

Of Two Evils Choose the Lesser: Network and Market Corruption

Maria Kravtsova,

(PhD student, HSE, Moscow)

Alexey Oshchepkov,

(research fellow, HSE, Moscow)

Unified vs. disaggregated approach to corruption

Misuse of public office for private gain

Unified approach (Economic, sociological literature): there is a consensus which practices can be considered as corrupt

Cross country comparison studies of corruption are possible

Disaggregated approach (sociological literature): people living in different countries and in different time periods have different understanding of corruption

Cross country comparison studies of corruption are possible only if the groups of corrupt practices are predefined by the researcher

Network and market corruption

- **Market corruption (MC)**- every firm or individual who pays a bribe receives public services they need.
- **Network corruption (NC) (blat, guanxi, favoritism, cronyism)** - only those firms or individuals who are in kinship, friendship or business relationships with public officials may receive public services quicker or in better quality. They can get these services by means of bribes or without it.

Why is it interesting?

- Most existing corruption measures capture first of all bribery which is more easy to detect. But they almost don't consider network corruption. Distinguishing two forms of corruption helps to overcome the problem of underestimation of this phenomenon.
- The study of two corruption forms can shed light on the theoretical debate if corruption "grease the wheels of economy" or "sand the wheels".

	Market corruption	Network corruption
+	It is less harmful for the market. It is based on meritocratic principle: successful firms can afford to pay bribe and get the service they need. More successful firms are in privileged position.	It is less harmful for the state. Authorities and business form an informal coalition based on partnership, friendship or family relationships, which result in mutual beneficial policies. (Evans 1989)
-	It is harmful for the state. Market corruption destructs the rule of law and undermines the functioning of the state	It is harmful for the market. Outsiders are excluded from the market processes. It might lead to

Research goal

- To compare individual and aggregated level predictors of market and network corruption.

Aggregated level predictors

- We look at the correlation of our corruption forms with all the predictors which were found to have (should have) an impact on corruption in general.
- **Economic development.** (Treisman 2000).
- **Political instability.** (Treisman 2000, Olson 1993).
- **Shadow economy** (Dreher&Schneider, 2010).
- **Democracy** (Montinola&Jackman, 2002).
- **Anticorruption control**

Individual level hypotheses

- **Hypothesis 1:** *The higher the social status of officials is in the eyes of the individual, the less likely he will be paying bribes, and the more likely a reciprocal exchange will take place.*

This idea was suggested by Granovetter (2007) and is based on the exchange theory. Personal relations are incompatible with monetary payments. That is why if one person offers a bribe to another person, he gives him to understand that further relationships between them are impossible. The acceptance of a bribe means the acknowledgement of the status inferiority and has the same meaning as taking tips.

- **Hypothesis 2:** *The participants of MC have higher out-group trust than the participants of NC. The participants of NC have higher in group trust than the participants of MC.*

Market corruption largely involves impersonal exchange, which is not protected by any formal institutes. Thus MC is impossible without trust in strangers. In contrast people who participate in NC and who count on their friends and relatives might have higher in group trust.

- We test also the link between our forms of corruption and socio demographic characteristics of the respondents as well as their geographic mobility.

Data and methodology

- Main data source: Life in Transitions Survey II (2011). It contains 30 transition economies + 5 West European countries.
- Dependent variable: index of participation in different forms of corruption (PI).

MC: *Did you or any member of your household make an unofficial payment or gift when using these services over the past 12 months?*

NC: *Some people, because of their job, position in the community or contacts, are asked by others to help influence decisions in their favor. How likely is that you would actually ask for such help?*

PI=1 “honest” (he didn’t pay bribes and is not likely to use informal ties)

PI=2 “market corruption” (he paid bribes but is not likely to use informal ties)

PI=3 “pure network corruption” (he didn’t pay bribes but he is likely to use informal ties)

