Patterns of Corruption

George Economakis, Yorgos Rizopoulos, Dimitrios Sergakis

EAST-WEST
Journal of **Economics and Business**
Vol. XIII – 2010, No 2 (11-31)

Patterns of Corruption

George Economakis[1], **Yorgos Rizopoulos**[2] & **Dimitrios Sergakis**[3]

Abstract
The ambiguities that characterize the economic significance and impact of corruption make it necessary to develop a coherent and more satisfactory analytical framework. We argue that the institutional structure that governs the interactions between players and, more particularly, public and private actors is a decisive factor of corrupt practices and largely influences the nature of corruption. On this basis, we propose a taxonomy of the different corruption patterns as a function of two institutional parameters, namely the structural features of the interest intermediation systems and the degree of institutional stability.

Keywords: Corruption patterns, Institutional determinants, Public/private interactions

JEL classification: B52, D73, O17

---

[1] University of Patras. E-mail: economak@otenet.gr

[2] University of Picardy. E-mail: yorgos.rizopoulos@u-picardie.fr

[3] University of Picardy. E-mail: dimsergakis@gmail.com

Corruption in economic literature: convictions and ambiguities

Corruption is not a new phenomenon. Observable throughout history, it is not related to a specific socioeconomic system, be it capitalist, socialist or "transitional". Dobel (1978: 958-959) stresses that, "while in contemporary usage 'corruption' usually means the betrayal of public trust for individual or group gain, the technical notion of 'corruption of the body politic' has a long and impressive history in both political philosophy and polemics. The decay of the moral and the political orders are phenomena which political theorists have constantly had to confront". Dobel assumes "that, while historical situations change, there is a continuous tradition of rational reflection upon such problems and that the results of this reflection need not be limited to the comprehension of a particular era".

Nevertheless, a renewed and intense interest can be noted in recent years concerning the various expressions and impacts of corruption. According to Tanzi (1998: 560-561), "the greater reliance on the market for economic decisions and the increased need to be competitive have created an environment in which the pursuit of efficiency has acquired greater importance and distortions attributed to corruption attract more attention". However, even if "like an elephant, while it may be difficult to describe, corruption is generally not difficult to recognize when observed" (Tanzi, 1998: 564), this renewed concern does not imply more clarity concerning the nature and patterns of corruption, nor a fully articulated and coherent theoretical framework.

The ambiguous definition of corruption is one major aspect of the problem. Caiden (1988: 7) notes that it "means something spoiled […] When applied to human relations, corruption is a bad influence, an injection of rottenness or decay, a decline in moral conduct and personal integrity attributable to venality or dishonesty. When applied to public office […] the practice has been to spell out specific acts of misconduct that disgrace public office and make the offenders unfit to remain in office". However, the varying uses of the term undermine its analytical rigor. Robbins (2000: 425) considers the word to be meaningless "insofar as it describes any transaction or exchange that is viewed as normatively 'bad' by the observer; the term corruption is value-laden and thus analytically weak or simply vacuous".

Indeed, even widespread convictions about corruption are far from obvious. One conjecture points out the various forms of state as its main agent: "Ever since the dawn of civilization, it has been recognized that anyone put into a position of exercising communal or collective or public power and commanding public obedience is tempted to use public office for personal gain and advantage" (Caiden 1988: 3). Corruption is described as a behavior that deviates from the formal rules of conduct governing the actions of public servants because of private-regarding motives such as wealth, power or status (Nye, 1967). In this sense, “the anti-corruption strategy the World Bank announced in September 1997 defined corruption as the ‘use of public office for private gain’” (see Huther & Shah, 2000).

