presence of competitive elections. The principals in these models are the citizens-cum-voters who try to discourage malfeasance, such as corruption, by holding politicians accountable through the electoral mechanism. Given this setting, the problem becomes one of designing institutions, such as electoral systems or forms of government, so as to strengthen

¹ Olken (2007) also finds support for the effect of top-down monitoring on inferred levels of corruption in a randomized field experiment in Indonesia.

accountability and minimize the incidence of rent-seeking and/or corruption (see, e.g., Myerson 1993; Persson & Tabellini 2000; Besley 2006).

There are however hardly any robust findings on institutional determinants of corruption in the cross-national studies to date. Although agency theory predicts presidential systems, with their checks and balances, to be less corrupt than parliamentary systems (Persson & Tabellini 2000: chap. 9), cross-sectional studies either find no (Persson & Tabellini 2003; Adzera et al. 2003) or the opposite relationship (Gerring & Thacker 2004; Kunikova & Rose-Ackerman 2005; Lederman et al. 2005). With respect to electoral rules, Kunikova & Rose-Ackerman (2005) find that PR systems are more corrupt than plurality systems, whereas Verardi (n.d.) finds the opposite. Persson et al. (2003) suggest and find evidence in favor of different mechanisms linking different electoral systems to corruption: larger voting districts, and thus lower barriers to entry, are associated with less corruption, whereas larger shares of candidates elected from party lists, and thus less individual accountability, are associated with more corruption. Since these two effects tend to cancel each other out, only minor differences remain between PR and plurality systems. Chang and Golden (2006) add even more complexity to these findings by arguing that district magnitude has opposing effects under different PR systems: whereas corruption is decreasing in district magnitude under closed-list PR, it is increasing under open-list PR or “preferential vote” systems.

Considering the numerous possible combinations of institutional features, the tendency of many of these to be strongly correlated across countries and to be extremely stable over time, perhaps it comes as no big surprise that empirical findings in this regard are extremely volatile. In the words of Treisman (2007, 232), “we are getting close to the end of the information that can be squeezed out of these data...Although the effects might exist, the evidence for them is fragile.” This is even more clearly the case when experience-based cross-sectional measures of corruption levels replace the usual perceptions-based indices (ibid., 235).

More importantly from a theoretical perspective, the assumption of competitive elections again severely restricts the empirical domain covered by these agency models. Although democracy has been on the rise in the last three decades, roughly half of the countries in the world must still be classified as authoritarian in one way or another, even by applying low thresholds for what counts as a democracy (see, e.g., Hadenius & Teorell 2007). If the entire

framework of analysis applied in these models is based on the assumption, in Besley's (2007, 102) words, that "incumbents are supposed to leave office if they lose the election and to court voters fairly, i.e. avoiding bribery and intimidation", then the set of countries that qualify for these theoretical exercises is probably even smaller.

But what then about democracy as a corruption-detering institution in itself? Perhaps somewhat surprisingly, given the distribution of free and fair elections around the world, this question has been less theorized in the literature. Barro (1973) and Ferejohn (1986) developed principal-agent models in which voters are able to discipline elected officials through retrospective voting, that is, by basing their electoral choice on past performance rather than future promises (or ideology). Adzerà et al. (2003, 481), building on this approach, sketch two mechanisms through which competitive elections in themselves may curb corrupt rent-seeking. In an authoritarian regime citizens may be willing to accept more shirking when deciding whether to support incumbents "because they discount the costs they would have to incur to otherwise overthrow the regime". Moreover, the cost of appropriating rents is raised "by the use of democratic procedures to elect officials". These are vague statements that both border to the tautological. On a more general note, Drazen (2000, 221) warns against indulging in too high expectations of principal-agent models of elections: "When there are many principals whose preferences are not fully known and whose behavior cannot easily be collapsed to that of a single principal, and when the principals choose among different possible agents, applying the standard principal-agent models is more difficult. But this description is the essence of elections."