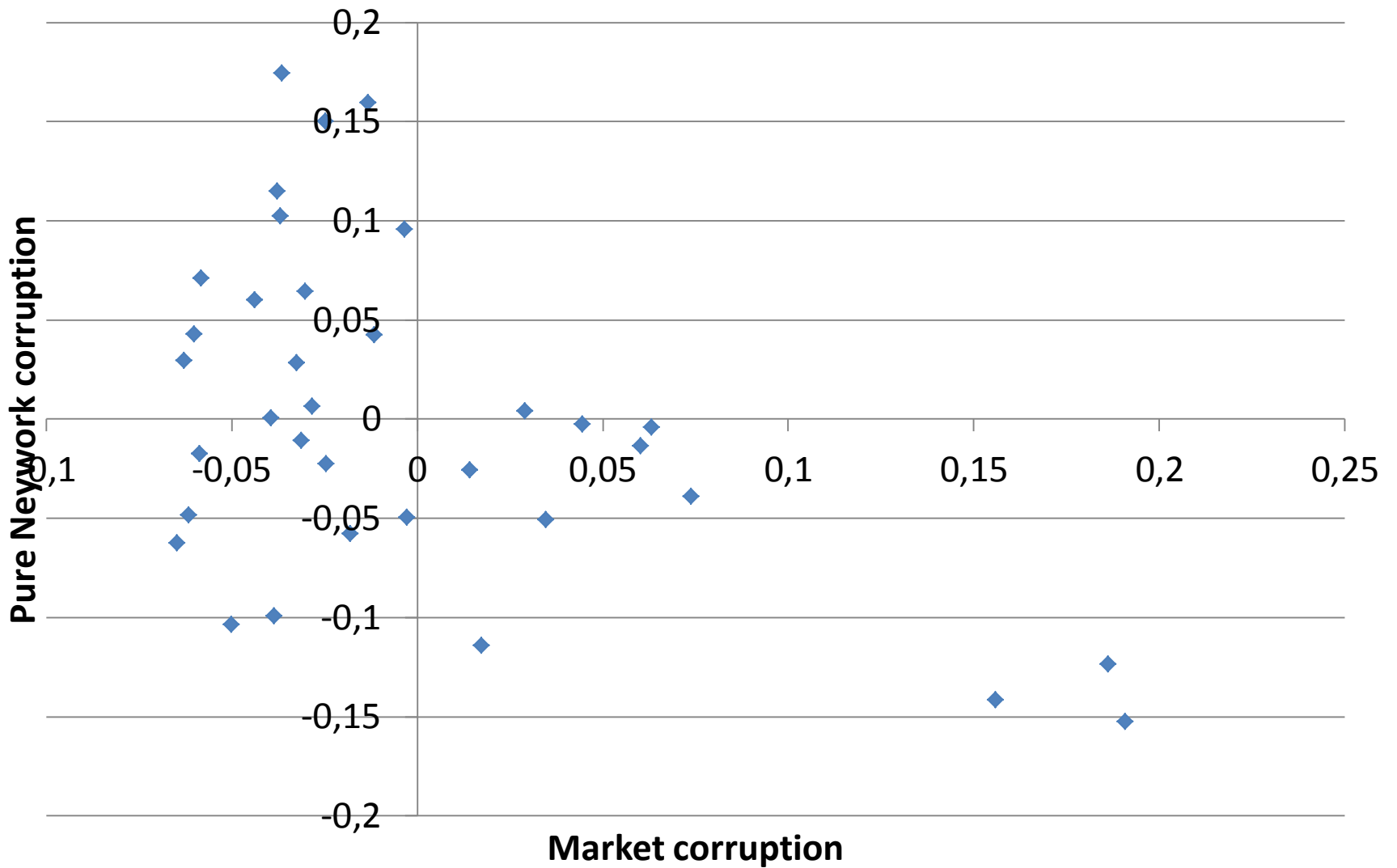
PI=4 “mixed types” (he paid bribes and he is likely to use informal ties)

- External data sources: HDI, Polity IV, Index of shadow economy (Schneider et al. 2010), World Governance Indicators (WB), Bertelsmann Transformation Index (Bertelsmann foundation).
- **Level 1:** multinominal logistic regression. **Level 2:** Correlations analysis.

Corruption indexes

- **Highest market corruption:** Azerbaijan, Kyrgyzstan, Albania, Ukraine, Moldova, Uzbekistan, Tajikistan.
- **Lowest market corruption:** Italy, Sweden, UK, Slovenia, Georgia, Croatia, Poland
- **Highest network corruption:** Macedonia, Bosnia and Herzegovina, Serbia, Croatia, Hungary, Bulgaria, Armenia.
- **Lowest network corruption:** Azerbaijan, Albania, Kyrgyzstan, Germany, Poland, Kosovo

Negative correlation between MC and Pure NC



Preliminary results

- On the aggregated level MC correlates with the most socio-economic predictors. The worse are the socio-economic conditions the higher is the level of MC.
- NC doesn't correlate with all predictors except of anticorruption control. NC is high in transition countries with strict anticorruption control. Thus NC is much less sensitive to different policies than MC.
- On the individual level MC is associated with atomization of the society, manifested in the low in group trust and in the low esteem of power holders .
- The main predictor of NC is the lack of out group trust. In group trust is insignificant. Network corruption participants perceive public officials as people of high social status which goes in line with Granovetter's hypothesis.
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Thank you for attention!

Aggregated level hypotheses

- **Economic development.** In more affluent countries the quality of social institutions is better (North 1981) and concepts of public and private are more strongly defined (Treisman 2000). Consequently the level of corruption is lower. (-)
- **Political instability.** Political instability shortens public officials' time horizon, that is why they are interested in extracting the maximum amount of rents (Treisman 2000, Olson 1993). Political instability leads to the dissolution of social networks and thus it might be harmful for network corruption. **Market (+), Network (-)**
- **Shadow economy** Participants of the shadow economy often pay bribes or use their networks when they are convicted in their illegal behavior (Dreher&Schneider, 2010). **(+)**
- **Democracy** Between democracy and corruption was found an inverted U shaped relation (Montinola&Jackman, 2002). We will test it for our two forms of corruption.
- **Anticorruption control** We expect that MC might be a consequence of the lack of anticorruption control and NC of strong anticorruption measures in poor institutional context. **Market (-), Network (+)**