Corrupt practices are generally considered to be related to the importance and types of transactions that are subject to bureaucratic involvement. For instance, public servants in virtually every country have the power to allocate rights over scarce resources. Under such circumstances, they could bargain for a share of the rents created by their own contribution (subsidies, licenses or other valuable resources). This can be viewed as a redistribution tax, increasing costs and shifting risk from some stakeholders to others. Bureaucratic rent-seeking typically occurs in the context of patron/client transactions and implies not only monetary payments (bribes) for firms and other stakeholders, but also non-monetary costs, such as bureaucratic delays. Through the organization of collusive transfers, officials benefit from a share of the resources being attributed to clients or from the wealth eventually created by the resource transfer.

Provided that “corruption is generally connected with the activities of the state and especially with the monopoly and discretionary power of the state”, and that “particular aspects of governmental activities create a fertile ground for corruption”, Tanzi (1998: 565-576) exposes and analyzes aspects of government activities and factors that contribute directly and indirectly to state corruption, such as: institutional regulations and authorizations, the taxation system, spending decisions, public expenditure, provision of goods and services at below-market prices, financing of political parties, quality of the bureaucracy, level of public sector wages (low salaries), penalty systems and institutional controls.

Following Becker’s famous assertion that “the only way to reduce corruption permanently is to drastically cut back government’s role in the economy” (*Business Week*, no. 3551, November 3, 1997: 26), Lui (1996: 26-27) affirms that, “if the resource allocation system is perfectly competitive, then corruption cannot exist […] Deviation from the competitive market caused by government regulations or interference is a major cause of corruption [...] Countries with highly distorted markets tend to have high levels of corruption”.[4] This author

[4] According to Boerner and Hainz (2007), high corruption levels and entry fees for lucrative positions in the bureaucracy are linked, with the entry fee rising in tandem with the amount of bribes that can be appropriated in a particular position.

goes further by pointing out that market distortions due to state intervention rather than corruption "may be the principal deterrent to investment in physical capital". In the same perspective, Cheung (1996) does not hesitate to write that this is the consequence of the bureaucrats' human nature, considering all types of public regulation and control as intended behavior aimed at facilitating corruption: "I do not think corruption can exist without government regulations or controls […] I believe all individuals, government officials and politicians without exception, are constrained self-maximizers […] I believe each and every politician and government official has only one priority in mind [...] how to produce more income for themselves" (Cheung, *op. cit.*: 1-2).

Meanwhile, despite the mainstream claim that the state plays a central role in corruption, some controversy still exists. Rose-Ackerman (2004: 67), while adopting the World Bank's definition limiting corruption to the misuse of public office for private gain, adds that "corrupt incentives can also arise in purely private interactions […] A public official may take a bribe in return for a favorable decision or may simply steal from the state's coffers. Clearly, corporate managers can face similar incentives, and with the growing privatization of former state enterprises, the locus of some forms of corruption will shift into the private sector". Also, Tanzi (1998: 564) argues that "it should not be concluded that corruption cannot exist within private sector activities. Especially in large private enterprises, corruption clearly does exist".

Apart from the fact that corruption also exists in private transactions, modern societies could not survive without a State managing externalities and providing public goods such as security, health, education, regulations for economic activity, etc. The skewed image of the approaches stressing the state as the exclusive vector of corruption becomes even less satisfactory if one takes into account the generalization of hybrid forms of regulation, in particular in the form of private institutions in charge of controlling certain transactions or ensuring compliance with rules. Moreover, Becker-type arguments "collide with the reality that some of the least corrupt countries in the world, such as Canada, Denmark, Finland, the Netherlands, and Sweden, have some of the largest public sectors, measured as shares of tax revenue or public spending in gross domestic product" (Tanzi, 1998: 566). Interestingly enough, econometric investigations in the early 1980s, found some evidence that "[…] the *larger* the public sector in terms of government expenditures, the *lower* the incidence of corruption, with levels of political competition and economic development controlled" (Montinola & Jackman, 2002: 169).

