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Accounting for Corruption: Economic Structure, Democratic Norms, and Trade

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### Authors

Sandholtz, Wayne  
Koetzle, William

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# CSD Center for the Study of Democracy

An Organized Research Unit  
University of California, Irvine  
[www.democ.uci.edu](http://www.democ.uci.edu)

Corruption, like the poor, will probably always be with us. We can read about it in Cicero, Augustine, and almost daily in the news. In just the past two years, a striking number and variety of countries have been shaken by major corruption scandals: France, Italy, Japan, Kenya, Mexico, South Korea, and the United States. The problem of corruption has entered the agendas of major international bodies, including the International Monetary Fund, the World Trade Organization and the Organization for Economic Cooperation and Development.<sup>1</sup> Though corruption creates problems for any political system, it directly challenges some of the fundamental principles of democratic governance. Corrupt behaviors take place in secret and provide privileged access to government for some parties (for example, those who bribe). Corruption thus violates norms of openness and equality that would seem to be central to democracy. It also contravenes common notions of modern bureaucracy-- that public agencies should not operate in a personalistic fashion, but in an impartial, rule-based fashion. Finally, the phenomenon of corruption leads into an enduring puzzle in political studies, namely, the ubiquitous gap between formal institutions and informal cultures. Cultures tolerate corruption in varying degrees despite nearly universal laws designed to eliminate corrupt practices.

Political science research on corruption has been surprisingly scant in recent years, especially given the steady procession of major scandals around the globe. The research that does exist is quite equivocal. On the one hand, we could easily list dozens of detailed accounts of political and bureaucratic corruption in a broad variety of countries and historical periods. We could also cite vigorous debates on specific problems, such as whether corruption helps or hinders economic development,<sup>2</sup> or how to design public agencies so as to minimize corrupt practices.<sup>3</sup> On the other hand, the literature offers few answers to broad comparative questions, even fundamental ones like: Does the extent of corruption vary across countries? Why does it vary? What is the relationship, if any, between democracy and corruption levels?

In this article we offer some first steps toward the comparative analysis of corruption, defined as the misuse of public office for private gain. We propose a set of hypotheses that explain corruption levels in terms of domestic economic structures, democratic norms, and integration into the international economy. The study tests these hypotheses using recently compiled cross-national indicators of perceived levels of corruption.

The first section of the paper briefly reviews existing research on corruption. The second section offers a theoretical framework and derives hypotheses. The third section defines the variables, explains our construction of indicators, and provides descriptive data. The fourth section reports the data analysis. In the conclusion we explore some of the implications for further scholarship.

## What We Know

Although recent years have not generated a great deal of political science research on corruption, there is a substantial body of prior research. Much of that research tackled issues that remain central to any analysis of corruption. We briefly discuss two themes that have direct import for the present study: the problem of comparative data, and the problem of defining corruption.

### Case Studies and the Data Problem

With a few notable exceptions, the majority of empirical research on corruption has consisted of single-country case studies (as noted in Manzetti and Blake 1996). For instance, the Heidenheimer, Johnston and LeVine collection (1989) includes 25 case studies analyzing a single country or locality, and the bibliography lists dozens more. The volume includes three papers that address two or three cases, and one that analyzes a larger number of Latin American presidents. Other volumes similarly offer a variety of single-country cases (Markovits and Silverstein 1988; Levi and Nelken 1996). There are excellent book-length treatments of corruption in France (Meny 1992), Ghana (Morris 1991) and Mexico (LeVine 1975), as well as of larger regions, such as Asia (Palmier 1985) or Africa (Williams 1987). But few studies are both comparative and empirical. Manzetti and Blake (1996) assess the effects of market reforms on corruption in three Latin American countries. Gillespie and Okruhlik (1991) propose an analytical framework for studying the politics of corruption cleanups, and provide an analysis of 25 Middle Eastern and North African countries. The comparative, empirical analysis of corruption, then, has not made much headway, even though Scott as early as 1972 explicitly confronted the challenges involved and proposed a number of reasonable solutions (Scott 1972).

A daunting obstacle to comparative studies of corruption has been the lack of useable data on corrupt activities. Williams even suggests that the lack of "hard" numbers regarding corruption may explain the relative neglect of the subject by American political scientists. But he also points to the problem of data for comparative analysis: "It seems, therefore, almost inevitable that the 'evidence' used by students of corruption is bound to be fragmentary, biased, anecdotal, potentially misleading, impressionistic and inadequate," and thus incapable of sustaining general (comparative) theory (Williams 1987: 27-28). The reasons for the lack of numerical data on corrupt practices are not hard to imagine: corrupt actions take place in secret and are generally meant to remain secret; even the "victims" of corruption frequently are unaware that they have been victimized; those reporting or alleging instances of corruption can be political opponents of the accused with motives to discredit them; critics of corrupt practices often have a separate agenda to extol or denigrate specific groups; and governments may not want researchers probing such sensitive areas (Noonan 1984: xii; Williams 1987: 7, 9; Klitgaard 1987: 29).

As a consequence of the lack of cross-national data on corruption, scholars have been unable to say much about relative levels of corruption across countries, or to explain levels of corruption in terms of broad political or economic differences. Our study thus begins to fill a sizeable gap in research on corruption.

