

Of Two Evils Choose the Lesser: Network and Market Corruption

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Market vs network corruption

Market corruption: any firm or individual, who pays a bribe gets privileges from public officials

Network corruption: *only* those firms or individuals, who are in kinship, friendship or business relationships with the public officials may get privileges.

Using public power an official gives some privileges to some individuals or firms, and gets some payoff (material or non material).

Why is it interesting?

- The distinction between market and network corruption helps to measure corruption more adequately. International corruption rankings may change.
- Network and market corruption might have different causes and consequences. Consequently to combat them may be needed different approaches.

Our contribution

- The distinction between market and network corruption (favoritism, cronyism, nepotism, patronage, blat, guanxi) is well known from the theoretical literature and it is often used in qualitative studies (Scott, 1963, Nye, 1967, Lemarchand and Legg, 1968, Ledeneva, 1998, Kang, 2002, Granovetter, 2007).
- We are not aware of any paper analyzing network and market corruption with quantitative methods in comparative framework.

Research questions

- Do market and network corruption are caused by different factors?
- Which of two corruption forms is less harmful for entrepreneurship development?

Data

- Life in Transition Survey II, 2010 (EBRD)
- **Engagement in network corruption (NC)**

Some people, because of their job, position in the community or contacts, are asked by others to help influence decisions in their favour. How likely is that you would actually ask for such help? (It refers to the following situations: to find a job, to settle a dispute with a neighbor, to obtain permits or official papers, to get into the university).

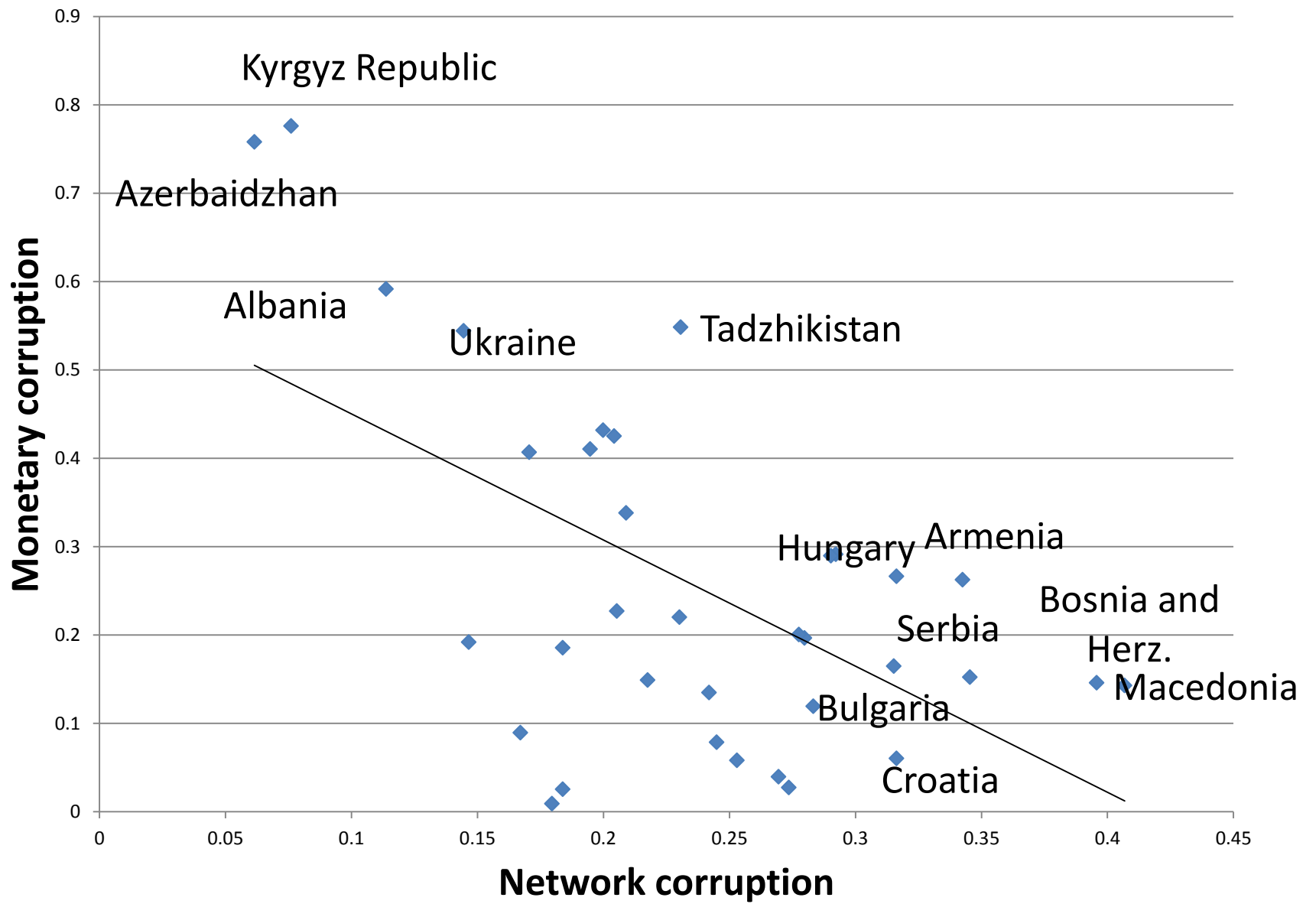
- **Engagement in market corruption (MC)**
- *Did you or any member of your household make an unofficial payment or gift when using these services over the past 12 months? (Situations: request of official documents, resolve a civil dispute in court, education, medical care, social benefits).*