Another point debated in the international literature on this topic concerns the positive impact of corruption (see also Grein & al, Olimpieva, and Popkova in this issue). Tanzi (1998: 578) notes that "in past years, the views on corruption had been more divergent and some economists had even found some redeeming value in it”. Indeed, quite a few mainstream approaches have discovered some efficiency-enhancing qualities of corruption.

According to Rose-Ackerman (2004: 68), “scholars who favor a minimal state and who view most state actions as illegitimate exercises of power interpret bribes as a desirable way to avoid the exercise of government power”. Paying bribes “may be more efficient than complying with existing rules, but corruption is always a second-best response to government failure” (Rose-Ackerman 1997: 56). According to neoclassical framework assumptions, state regulations are viewed as introducing distortions and inefficiency; corruption could thus contribute to a move back toward Pareto-optimality conditions (Cheung 1996). It remains a second best solution, given that the state still exists, but it could be considered a factor enhancing efficiency, removing government-imposed rigidities. Moreover, bribes supplement low wages and enable the government to maintain a lower tax burden, which can favor growth. Lui (1996: 27) represents this school of thought quite thoroughly: “interference with the free market usually induces inefficiencies […] bribes sometimes can partially restore the price mechanism and improve allocative efficiency. Corruption then might be viewed as people’s optimal response to market distortions… [It] has some beneficial effects to society”. In a provocative contribution, Tullock (1996: 12-13) even argues for the purchase and possession of government jobs, thus converting the government to market procedures: “Proponents of more traditional forms of governments – whether democracy, despotism, anarchy, etc. – will be shocked at any proposal to adopt a system of bribes. For myself [Tullock writes], I do not think such a system is a very good idea, but I do think it deserves more careful thought than it has received”.

Conversely, other scholars stress the negative impact of corruption on economic growth. Econometric research (Mauro, 1995 and 1997) reveals that it “increases public investment because public investment projects lend themselves easily to manipulations by high-level officials to get bribes”, and simultaneously “distorts the effects of industrial policy on investment”, reducing “the productivity of public investment and of a country’s infrastructure”. Corruption reduces education and health expenditure, as well as tax revenue, thus undermining a government’s ability to carry out needed public expenditure, and also dampens foreign direct investment because corruption in fact operates as a tax (see also Iqbal in this issue). All these findings undermine “the revisionist theory of corruption, which touted the phenomenon’s efficiency-enhancing qualities” (Montinola & Jackman, 2002: 152).

These contradictory points of view show that, as a scientific object, corruption raises unanswered questions because of the ambiguous character of the term and the strongly ideological content of quite a few contributions aiming to clarify its nature and its impact on economic dynamics and interactions. Along with the various assessments of the field and borders of corruption, some analysts consider it to be a factor for efficiency, whereas others view it as a source of injustice and social costs.

The state of the art requires a more in-depth theoretical discussion in order to build a coherent analytical framework. As Jens (2006) points out, corrupt transactions, by their very nature, cannot be observed directly, but have to be related to a set of rules. If rules differ, so do the transactions defined as corrupt. In this perspective, departing from the institutional framework that governs collective action and, more specifically, the interactions of public and private actors, this paper explores the impact of institutional determinants on the nature and patterns of corruption.

In the following section, we propose a general definition of corruption and focus on the impact of inequality and the state's autonomy on private/public interactions. Next, we point out the institutional determinants of corruption, namely institutional structure and institutional stability. We then identify different patterns of corruption and a general taxonomy is built up. Finally, we discuss the limits and perspectives of our work.

Public/private corruption: the questions of inequality and autonomy of the state

We consider corruption to be *all relations and mechanisms that favor specific interests, in a positive sum cooperative game involving a limited number of connected and interdependent insiders, and causing damage to outside actors or to collective interests*. The public/private actors' interactions resulting in such practices are a particular aspect of this kind of discriminatory behavior[5], providing privileged access to rare goods controlled by public servants in exchange for bribes and other illicit material gains.