## Defining corruption

Virtually every published work on corruption, from the 1960s to the present, wrestles with the problem of defining it. The ability to articulate broad (if not universal) propositions that can be checked against empirical evidence requires a definition of corruption that is portable across cultures. But the brute fact is that practices that one society condemns as corrupt are considered harmless or even appropriate in another cultural context. The effort to establish general principles thus confronts the inevitable particularity of corruption norms.

Corrupt acts are, in every definition, improper or illegitimate. The problem for social science consists of giving the term "improper" specific content. By what standard would the researcher know if a particular interaction is corrupt? The political science literature offers three main approaches, based respectively on the public interest, public opinion, and legal norms (Scott 1972: 3). The first approach would identify improper behavior on the part of political or administrative officials as that which goes against the public interest (Friedrich 1966: 74; Rogow and Lasswell 1963: 132). That is, public officials sacrifice the general interest in order to favor specific groups, in return for private rewards. But the public-interest definition suffers from irremediable vagueness, as there is no way to identify an objective public interest (Scott 1972: 3; Theobald 1990: 5). Almost anything a government does is contrary to somebody's definition of the public interest.

Public-opinion based approaches argue that since corruption standards vary, corruption is what the public thinks it is (Gibbons 1989: 169). But is the relevant public the political elite, the politically mobilized citizenry, or the whole population (Scott 1972: 4; Theobald 1990: 6)? Furthermore, opinion regarding proper conduct in public office varies not just across groups, but can also vary across geographic regions within a country and across time.<sup>4</sup>

The formal-legal approach identifies corrupt acts as those that violate "specific rules governing the way public duties should be performed" (Williams 1987: 15), as "illegal exchanges" of political goods for private rewards (Manzetti and Blake 1996; Heidenheimer, Johnston and LeVine 1989: 8-9; Williams 1987: 15-16). But the law itself can be ambiguous (Lowenstein 1989). Formal-legal approaches also suffer from some of the same limitations as the other two; the laws vary from state to state and also change over time, frequently in response to the manipulations of powerful political actors (Williams 1987: 18). Legal definitions also exclude acts that may not be illegal but are widely considered improper (Moodie 1989: 876; Theobald 1990: 17).

Despite the lack of consensus on how to determine which practices should count as improper or illegitimate, there is in fact a reasonably stable general definition of corruption. At the heart of this core definition are three elements. First is a distinction between the public sphere and the private sphere (Theobald 1990: 2; Palmier 1985: 1; LeVine 1975: 2). Nye's widely-cited definition highlights the public-private divide: corruption is "behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains" (1989: 966). Corruption, then, involves a breakdown, or blurring, in the public/private distinction.

Second is a recognition that corrupt acts involve an exchange, in which one party offers inducements (frequently but not necessarily monetary) to a public official in return for special policy or administrative advantages, or "political goods" (LeVine 1975: 6; Manzetti and Blake 1996: 665). Some analysts have made the exchange dimension the core of a "market-centered" (Heidenheimer, Johnston and LeVine 1989: 9; Van Klaveren 1989: 26) or "political economic"

approach (Rose-Ackerman 1978). The third element is the sense that such exchanges are improper, that is, they violate established norms. Thus corruption is behavior by public officials that "deviates from the norm actually prevalent or believed to prevail" (Friedrich 1989: 15) or from "accepted norms" (Huntington 1968: 59); or it is "political conduct contrary to political norms" (Morris 1991: 2). With these three elements, then, we have a useable general definition of corruption: the improper use of public office for private gain.

### **A Comparative Approach to Corruption**

Much scholarship on corruption has been bedeviled by the apparent dilemma that general definitions founder on the cultural specificity of norms of corruption. That is, researchers seeking to observe or measure levels of corruption quickly discover that what counts as "improper" in one society does not in another. The only response that permits comparative research is to specify in advance whose definition of "improper" the analysis will employ. The research would then take a set of practices defined by a specified social group as "corrupt" and assess comparatively their incidence in diverse countries. We adopt such a strategy in this article. We do not, therefore, pretend to measure corruption in each society in its own terms. Rather, we use the perspective of one group as a standard. This is a common social science device: "corruption" in this study is an analytical category whose utility is that it permits comparative analysis.

An earlier generation of researchers who wrestled with the comparative analysis of corruption came to the same conclusion. Bayley (1989), for example, argues that the best solution is to employ broadly shared Western standards regarding specific practices, like bribery, nepotism, and misappropriation. Otherwise, the Western researcher who "chooses the culturally relevant definition . . . will either end by abandoning the term altogether or will find it necessary to define it peculiarly, perhaps differently, for every non-Western country studied" (Bayley 1989: 938). Recognizing the diversity of social contexts, the analyst can then also note that some practices classified as corrupt for research purposes do not, in some societies, elicit social or legal condemnation. Nye notes that this practice has "the merit of denoting specific behavior generally called corrupt by Western standards [including bribery, nepotism, and misappropriation]," thus permitting comparisons (1989: 966-67).