Despite theoretical expectations, moreover, the empirical evidence linking the level of democracy to corruption is mixed. The most consistent finding appears to be an inverted U- or J-shaped relationship, with the most corrupt countries located halfway between authoritarianism and democracy (Montinola & Jackman 2003; Sung 2004; Bäck & Hadenius 2007). Exactly what would explain this pattern is however unclear. One interpretation holds that although democracy brings control from below, through competitive elections, it comes at the expense of weakened control from above, through the coercive capacity of authoritarian leaders. The result of these two intersecting mechanisms of control would be the observed non-monotonic relationship (Bäck & Hadenius 2007). Another explanation would be that what matters is not the level of democracy per se, but the longevity of democracy (Treisman 2000; Gerring & Thacker 2004). The basic idea would again refer to vertical accountability as

the mechanism curbing corruption, only it takes time for this mechanism to start working.² According to this interpretation the inverted U-shaped relationship would stem from the fact that nascent democracies, where corruption is most prevalent, are usually located around the middle of democracy scales. Evidence for this is found in Treisman (2007, 231), who shows that a measure of the longevity of democracy trumps the curvilinear specification. When experience-based measures of corruption replace the perceptions indices, however, there again appears to be no robust relationship to any aspect of democracy (ibid., 235).

How could it be that democracy does not help curbing corruption? It appears to be the case that the electoral mechanism does not work as expected: corrupt politicians are not severely punished at the polls, and regularly they stand good chances for reelection. Chang et al. (2007) find that on average deputies of the Italian legislature charged with corruption under the Postwar period have enjoyed a reelection rate of 51 percent, compared to 58 percent for their putatively honest counterpart. Moreover, this effect is only statistically significant for one legislature: the one assembled during the party system collapse in 1993-94. According to Chang et al. (2007), similar patterns have been found in the US House of Congress and the Japanese Diet. In other words, “voters display relative indifference to the moral culpability of elected officials” (ibid., 3).³ Explanations for this “paradox of corruption”—“unpopular corruption and popular corrupt politicians”—come in two guises: demand- and supply-side explanations. Whereas the former locates the source of the problem in the electorate, such as incomplete information on the extent and consequences of corruption, or the inability to act collectively on that information, the latter blames the political system for failing to deliver a non-corrupt alternative to the voters (Kurer 2001). Kam (2007, 4-5) provides an insightful example of the demand-side argument from Victorian Britain, where voters reportedly “tried to advertise in the *Times* for a third candidate in the hope of creating a contest” that would raise the gifts and treatments distributed to voters by the candidates. Montinola (n.d.) suggest

² This interpretation would be in keeping with Keefer (2005), who finds that younger democracies employ clientilistic policies (such as corruption) to a greater extent than older ones, the reason being that political competitors in clientilistic polities either attempt to build credibility among small groups of voters or to rely on patrons that can make credible commitments to their clients (Keefer 2005).

³ Ferraz and Finan (2007), however, do find a significant impact on the electoral performance of mayors in Brazil by the public disclosure of information about their corrupt behaviour. Exactly what explains this difference in outcome is open for question, but one hypothesis would be that voters face less severe coordination problems when voting directly for the local mayoralty (Chang et al. 2007, 8, n. 6).

a supply-side mechanism that appears to have affected the decrease in corruption in Chile during the early 20th century: In a multidimensional party space, challengers are unable to credibly commit to act less corrupt than incumbents once in power, whereas unidimensional party competition implies that such campaign promises of challengers are self-enforcing.

Since politicians adept at collecting bribes also have more resources available to buy their way to victory, vote buying more generally (Shaffer 2007; Nyblade and reed 2007), through a combination of supply-side and demand-side forces, seems to be a plausible candidate in any explanation for the weak relationship between democratic accountability and corruption.

If we start thinking of corruption as an institution, however, another solution suggests itself: that corruption is generated by the same underlying societal conflicts that brought about the political regime in the first place. In two novel accounts on the long-run determinants of democracy, for example, democratic institutions evolve in response to two overarching forces: economic inequality and capital mobility (Boix 2003; Acemoglu & Robinson 2006). Both these forces are a source of persistent “horizontal” societal conflicts: between rich and poor, capital and land owners, sheltered and trading sectors, the middle and upper class, and so on. If corruption is produced by these same underlying conflicts, the relationship between democracy and corruption could simply be spurious. It could also be the case, as we shall return to in a minute, that corruption and democracy are two institutional devices that may be traded against each other in games of competition between these horizontal forces.