It is important to note that private actors do not merely suffer from corruption, but also generate it by trying to promote their own specific interests. The state and the non-state spheres stand for an articulation of structures and relationships, where both types of actors interact and influence each other (Rizopoulos, 1995). The actions of public servants provide a restricted supply

[5] "Bribes […] may change the order in which public officials perform the process, say, of providing permits" (Tanzi 1998: 582); in other words, corruption implies unfair competition.

of a useful range of rights and are a major source of potential gains and losses for private actors, a source that the latter will therefore try to influence (Brewer, 1992). They are dependent on the public actors with whom they negotiate for many issues crucial to their activity and endeavor to orient the political decision-making process and the resulting resource allocation. In turn, through these relations, state servants obtain otherwise inaccessible resources (material gain, specific information and means of influence). Links between public agencies and private actors are often based on this reciprocity balance and mutual resource dependency (Rizopoulos & Sergakis, 2010). In this way, state actors can be found remodeling and dominating private actors' strategies and/or being caught serving the latter's interests[6].

The subjacent questions of such a complex relation implying discriminatory practices in public/private actors' interactions are those of:

a) Political and economic inequality, and

b) The relative autonomy of the state and its representative agencies, compared to specific interest groups.

Concerning the question of inequality, Dobel (1978: 961-963) stresses that under "systematic and enduring inequality in wealth, power and status […] certain groups of individuals have de facto or legally sanctioned priority of access to wealth, power and status […] The focus is upon equality because of its relation to the common good […] maintaining the common good requires some loyalty to other people and to the policies and institutions which guarantee the common good […] economic inequality […] must never develop to the extent where it threatens the integrity of law or government". Given the above, the essence of corruption is "the decline in the ability and willingness of the citizens to act spontaneously or disinterestedly to support other citizens or communal institutions […] There are two types of inequality which corrupt the state: permanent or massive inequality in wealth and exclusionary inequality in political power and authority".[7]

---

[6] As in the *liberal interventionism* model developed by Bellon (1986), which qualifies the variety of actions undertaken by the US government in the business field (e.g., allocation of administrative services, protectionism, R&D subsidies, military industry support, tax deductions, and so forth).

[7] Mainstream literature sometimes argues that the easiest solution to corruption control consists of raising the earnings of bureaucrats that have the discretion to engage in corrupt activities. This type of measure does not aim to attenuate social and economic inequality, but targets a narrower important gap between salaries in the public and private sectors. The idea is to treat decisions in the public sphere as in a private company, giving similar incentives. Meanwhile, as Van Rijckeghem and Weder (2001) demonstrate, eradicating corruption solely by raising the income of the public servants requires a rather large increase in their wages. Furthermore, as showed by the case of the

Various theoretical traditions point to inequality as a decisive factor for discriminatory practices in the social game. Public choice scholars (Buchanan & Tullock, 1962; Olson, 1965) insist on the asymmetries affecting actors' capacity of political action. Small organized groups with a high concentration of interests benefit from governmental action that will therefore tend to favor organized minorities' interests at the expense of collective interests. Marxist approaches also stress class structure and struggle as determinants of institutions and political decisions favoring ruling class interests (Jessop, 1990). In the political sciences field, the *iron triangle* metaphor (Lowi, 1969) also thoroughly illustrates such inequalities – showing interest groups, bureaucrats and politicians in one closed, secret and exclusive network, linked by common interests in a positive sum game. In fact, powerful social groups may have better possibilities for defending their own interests and negotiating their goals with public servants, which mean differentiated access to collective resources.

This point leads to the crucial question of the state's relative autonomy. Indeed, private/public actors' relations are characterized by a fundamental ambiguity, stressed by Burdeau (1970): the state derives its power from the most powerful social groups, when it is supposed to defend collective interests and act as a conflict arbitrator. In this sense, autonomy depends on the ability to incorporate, through appropriate intermediation mechanisms, contradictory interests and some demands of the dominated social groups[8]. This ability is related to the internal cohesion of the ruling elite[9], the intensity of competition and the coordination capacity of its various parts[10].