The distortion inherent in applying Western standards of corrupt behavior to non-Western societies is probably minimal. As Bayley notes, the intelligentsia and higher-level civil service in most developing countries "are familiar with the Western label 'corruption,' and they apply it to their own countries" (1989: 938-39). Nye similarly writes that Western standards "are at least partly relevant in most developing countries" (1989: 967; also Klitgaard 1987: 3). Scott argues that "inasmuch as the legal standards of public conduct in less developed countries are substantially the same as those in use in the west--a colonial heritage--the terms of comparison are roughly similar" (1972: 8). Indeed, in studies of anti-corruption campaigns in non-Western societies, the practices targeted for elimination are precisely those proscribed by Western norms.<sup>5</sup>

To summarize, for purposes of empirical analysis, "corruption" in this study refers to practices that are considered improper under Western norms. We focus on certain kinds of administrative corruption, not on campaigns and elections. Our data on corruption consists of the assessments of international businesspeople and consultants as to the incidence in different countries of practices they consider corrupt. The dependent variable in this study is perceived level of administrative corruption regarding international business interactions, where the

perceptions are those of a transnational business and consulting elite. We describe the data sources more fully in a subsequent section.

### **Predicting Corruption**

We posit two key dimensions in explaining the level of corrupt behaviors. The first is the structure of opportunities and incentives. This dimension concerns the patterns of potential inducements or sanctions that people confront in a given polity. Though many analysts recognize the importance of the structure of opportunities and incentives, scholars in the political-economy tradition have been most explicitly concerned with assessing the patterns of rewards and penalties that legal and bureaucratic systems configure for occupants of various roles (Rose-Ackerman 1978; Klitgaard 1987).

The second dimension is culture, understood as a "repertoire of cognitions, feelings, and schemes of evaluation that process experience into action." These repertoires constitute "orientations to action": "general dispositions to act in certain ways in sets of situations". Actors learn these orientations through a process of "cultural socialization" (Eckstein 1988: 790, 791). A number of researchers have recognized structural and normative dimensions to the problem of corruption, without necessarily making explicit their interaction (Rose-Ackerman 1978; Morris 1991; Manzetti and Blake 1996).

The two dimensions are analytically independent. This implies that two bureaucrats, in two countries, might face similar legal-bureaucratic opportunities, say, to extort kickbacks for certain kinds of business licenses (low salaries, sole control over the licenses in question, and lax supervision). But their behaviors could be quite different if the cultures into which they have been socialized provide different orientations to action; in one culture, administrative extortion might be expected, in the other it might be unthinkable. By the same token, two administrators sharing the same culture would act quite differently if placed in different bureaucratic structures. The repertoires of orientations might be the same, but divergent opportunities and incentives will produce divergent behaviors. Or, put differently, even where the political-economic structure of opportunities would seem to invite corrupt behavior, prevailing cultural orientations can nevertheless inhibit people from exploiting the opportunities. Where cultural orientations permit practices that could be deemed corrupt, formal laws and organizations can inhibit them.

The next step is to theorize the relationships between political-economic structure and corruption, and between culture and corruption. To generate hypotheses on political-economic structure we focus on the degree of individual economic freedom (the inverse of state control of the economy). When the state and its administrative apparatus exercise relatively greater control over the economy, public officials make decisions that determine who will enjoy access to economic resources and opportunities. Under these conditions, economic success may depend less on market activities and more on the ability to influence the relevant officials. Thus bribery, extortion, payoffs and kickbacks become viable means of influencing the distribution of wealth. Or, as Scott puts it, "the larger is the relative size and scope of the public sector, the greater will be the proportion of certain acts that will meet our criteria of corruption" (Scott 1972: 9; also Tanzi 1994: iii). Conversely, where economic outcomes are largely the product of private decisions (outside of state control), the state may not be seen as the crucial dispenser of economic resources. Private economic activity is more likely than political/bureaucratic influence to lead to wealth. A high level of personal economic freedom thus implies reduced

political control over economic opportunities, and fewer incentives to engage in corruption. Thus our first hypothesis.

*Hypothesis 1: The extent of individual economic freedom should correlate negatively with corruption. Or, since personal economic freedom is the inverse of state control, the degree of state control of the economy should correlate positively with corruption.*

A second set of hypotheses concerns the relationship between culture and corruption. Political culture consists of orientations that link behavior to sets of situations. The cultural dimension of corruption is equally as important as the structural. Rose-Ackerman (1978), who wrote the initial comprehensive statement of the political-economic approach, argued that both structure and culture (values) were crucial to explaining corrupt behavior. She chose to focus her book on "structural incentives," recognizing that an "economic approach to politics . . . cannot explain the origination and transmission of the democratic and personal ideals required to preserve a functioning mixed economy" (Rose-Ackerman 1978: 5-6). In fact, she explicitly argues that "if one wants to understand the functioning of democracy, it will not be possible to follow the conventional economist's inclination to ignore moral constraints upon self-seeking behavior," and that certain kinds of "political virtue" and "moral beliefs" are necessary in both publics and politicians (Rose-Ackerman 1978: 216, 233-34). Della Porta and Pizzorno found that "variations in the density of corruption depend more on variations in the willingness of people to be corrupted, and therefore on what we would prefer to call the moral cost (as seen by them) of participation, than on the structure of opportunities" (1996: 87). We pursue these suggestions, arguing that democratic norms and values in particular delegitimize corrupt practices.