Index construction

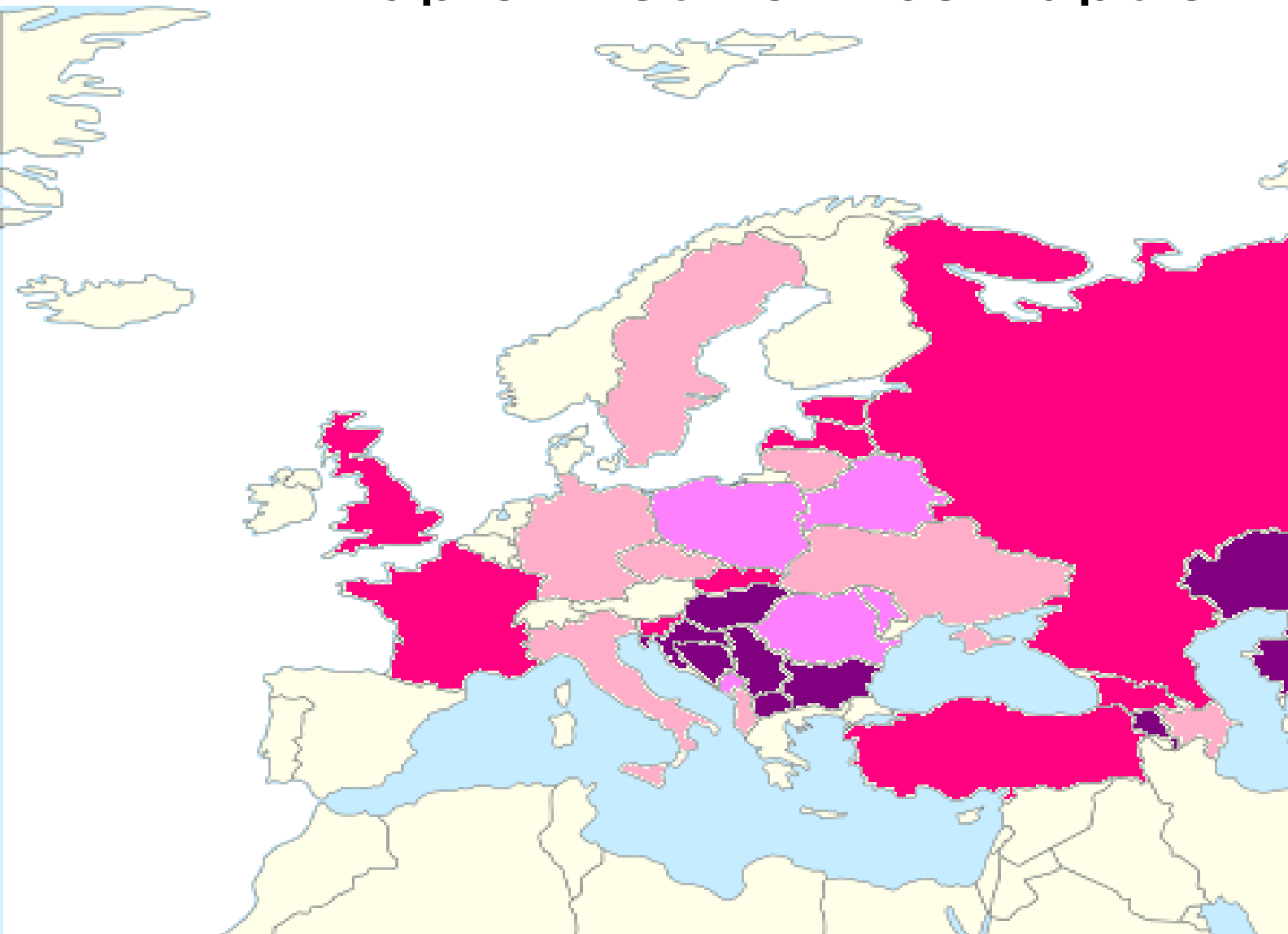
- **Market corruption participant:** is not likely to use social ties, gave bribe at least in one situation.
- **Network corruption participant:** is likely to use social ties, doesn't give bribes in the situations, he faces.
- **Mixed type:** is likely to use social ties, gave bribe at least in one situation.
- **Uncorrupt:** is not likely to use social ties, doesn't give bribes in the situations, he faces.
- **Aggregated indexes:** country's share of each type of corruption participants.