Corruption as an Institution

Instead of thinking of corruption as illicit behavior among agents to be controlled by a principal through mechanisms of institutional design, I want to seriously consider the idea of corruption as an institution in itself. An institution may be defined as “the rules of the game”, in North’s (1990) sense, as opposed to the way actors are playing it. This definition is general enough to capture both formal institutions, such as legal contracts and written constitutions, and informal institutions, such as tacit agreements, social norms and codes of conduct (Knight 1992). McMillan & Zoido (2004) document that corrupt exchanges may actually be highly formalized. Montesinos, the secret-police chief of Peru under Fujimoro, methodically bribed judges, politicians and the news media with signed contracts detailing the obligations held by the parties, and even written receipts for the transactions. This probably represents an extreme

case, however. The view of corruption suggested here would more commonly relate to the informal realm, where corruption works as an informal system of asymmetric exchange within organizational hierarchies.

Let us ponder for a moment the vast array of such activities captured under Karklin's (2005, 25) "typology of corruption". At the lowest level are acts of "petty corruption", made up of exchanges made during everyday interactions between low-level public officials and citizens. At the next level are exchanges made within the bureaucratic hierarchy, such as various forms of embezzlement and procurement kickbacks. At the highest level are exchanges made in order to exert influence over political institutions, such as undermining elections, corrupting the judicial process or the news media. What mechanisms hold these different forms of corrupt exchanges together? I would argue: an informal practice which regulates what behavior is expected or not in different interactions among public agencies.

Rose-Ackerman (1999, 82–4) discusses two types of models that may predict the evolution of such interconnected practices within bureaucratic hierarchies, one bottom-up and one top-down. The top-down approach is evident in Bueno de Mesquita et al.'s (2003) "selectorate theory". Corruption in this model works as policy set by the top political leadership in order to reward their support coalitions with private goods (*ibid.*, 102-3). Empirically, this top-down view of corruption may be illustrated by Darden's (2003, forthcoming) insightful analysis of the inner workings of the Ukrainian state under Kuchma. The permission to engage in graft and embezzlement, Darden argues, may "serve as a means through which state leaders buy compliance from subordinate officials – i.e. an informal contract – and also provides the basis for control through systematic blackmail and the threat of selective enforcement of the law" (*ibid.*, 33). Although the top-down view is important in making clear the incentives for political leaders to allow corruption (in other words, to work as non-benevolent "principals"), it holds a somewhat naively optimistic view of the extent to which top leaders may control corruption single-handedly. Bueno de Mesquita et al. (2003, 74) themselves admit that a key missing part from their theory is the implementation of policies imposed by state leaders. More generally, they lack a theory of the bureaucracy.

The bottom-up approach, by contrast, gives a more realistic account of how entangled the incentives for corruption at high and low levels in the state system may eventually become. This may be illustrated by the model of Cadot (1987), for example, in which higher-ranking

officials cover up lower-level corruption in exchange for a share of the pie of bribes paid at lower levels; or, that of Basu et al. (1992), in which each law enforcer supposed to punish corrupt acts may be corruptible but at the same time depend on another potentially corruptible law-enforcer higher up in the hierarchy.

The top-down and bottom-up approaches are similar but not equivalent to another important distinction developed by Schleifer and Vishny (1993) in a seminal article on the “industrial organization of corruption”: that between bribe collectors organized as a joint/centralized monopoly as opposed to independent/decentralized monopolies. In the former case, similar to the top-down approach, the setting of bribes is coordinated within the state bureaucracy so as to maximize corrupt revenues. In the latter case, more akin to the bottom-up perspective, different bribe collectors set bribes independently, the aggregate effect of which is to increase the general level of bribes but to decrease the total amount of corrupt revenues collected. Schleifer and Vishny (1993, 608) use the analogy of tollbooths on a road: “The joint monopoly solution corresponds to the case of one toll that gives the payer the right to use the entire road. The independent monopolists solution means that different towns through which the road passes independently erect their own tollbooths and charge their own tolls.” In the latter case, the level of bribes should respond directly to the level of competition among tollbooths: the more tollbooths, the smaller the bribes (if traffic is not to be suffocated altogether). Olken and Barron (2007) find direct evidence for this in an ingenious field survey of bribe collection from trucking in the province of Aceh, Indonesia. As a result of the withdrawal of a large number of police and troops due to the peace agreement between the Indonesian government and the separatists of Aceh, the number of checkpoints along the road to and from Aceh fell significantly. This in turn led to a significant increase in the magnitude of bribes needed to be paid in order to pass.