As we noted earlier, definitions of corruption involve a distinction between private and public spheres. This distinction is a modern one, emerging in the eighteenth century but not fully elaborated and diffused until the nineteenth or even the twentieth centuries. The pre-modern state was an extension of the royal household, and public offices were the personal property of the monarch, to distribute (or sell) as he desired (Scott 1972: ch. 3). Gradually, the right to rule came to be seen not as inhering in the person of the king but as deriving from the will of the people (Bendix 1978). Later, rational-legal bureaucracy (to borrow Weber's term) replaced patrimonial administration. Modern bureaucracy, like modern political authority, required a clear divide between "incumbent and office, between the private and the public spheres" (Theobald 1990: 21). Democratic norms embody these ideals; in a democracy, all acts of government derive their legitimacy, in principle, from the will of the citizenry (or a majority of it). Public office is therefore a fiduciary trust exercised not for the personal benefit of the office-holder but on behalf of the people. Corruption perverts two central norms of democracy: equality (corruption entails special access and influence) and openness (Della Porta and Pizzorno 1996: 74).

It follows, we believe, that democratic norms and values (cultural orientations) will produce lower levels of corruption for any given structure of opportunities. The more a political culture emphasizes the distinction between public and private spheres, and defines public office in terms of duty to the collective will, the more people will regard corrupt practices as improper and illegitimate. Further, we expect to find a socialization effect (Eckstein 1988). The longer a country has experienced democratic rule, the more deeply rooted the associated norms and values should be. From these considerations we derive our second major proposition.

*Hypothesis 2: The strength of democratic norms and values should correlate negatively with the level of corruption.*

Finally, we expect that the level of integration into the world economy, through trade and investment, should have an impact on both business and administrative practices in a given

country. Greater involvement in trade could affect both the political-economic structure of opportunities and the cultural norms of a country. On the structural side, freer trade would remove from the hands of officials certain administrative goods (licenses, permits, waivers, and the like) that they could otherwise exchange for private rewards (bribes, kickbacks). The cultural argument has to do with socialization. International commerce and finance are dominated by firms from the OECD countries. These corporate actors may share a transnational business culture based on "Western" norms (LeVine 1989: 689). This transnational business culture includes relatively superficial dimensions (what suits to wear, how to entertain visitors) but also includes the standards of business practice that prevail in the West. These rules prohibit a broad variety of "corrupt" practices--bribery, extortion, nepotism, kickbacks. As a country's businesspeople and officials become increasingly connected to the international economy, they should become immersed in the transnational business culture and advocate stricter prohibitions against corrupt practices, producing a convergence toward transnational anti-corruption norms. Thus, for example, Maclean (1973: 167-68) argues that as France opened itself to the world economy in the 1980s, French business culture adapted itself to transnational norms, including greater transparency, which partially explains the rash of political-business scandals of the 1980s and 1990s. Hence our final hypothesis.

*Hypothesis 3: The degree of integration into the international economy should correlate negatively with the level of corruption.*[6](#)

## Data

As stated previously, the absence of a general standard of corruption and the lack of cross-national data on corrupt practices have been major obstacles to the comparative study of corruption. The dependent variable in this study, therefore, is not an objective measure of corruption (since none exists) but a subjective measure based upon the perceptions of transnational elites (executives working for multinational firms and institutions and consultants who service those sectors) who conduct business in various countries around the world. Our data for the dependent variable come from the Transparency International Index of Corruption, which assigned scores to 54 nations in 1996. The Index is actually a "poll of polls," combining the results of ten different surveys that ask international executives and consultants about their experience in various countries.[7](#) The central advantages of this Index as a measure of corruption are that it allows for cross-national comparison and it employs the definition of corruption (the misuse of public power for private gain) we arrived at above.

To operationalize the political-economic structure, we want to measure the extent to which the government controls economic activities. We employ the Freedom House Indicators of Economic Freedom (Messick 1996). This index includes six primary factors related to individual economic rights: freedom to hold property, freedom to earn a living, freedom to operate a business, freedom to invest one's earnings, freedom to trade internationally, and freedom to participate in a market economy. The 1996 Economic Freedom measure provides data for 82 countries--50 of the 54 for which we have a corruption score.[8](#) The Economic Freedom index is particularly useful for our purposes because it directly accesses the degree to which individuals can participate openly in, and derive the benefits from, a variety of market activities.

In order to capture the impact of political culture upon perceived levels of corruption, we use two indicators of how ingrained democratic norms are within a given society. One provides a measure of the breadth of democratic norms, the other addresses the depth of socialization in



those norms. The Freedom House indexes of political rights and civil liberties capture the range of democratic practices in each country (Karatnycky 1997). Political rights include: free and fair elections of political leaders who possess real policy-making powers; the right to form political parties; freedom from domination by the military or other oligarchic groups; the existence of genuine political opposition; and protection of minority rights. Civil liberties encompass the right to free speech and media, freedom of assembly, the right to organize, and equality under the law. By combining these indexes for 1995-96 we obtain a measure of the breadth of democratic norms for 192 countries (including 53 of the 54 countries for which we have corruption scores).<sup>9</sup>

One measure of the depth of support for democratic norms is how long a country has had continuous democratic government. We generate a variable, Democratic Years, that counts the number of years since World War II that a country has had democratic rule (Lijphart 1984: 37-38). Political culture is transmitted via socialization processes. Therefore, the longer democratic norms and values have guided politics in a country, the more ingrained those norms should be.

Finally, we employ trade indicators to operationalize the degree of integration into the world economy. Our indicator is the sum of exports and imports as a share of Gross National Product; the data are taken from the *World Tables 1995* (World Bank 1995).