Macro-level correlations between corruption forms

	uncorrupt	MC	NC	Mix
uncorrupt	1			
MC	-0.880***	1		
NC	0.206 n.s.	-0.613***	1	
Mix	-0.917***	0.891***	-0.478***	1



Map of network corruption



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Simple correlations at the aggregated level

	NC	MC	MIX
Human Development Index (0-low, 1-high)	0.12	-0.63	-0.66
Government effectiveness (-2.5-low, 2.5-high)	0.09	-0.58	-0.65
Regulatory quality (-2.5-low, 2.5-high)	0.10	-0.47	-0.58
Political instability and violence (-2.5- high, 2.5-low)	0.02	-0.40	-0.46
Anticorruption control (1-low, 9-high)	0.35	-0.56	-0.65
Shadow economy (% from GDP)	-0.12	0.43	0.57
Degree of democratization (-10-autocracy, 10 -democracy)	0.17	-0.42	-0.57
Share of protestants (%)	0.003	-0.29	-0.27
Share of people finding the job of entrepreneur attractive (%)	-0.24	0.27	0.25
Share of people finding the job of public official attractive (%)	0.36	-0.07	-0.04

Results of multinominal logit at the individual level

Network corruption participants (NCP) - more socialized persons: females, young, live in urban locations, where social networks are more dense, trust in-group members more than market corruption participants and don't trust outsiders. They perceive public service as a job of high social status. NCP are less risk averse than "uncorrupt" and more risk averse than MCP. They have less income.

Market corruption participants (MCP) – more atomized persons: males, trust neither in-group, nor out-group, married (have less time for socialization outside of the family), have less respect for the representatives of authorities. MCP are less risk averse than NCP.

Testing the effects of MC and NC: conflicting expectations

	MC	NC
State regulation	“Harmful” MC undermines completely the rule of law, because all governmental decisions are for sale.	“Less harmful” NC doesn’t undermine the rule of law because it is restricted “access corruption” - only for selected circle of people.
Market mechanisms	“Less harmful” In line with the market logic everyone who has enough money to pay a bribe can get a privilege.	“Harmful” NC results in discrimination of outsiders and leads to decrease of competition.

Results of HLM modeling

Dependent: self-employed (1=yes, 0=no_	1	2	3	4	5
Pure MC	2.01* (1.04)		0.71 (1.10)		-2.45 (1.71)
Pure NC		-3.63** (1.56)		-2.76* (1.41)	-5.42** (2.35)
HDI			-5.82*** (2.08)	-5.72*** (1.73)	-7.12*** (1.98)
N (level 2)	27	27	27	27	27
N (level 1)	12288	12288	12288	12288	12288

Next steps

- **Predictors of MC and NC** – Hypothesis at the individual level: NC might be associated with more politically passive and loyal society which is ready to obey an authoritarian leader. Preliminary findings: NCP are less likely than MCP to think that people “should be more active in questioning the actions of authorities”, they are less willing to participate in peaceful demonstrations, to join a political party or to sign petitions. We may follow the path dependency: anticorruption control - spread of NC - passive, loyal society.
- **Effects of NC and MC** – solving the problem of small number of N (Level-2): 27. Monte- Carlo simulations.

Thank you for attention!

Methodology for the individual level

- Multinomial logit model
- Dependent variable: corruption forms
- Independent variables: socio-demographics; in-group, out-group trust indexes (Welzel, Newton, Delhey), social status of government employee, official language knowledge, live the whole life in the same location, risk aversion.
- Base outcome: uncorrupt.
- Analysis of marginal effects to compare NC participants with MC participants.