Admittedly, then, there are apparent differences within the institutional approach to corruption I am suggesting: between corruption as a formal vs. an informal institution, top-down vs. bottom-up approaches to understanding the evolution of this institution, and a centralized vs. decentralized mode of its operation. Beyond these distinctions, however, what these illustrations make clear is the *systemic* nature of most important corruption problems (Johnston 2005), or the extent to which corruption works through *networks* of exchanges (della Porta & Vanucci 1999). The forces that bind these exchanges together into a set of “rules of the game” are in need of deeper theoretical and empirical investigation.

Corrupt institutions of course consist of people performing corrupt acts. The latter may for the purpose of this paper be defined along the standard lines, such as the misuse of public office for private gain. Having said this, one might ask what difference it makes to treat corruption as an institution or as a form of behavior. Collier (2002), for example, uses an “institutional choice approach” to explain corruption, which suggests a view—similar to mine—of corruption as an institution (that may or may not be chosen). Collier however *defines* corruption as a particular type of individual behavior. Is there merely a difference in the level of aggregation?

No, not merely. I would argue there are numerous theoretical advantages to treating the explanandum of future corruption studies (theoretical or empirical) as a property of the structure of interactions among several actors rather than as an attribute of their acts. To begin with, it puts premium on corruption’s endemic nature in most parts of the world. Apart from a minority of countries, most of them located in Western Europe and North America, corrupt behavior is not the exception to the rule; it is the rule. Moreover, this perspective might explain why the empirical evidence linking corruption to institutions of accountability referred to above—such as electoral systems or forms of government—has been so surprisingly weak and inconsistent. If corruption is not a problem of accountability, but generated by an informal social contract to which even some principals may agree, then the incentive structure of the agents is not the place to look for a “quick fix”.

Thirdly, this perspective might explain the puzzle posed by Jain (2001, 102) of why corruption persists despite its obviously harmful consequences for the economy and society. Why is it that corruption, for given institutions, is so seriously determined by history? In other words, why is it that corruption appears to be such a strong self-enforcing equilibrium (Aidt 2003)? Several strands in the literature hint at mechanisms that could explain why different countries, despite similar anti-corruption policies and political institutions, might display varying levels of corruption. Lui (1986) and Andvig and Moene (1990), for example, take into account the fundamental observation that both the profitability and costliness of corruption depend on its frequency: as more public officials become corrupt, it becomes more profitable to be corrupt at the same time as the costs for auditing corrupt officials increase (also see Sah 2005). Tirole (1986) suggests another mechanism through collective reputations: it is not in the interest of an individual to be honest if his or her group has a reputation for being corrupt,

which means that early choices made by older members of an organization may be passed on to younger ones long after the former have gone. Acemoglu (1995), finally, argues that the persistence of rent-seeking activities such as corruption may be explained by the allocation of talent through history between productive and unproductive activities. The more actors engage in bribe-collection from entrepreneurial firms, the less the returns will be from entrepreneurship, and the more talented people will move into the unproductive business of collecting bribes, and so on.

All these models share the view that corruption is not simply determined by a calculus weighing expected benefits over the costs and probability of punishment, since that calculus should change swiftly with the change of institutional environment. Corruption as an institution itself, however, should be sticky, by generating increasing returns to those with power to uphold the system (Pierson 2004).

Finally, a fourth reason to treat corruption as an institutional device in itself relates to its consequences. The new scholarly consensus on corruption holds that the old “grease the wheels” conception was flawed, in large part because it treated corrupt acts as isolated events, not as a systematic patterns of events with negative externalities that spread to other parts of a the system (see, in particular, Rose-Ackerman 1999, chap. 2). By implication, these systemic patterns of corrupt exchanges, their externalities, and the way they spread, is what must be explained if we are to deal with the corruption problem around the world.