### **Data Analysis**

To begin our analysis of the factors that affect perceived corruption in different nations, we first examine the cross-national distribution of perceived corruption. Table 1 presents the data the Transparency International Corruption Index for 54 nations from all parts of the globe. The table lists countries from least to most corrupt, as perceived by respondents in the polls included in the Transparency scores. A cursory examination of the rankings in the table generally supports our theoretical expectations: almost without exception, those countries seen as least corrupt are those that are democratic, have relatively high levels of political and economic freedom, and are highly integrated into the world economy. Nations on this end of the corruption spectrum include New Zealand, Denmark, Sweden, Finland, and Canada. In contrast, the countries that are viewed as most corrupt are those that are traditionally seen as authoritarian, allow little entrepreneurship in either the political or economic sphere, and are less integrated into the world economy. Nations seen as most corrupt by the transnational business elite include Nigeria, Pakistan, Kenya, and Bangladesh.<sup>10</sup>

However, given the hypotheses stated above, there are some surprises. Notice, for example, that Singapore is viewed by those doing business there as having very low levels of corruption--lower than countries such as Australia, the Netherlands, and the United States for example--in spite of the fact that residents of Singapore do not have the same level of political or economic freedoms found in many countries perceived as more corrupt. At the other end of the spectrum, India, which has been a democracy for 50 years, is seen as quite corrupt -- in fact only eight other nations in this sample were rated as more corrupt. Finally, countries that fall in the middle of the corruption scale represent a mix of nations with relatively high levels of economic integration but lower levels of political and economic freedom (e.g., South Africa, South Korea, and Taiwan) along with nations with longer histories of democratic practices (e.g., Italy and Spain). Thus, while the table generally conforms to our theoretical expectations, we need further analysis to reach any general conclusions about variation in corruption across countries.

**Table 1. 1996 Transparency International Corruption Index by Country**

Country	Corruption Ranking
New Zealand (NZL)	9.43
Denmark (DNK)	9.33
Sweden (SWE)	9.08
Finland (FIN)	9.05
Canada (CAN)	8.96
Norway (NOR)	8.87
Singapore (SGP)	8.80
Switzerland (CHE)	8.76
Netherlands (NLD)	8.71
Australia (AUS)	8.60
Ireland (IRL)	8.45
United Kingdom (GBR)	8.44
Germany (DEU)	8.27
Israel (ISR)	7.71
United States (USA)	7.66
Austria (AUT)	7.59
Japan (JPN)	7.05
Hong Kong (HKS)	7.01
France (FRA)	6.96
Belgium (BEL)	6.84
Chile (CHL)	6.80
Portugal (PRT)	6.53
South Africa (ZAF)	5.68
Poland (POL)	5.57
Czech Republic (CZE)	5.37
Malaysia (MYS)	5.32
South Korea (ROK)	5.02
Greece (GRC)	5.01
Taiwan (TAI)	4.98
Jordan (JOR)	4.89
Hungary (HUN)	4.86
Spain (ESP)	4.31

Turkey (TUR)	3.54
Italy (ITA)	3.42
Argentina (ARG)	3.41
Bolivia (BOL)	3.40
Thailand (THA)	3.33
Mexico (MEX)	3.30
Ecuador (ECU)	3.19
Brazil (BRA)	2.96
Egypt (EGY)	2.84
Colombia (COL)	2.73
Uganda (UGA)	2.71
Philippines (PHL)	2.69
Indonesia (IDN)	2.65
India (IND)	2.63
Russia (RUS)	2.58
Venezuela (VEN)	2.50
Cameroon (CMR)	2.46
China (CHN)	2.43
Bangladesh (BGD)	2.29
Kenya (KEN)	2.21
Pakistan (PAK)	1.00
Nigeria (NGA)	.69

\*Corruption score represents a "poll of polls" of executives of multinational firms on perceived levels of corruption using ten different sources. A score of 0 represents "perceived to be totally corrupt," a score of 10 represents "perceived to be totally clean."

Source: Transparency International (<http://www.gwdg.de/~uwww/rank-96.htm>).

We now turn to a more structured examination of our hypotheses. In Table 2 we report the bivariate relationships (and standard errors) between our hypothesized predictors and the dependent variable, perceived corruption.<sup>11</sup> The data strongly conform to our theoretical expectations -- the sign on the coefficient for each independent variable is in the predicted direction and each is statistically significant.

**Table 2. Bi-Variate Correlations Between Index of Corruption and Independent Variables**

Variable	Correlation
Economic Freedom	-.81***
Political/Civil Freedom	-.73***
Years of Democratic Government	-.67***
Trade	-.30**

>\* p < .10 \*\* p < .05 \*\*\* p < .01

\*Values in table represent bi-variate correlations between index of corruption and independent variables. The standard errors are below in parentheses. The number of countries differs for each independent variable due to missing data. For Economic Freedom, Uganda, Ecuador, Cameroon, and Hong Kong are not included; and for Political/Civil Freedom, Honk Kong is excluded. Source for corruption index: Transparency International (1996); for Economic Freedom Index: (Messick 1996); for Political/Civil Liberties Index: (Karatnycky 1997); for Years of Democratic Government: (Banks, et al, 1997); for trade: (World Bank 1995) for all countries except Taiwan; for Taiwan, (United Nations 1995).

Specifically, our results indicate:

1. As levels of economic freedom increase, levels of corruption decrease ( $r = -.81$ , significant at  $<.01$ );
2. As levels of political and civil liberties increase, levels of corruption decrease ( $r = -.73$ , significant at  $<.01$ );
3. As experience with democratic governance increases, levels of corruption decrease ( $r = -.67$ , significant at  $<.01$ ); and
4. As the level of involvement in international trade increases, corruption decreases ( $r = -.30$ , significant at  $<.05$ ).

Thus the political-economic structure, specifically, the extent of state control of the economy, clearly affects levels of observed corruption. To the extent that the political-economic structure permits behavior that is "above board," the less resort to corruption there is likely to be. The strength of democratic norms also impacts the pervasiveness of corruption. Countries with broad democratic norms--that is, extensive political and civil rights--experience less corruption than countries where democratic norms are weak or non-existent. Likewise, there does appear to be a socialization effect The longer the experience with democratic governance, the more democratic values are instilled in a population, and the less likely corrupt activity will occur or will be tolerated. Finally, greater involvement in international trade is associated with lower levels of corruption, as we expected.<sup>12</sup>

Next, we examine the effect of these variables on perceived corruption in a multivariate context. It is one thing to assert that these variables are important predictors of corruption in simple correlations; it remains to be seen if all these variables remain statistically significant when the effects of other variables are included. Furthermore, it is an open question how much of the variance in perceived corruption these variables, taken together, can explain. Table 3 reports the results of the multivariate regression analysis using the four independent variables to predict levels of corruption.<sup>13</sup>

The results once again strongly confirm our expectations. All of the predictors are statistically significant; and this relatively parsimonious model explains nearly eighty percent of the variance in levels of corruption for the countries in our sample. Examination of the standardized slope coefficients shows that each of the variables significantly affects the level of corruption. The two most powerful predictors in our model are economic freedom ( $B = -.374$ ) and years of democratic rule ( $B = -.330$ ). High levels of economic freedom imply that individuals can generally achieve economic goals via their own choices in a market context, reducing the need to resort to corrupt practices that increase their costs. Years of democratic governance tap the normative (or cultural) dimension. As a country acquires increased experience with democratic governance, citizens will gradually become socialized to the norms of democracy, which stigmatize corruption.

Table 3. Multivariate Regression Analysis: Explaining Levels of Corruption

Variable	Coefficient	Standardized Coefficients
Economic Freedom	-.269*** (.093)	-.374
Political and Civil Rights	-.185* (.097)	-.259
Trade	-1.60*** (.446)	-.266
Years of Dem. Rule	-.045*** (.012)	-.330
Constant	1.52** (.615)	
Adjusted Rsqr	.78	
N	50	

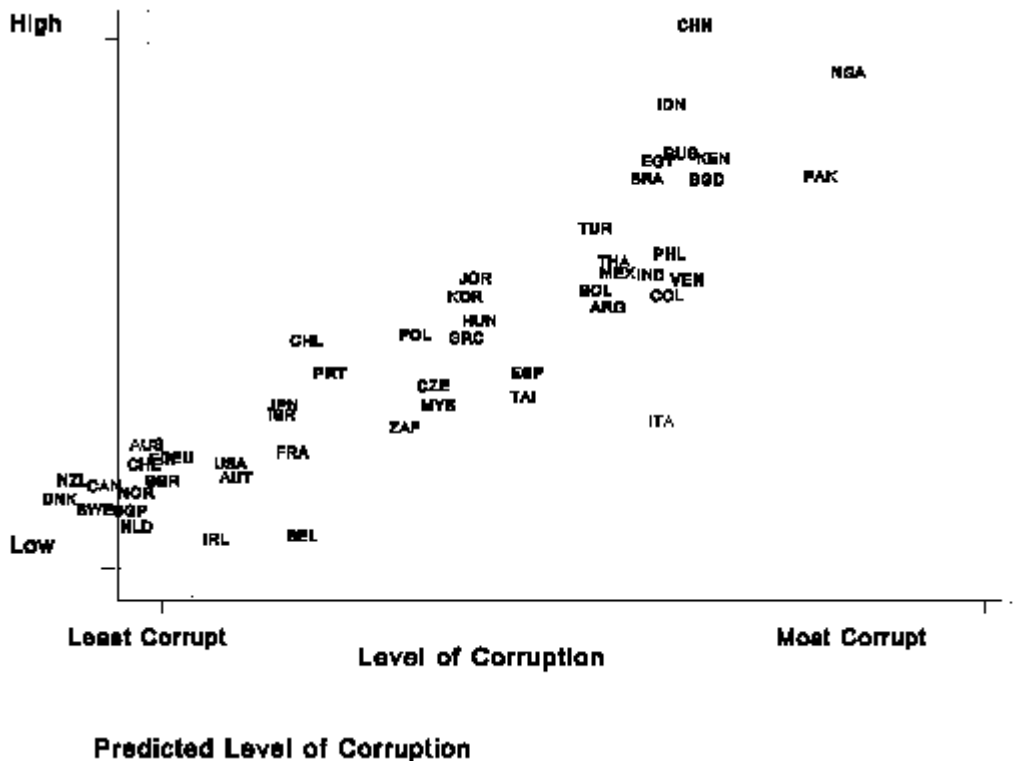
\*  $p < .10$  \*\*  $p < .05$  \*\*\*  $p < .01$

\* Cell entries represent slope coefficients from a multivariate regression equation (standard errors are below in parentheses). Four countries are not included in the analysis because of a lack of data: Uganda, Ecuador, Cameroon, and Hong Kong. Data sources: see Table 2.