By this I of course do not want to dismiss all principal-agent models of corruption as entirely unproductive or unimportant. On the contrary, I feel confident that many of their key insights must be taken into account also in future modeling attempts. My point is the need to complement the principal-agent approach with one that stresses more fundamental lines of conflict in society.

The Long-Run Determinants of Corruption

If corruption is an institution, what forces underpin its persistence, and what may cause its dismay? To anticipate a theoretical model to be more fully fleshed out in the project I am working on, I shall here only explore one possible economic function performed by corruption: acting as a regressive tax. It could for example be argued that the benefits from

corruption primarily accrue to better-connected individuals in society, who of course mostly draw from the higher-income strata (Tanzi 1998). Corruption can also lead to tax evasion due to poor tax administration, which again would disproportionately favor the well-connected and wealthy population groups (Gupta et al. 2002, 25). Medina and Stokes' (2007, 72) model of machine politics, moreover, suggests that since poor voters are generally more dependent on the political monopolies that clientilistic systems thrives upon, patrons in these systems will generally transfer more to richer voters. More directly, Kaufmann et al. (2005) show that bribery in public service delivery in Peru hurts the poor twice over: by making low income users pay a larger share of their income than wealthier ones, and by acting as a discriminating mechanism for access to basic services. To the extent that individual-level perceptions of the frequency of corruption may be interpreted as experience-based, Tverdova's (2007) findings from mass surveys in 31 countries lend support to a similar view in that the rich people perceive corruption to be less widespread than the poor.

I will thus work from the assumption that corruption works for the benefit of the more well-to-do in society. A problem with this assumption could be the extent to which bribe collectors "discriminate" between potential bribers by raising larger bribes from those more able to pay. Evidence of "price discrimination" of this sort has been found among private firms in Uganda (Svensson 2003), and among truckers in the province of Aceh, Indonesia (Olken & Barron 2007). However, I do not think these results necessarily refute the regressive nature of corruption. The fact that bribe levels are positively correlated with income is not proof that bribe levels are *proportional* to income; only in the latter case is the regressiveness of broken, given lump-sum transfers of corrupt revenue. But there are also reasons to doubt that corrupt revenues are distributed lump sum. More likely is the case where more revenue from bribe collection flow back to the rich, given both that they are provided with more opportunities to act as bribe collectors, and that it takes more from rulers to court their acquiescence.

Conceived of as regressive taxing,⁴ the fundamental societal conflict over corruption of course becomes one of income redistribution. This opens up for applying a set of theoretical models of distributional conflicts to the study of corruption (Knight 1992, chap. 2). I will here give

⁴ It should be made clear that the use of the word "tax" in this expression is purely metaphorical. There are of course important differences between a bribe and a tax, the most crucial being that taxes are public whereas bribes are secret (Schleifer and Vishny 1993, 612).

three examples, the first two treating the institutional context as exogenous, but in the third moving toward the idea hinted at above of seeing the two institutions of democracy and corruption as being jointly determined.

First, consider the notion of asset specificity, or capital mobility: the less productive an asset is at home relative to abroad, the lower will be the tax rate in order to avoid capital flight. As the mobility of capital increases, then, the tax rates needed to keep assets from moving abroad necessarily have to decline (Boix 2003). As a result, institutionalized corruption working as a regressive tax should become a less important tool for the rich to compensate themselves for overdue tax rates. This mechanism is consistent with at least two pieces of empirical evidence in the literature: that corruption decreases with increasing levels of socioeconomic modernization (which fosters higher capital mobility), and that corruption is higher in countries with pervasive resource abundance (which causes asset specificity) (Ades & Di Tella 1999; Leite & Weidmann 1999; Treisman 2007).