Another way to picture the strength of the relationship between our model and levels of perceived corruption is to graph actual levels of corruption against the predictions derived from the multivariate regression equation. Figure 1 plots the predicted level of corruption against the actual level of corruption for the countries in our sample. Not surprisingly, given the explanatory power of our model, most of the countries lie on the diagonal between the two axes: countries generally exhibit the level of corruption our model predicts that they will have. However, several

countries prove to be interesting outliers. First, there is a set of countries that our model suggests should be more corrupt than they actually are. As it turns out, most of the countries in this group (like China and Indonesia) score fairly high on corruption. The model expects them to be even more corrupt, but there is probably a functional limit to perceived levels of corruption that our model cannot capture. Second, there is a set of nations that business elite perceived to be more corrupt than our model predicts. Countries in this category include Italy, Belgium, and India. Italy (which has the largest residual) and Belgium are interesting because both enjoy relatively high levels of economic and political freedom, experience with democracy, and levels of international trade. Our model suggests that they should have less corruption than elites report actually exists.<sup>14</sup> Thus, while our model tells us quite a lot about comparative levels of corruption, clearly there is more to the story.

**Figure 1. Predicted Versus Actual Levels of Corruption**



\*Predicted levels of corruption are from multivariate regression equation reported in Table 3. Actual levels of corruption are from Transparency International (<http://www.gwdg.de/~uwvw/rank-96.htm>). Three letter country codes are reported in Table 1.

### Discussion

Corruption erodes some of the core values of a democracy, namely, that collective decisions should emerge from public processes guided by known rules, and that all citizens should have equal access to those processes. For political scientists interested in questions of democratic governance and representation, corruption should constitute a central normative problem. Yet

corruption persists, despite nearly universal laws and agencies designed to eliminate it, even in the most established democracies. Given these paradoxes, it is surprising how little comparative political science research on corruption exists. This paper is a first step toward filling that gap.

Comparative research on corruption has continually been stymied by the difficulty of operationalizing a general definition of corruption and by the absence of data. The problem of operationalization arises because standards of corruption are culturally specific, often differing from country to country. If we want to compare countries, however, and explain differences in the incidence of corrupt practices, culturally specific norms will not suffice. The alternative we have pursued here is to choose one perspective and to specify corruption from that vantage point. We have employed a general definition of corruption (the misuse of public office for private gain) for which a plausible intellectual rationale exists in the literature, and which can be operationalized using the survey data that constitute the Transparency International index (1996). Of course, we recognize that some practices counted as corrupt by international businesspeople may not be considered improper in the society in which they occur (though that would have to be established and not merely asserted). But this approach is the only one that permits general, cross-national conclusions about differences in the extent of corrupt activities and factors that might explain these variations.

We offer a theoretical framework in which the level of corruption is a product of two primary factors: the political-economic structure of incentives and opportunities, and the cultural norms (or orientations) that shape people's perceptions, evaluations, and choices. Because this study focuses on corruption occurring in the sphere of transnational business and commerce, we also theorize the impact of economic integration on levels of corruption. From the theory we derive three hypotheses. We predict that a country's level of corruption will generally be lower: (1) the greater the extent of individual economic freedom and opportunity (the less the state controlled the economy); (2) the stronger were democratic norms and values; and (3) the greater the degree of integration in the international economy. In the multivariate model, two variables emerge as particularly important: economic freedom and years of democratic rule. We interpret this result as confirming the importance of the structure of political-economic incentives and of cultural norms. The greater the freedom of individuals to act in markets, the lower the incentives to engage in corruption. The longer the experience with democratic rule, the more ingrained are democratic norms that stigmatize corrupt practices.

Even though many corrupt practices may be culturally bound, our analysis shows that we can meaningfully compare levels of corruption across countries. A handful of key factors underlie corruption in a diverse sample of nations. Furthermore, our model implies that contemporary trends in world politics, including the "third wave" of democratization and increasing global economic integration, may over time lead to lower levels of corruption.

This paper offers a first step in the comparative analysis of corruption. We have identified factors that broadly influence the level of perceived corruption across countries, but we have not begun to assess other variables and other questions. Additional aspects of political structure and bureaucratic organization are probably important. And we have barely scratched the surface of culture. We hope that the analysis presented here provides a foundation for investigating these important factors. A better understanding of corruption may open a window on central issues in political culture, on the line between public and private, the border between legitimate and illegitimate public behavior.

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## Endnotes

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1. See Washington Post, August 8, 1997, p. A25; Wall Street Journal, September 13, 1996, p. A5; Wall Street Journal, December 18, 1997, p. A16.
2. The initial presumption was that corruption inevitably retarded economic and political development. In response, some scholars argued that corruption could actually promote development. Later analysts attempted to specify both the costs and benefits of corruption. For various points of view within that debate see: Wraith and Simpkins (1963); Myrdal (1968: 937-58); Leys (1989); Huntington (1968: 68); Leff (1989); Nye (1989); Bayley (1989); Johnston (1989); Theobald (1990); Scott (1972); Rose-Ackerman (1978); Klitgaard (1987).
3. Analysts in the political-economic (sometimes also called "public choice" or "rational choice") mode have in particular concentrated on designing anti-corruption measures. Rose-Ackerman's research (1978) was an impressively systematic and comprehensive initial elaboration of this approach. Klitgaard (1987) similarly uses a political-economy model to suggest ways of designing and carrying out successful anti-corruption policies. Other studies, not necessarily in the political-economy vein, explore general principles for reducing corruption; see Gardiner and Lyman (1989). Other studies assess empirical instances of anti-corruption reforms; see Palmier (1985); Quah (1989); Von Aleman (1989); Kate Gillespie and Okruhlik (1991).
4. Williams (1987: 19). Heidenheimer (1989) acknowledged the inevitable variation in beliefs within a society and proposed a spectrum of corruption based on the extent of social consensus regarding the acts in question. "Black corruption" refers to behaviors that virtually all members of society would condemn; "white corruption" designates practices that most of society would consider acceptable; and "gray corruption" is the category for actions about which public opinion is divided. Unfortunately, the typology is more a relabeling of the problem of fragmented opinion than a solution.
5. Including bribery, extortion, misappropriation; see for example Palmier (1985); Quah (1989).
6. The effects of trade on levels of corruption could work through either or both of the two channels we mentioned, that is, structure and culture. Our data do not permit us to determine which effect is stronger, but that might be a worthwhile issue for future research.
7. The index is constructed by surveying the results of ten different polls, each conducted over different time periods and which focus on different sets of nations. Three of these surveys are from the World Competitiveness Report (Institute for Management Development, Lausanne) conducted in 1993, 1994, and 1995 respectively and asked top executives about improper practices (i.e., bribing) in the public sphere. Three of the surveys are from The Political and Economic Risk Consultancy (Hong Kong) undertaken in 1993, 1994, and 1995 which polled American, European, and Australian Managers about corruption in 11 Asian countries. Other surveys included in this survey are those undertaken by Impulse, which polled Embassies and Chambers of Commerce about the spread of corruption in 103 countries; the poll conducted by DRI/McGraw-Hill Global Risk Service (1995) of staff assessments of losses due to corruption; a survey by Political Risk Services (East Syracuse, New York, 1993-1995) which polled staff about the likeliness of being asked to provide special and illegal payments as the price of doing business and included 148 countries; and the Internet Corruption Ranking (Gottingen University, 1995-96) which asked employees of multinational firms about corruption in 58 countries. For a country to be included in the Transparency index, it had to be covered in at least four surveys. Thus 54 countries receive a corruption score. The logic for this is that inaccuracies in a single survey are compensated for by the inclusion of additional polls. In addition, the accuracy of the overall index is indicated by "the fact that most surveys are highly correlated with each other" (see Transparency International, "Frequently Asked Questions," at <http://www.gwdg.de/~uwdw/faqs1.htm> (Transparency International, 1996). Since for this index the higher the score the lower the corruption, in the analysis that follows, we use the index multiplied by -1 such that

the higher the score the greater the corruption. This transformation eases the interpretation of the relationships between this index and the independent variables used to explain variation in these scores.

8. A low score on this measure indicates a high level of state control over the economy; a high score indicates extensive individual economic freedoms. Cameroon, Uganda, Ecuador, and Hong Kong are not scored by the Freedom House in the economic freedom index.

9. A low score indicates minimal individual political and civil liberties; a high score indicates the opposite. Because of this large sample, every country with a corruption ranking is also ranked by Freedom House except Hong Kong.

10. On Kenya and Nigeria, see Williams (1987: 80-86, 95-99).

11. The number of cases for each of these correlations varies due to the absence of data for some countries for certain variables.

12. An intuitive explanation of corruption might posit that rich, or economically developed, countries will experience lower levels of corruption. We tested this proposition by correlating GDP per capita with corruption. The bivariate relationship was quite strong ( $r = -.81$ ). However, the interpretation of this result is highly ambiguous: Does lower corruption lead to higher GDP/capita, or does higher GDP/capita produce lower levels of corruption? One could build an argument either way, and theory provides no guidance for choosing one proposition over the other. The relationship between wealth and corruption is fundamentally an empirical question. Answering it would require time series data that are not available. Furthermore, GDP/capita is strongly correlated with our independent variables, which raises problems of multicollinearity. We suspect that high levels of GDP/capita are the result of economic freedom, democratic governance, and trade--the variables we access directly in this study.

13. Cameroon, Uganda, Ecuador, and Hong Kong are not included in this analysis because of missing data for some of the independent variables.

14. These cases might suggest topics for further research. For instance, Belgium and Italy both have significantly higher corruption scores than our model would predict. Both countries score high on the factors that generally correspond with low levels of corruption: a high level of individual economic freedom, strong democratic norms, a long experience with democratic governance, and a high degree of trade integration. We speculate that Italy and Belgium have something in common, namely, political systems that fragment the distribution of political and economic goods in ways that are susceptible to patronage and corruption. In Belgium, a substantial share of government programs and economic resources are divided between the Flemish and Walloon communities. An elite within each ethno-linguistic grouping exercises substantial control over the allocation of these goods. Because of the extensive devolution of governance to the regions, those elites have substantial leeway to distribute goods so as to encourage loyalty within the community. Likewise in Italy, the distribution of political goods has been fragmented, not along ethnic lines but along party lines. The parties that are victorious in municipal, regional, and national elections win the right to distribute a plethora of administrative and quasi-administrative posts among their supporters. This system lends itself to personalism and patronage, as party workers seek the rewards of public employment and party leaders reward loyalty. Detailed empirical work could begin to test the plausibility of these speculations.