A second long-run determinant of corruption, according to this same way of reasoning, would be income inequality. If corruption works as a regressive tax, we should of course expect corrupt societies to be more unequal. This conjecture also finds empirical support (Gupta et al. 2002; Rothstein & Uslaner 2006; Olken 2006). But what about a causal arrow running in the opposite direction? Alesina & Angeletos (2005) consider a model with positive feedback in both directions. Corruption induces inequality, or more specifically, a perception of unfair inequality: outcomes generated by luck and connections rather than by effort or ability. This in turn raises the demands for redistribution and an increase in the size of government, as in the classical Meltzer & Richard (1981) setup, but then flows back into more corruption: bigger government are supposed to increase the amount of corruption by increasing the private gains of rent seeking. Although the distinction between fair and unfair inequality appears fruitful and worthy of further study, a key part of this story does not seem to fare well with the data: the relationship between the size of government and the incidence of corruption appears to be negative (LaPorta et al. 1999; Xin & Rudel 2004) or non-existent (Gerring & Thacker 2005).

According to You & Khagram (2005), inequality should generate corruption by raising redistributive pressures, to which the rich respond by using corruption to lower the tax rates and circumvent the collection of taxes. What this mechanism does not take into account,

however, is that the rich—given a certain distribution of political power—would not need to concede to redistributive pressures. The more persuasive finding of You & Khagram (2005), then, is that inequality primarily affects corruption under democracy, since in authoritarian systems the rich elite may simply repress the poor instead of accepting redistribution. In democracy, by contrast, repression is not a viable option. We are thus finally approaching a way of thinking about inequality and corruption with endogenous political institutions, since this finding is quite in the spirit of Acemoglu & Robinson’s (2006) model of democratization. In a democracy, corruption may work as a shelter for the elites, thus loosening the burden of democracy to the elites.⁵ Paradoxically, then, corruption could first help bring democracy about, and then in turn be perpetuated through the democratic system itself.

In Lieu of Conclusion: Some Methodological Preliminaries

This project will use a two-pronged empirical strategy. Some of the theoretical predictions sketched above could be assessed through large- n statistical analysis on cross-country evidence. However, since none of the dynamic processes hypothesized are likely to have occurred over the last 20 years or so, which is the period with available time-series data on corruption, these tests would by and large have to be cross-sectional. In order to grasp the historical dynamics, I will instead have to turn to case-study evidence.

What countries should then be selected? Neild (2002) persuasively argues that most Westerners today pose the wrong question about corruption, namely why it is occurring. Given that uncorrupt government is really the exception around the world, one should rather ask why it is that corruption is *not* occurring in some parts of the world (also see Rothstein 2005). Neild (2002) heeds this call by pondering into the historical processes that curbed corruption in England, Germany, France and the United States. In keeping with the spirit of this advice, the cases selected to study for this project should be fairly “successful” in the

⁵ Formally, let us assume that the income of the rich, I_R , is the sum of two sources of revenue: legal income from capital and labor, y , which are taxed at the rate t , and illegal revenues from bribe collection, c , not subject to taxation. Thus, the rich seek to maximize $I_R = (1-t)y + c$. Since the rich in Acemoglu & Robinson’s (2006) model expect the tax rate t to be higher under democracy than under autocracy, this creates an incentive for them to raise the level of corruption c under democracy as compared to autocracy, in order to compensate for their loss taxed income. (I wish to thank Johannes Lindvall for suggesting this simple piece of formalization to me.)

sense that they should to some extent have made the move from a corrupt to an uncorrupt social equilibrium. Unlike Neild, however, I will concentrate on countries outside the Western hemisphere. The reason for this is to enhance the current policy relevance of my conclusions. Corruption was perhaps curbed in the West for historical reasons that might not travel well to the parts of the world where corruption is most rampant today. Thus, I want primarily to study pathways out of corruption in a non-Western setting.

A tentative selection of cases, securing some spreads across world regions, would then be non-Western countries that today rank highest on both the Transparency International's Corruption Perceptions Index and the World Bank's Institute's Control of corruption index. This would point in the direction of countries such as Singapore in Asia, Chile in Latin America, Botswana in Sub-Saharan Africa, and Slovenia or Estonia in former communist Eastern Europe. These countries also come with the advantage of having gone through fairly persistent spells of both authoritarianism and democratic rule. One possibility could also be to pair each one of these countries with a matching country in the same region with a significantly higher ranking on the corruption indices, and also to compare the historical evidence from these countries with the one from Western countries.

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