It seems reasonable to suppose that the degree of the state's relative autonomy impacts the nature of the public/private actors' relations and the intensity of discriminatory (i.e. corrupt) behaviors. However, it is difficult to establish a univocal relation between these variables. Indeed, different *types* of state autonomy exist. For instance, it is possible that different parts of the elite share

---

widespread corruption in the Greek public health system (Liaropoulos & al, 2008), improving wages does not seem to be a sufficient measure to eradicate these practices. Indeed, the best-paid doctors in Greek public hospitals are generally those that are seeking illicit rewards in order to give priority to wealthier patients.

[8] Thus appearing as a representative of the collective interests, which also means ideological and political control (Marx, 1852; Poulantzas, 1987; Economakis & Bouras, 2007).

[9] According to Dobel (1978: 964) "one of the root meanings of corruption is literally 'to break into many pieces'. This is the fate of a corrupted state". The cohesion of the ruling elite (*not be broken into many pieces*) ensures the *relative autonomy of the state*. In this sense, the non-corrupt state should correspond to such relative autonomy.

[10] For a stimulating analysis of the state's relative autonomy in the capitalist system, see Poulantzas, 1974.

the collective (public) resources "fairly" among themselves, excluding other parts of the society. Alternatively, relatively weak and fragmented elites could also monopolize collective resources at the price of strong antagonisms and internal conflicts, in order to control the state apparatus. In other words, a dictatorship such as a formal democracy may be compatible with weak autonomy, and pluralism may concern only particular social groups. Furthermore, unimpeded political competition could ensure different types of state autonomy, having different effects on public/private actors' relations and implying different degrees of corruption or various corruption patterns. This complexity seems to be at the origin of a widespread confusion between *autonomy of the state*, *pluralism* or *democracy*, and explains, in part, the apparently contradictory results of the empirical investigations on corruption cited in the first section.

Institutional determinants of corruption

Inequality and the state's relative autonomy appear to be essential factors for understanding corruption. Meanwhile, their influence and how they impact corrupt practices depend on the specific structural and functional characteristics of the institutional framework and the rules governing the relations between different groups of interest. In this perspective, we argue that *institutional structure* and *institutional stability* are two crucial parameters that enable us to shed light on different corruption patterns.

Institutional structure

The idea that different institutional structures have different effects on corrupt transactions is not new.

Elitist models – the so-called policy communities (Rhodes, 1988) – draw attention to stable relations, interests in common, dense and frequently-repeated interactions, strong ties among members integrated and isolated from external influences, shared values, preferences, and even ideology. Recurring state support of specific interests is also put forth, due to controlled assets, advantages of ownership, knowledge and information asymmetries.

Conversely, pluralist models underline the diversity of interests in different domains, the possibility of incoherence in the state's actions and governance difficulties. In this perspective, the state is no longer a monolithic entity, interactions between interest groups are no longer hierarchical, and public actors are independent and autonomous. They dispatch specific rare resources according to the equilibrium between different interest groups in given situations, but counter-powers do not allow individual private interest to dominate permanently. The interactions are characterized by weak ties among a high number of participants, with equilibrated bargaining power and little interdependence, without dominant or systematically favored interests.

Pluralist institutional environments are generally considered to be less favorable to corrupt practices, and mainstream approaches to corruption control consist of diluting the value of the distributional rights of bureaucrats by increasing the level of competition in the economy. The fundamental idea underlining these propositions is the supposed incompatibility of corrupt activities with perfect market competition. Hence Shleifer and Vishny (1993) distinguish the cases of a centralized state where a single agency is the sole supplier of all the relevant rights, a plurality of state agencies supplying complementary rights and a plurality of agencies, each one of which is able to supply all the relevant rights. Their policy conclusion consists of increasing competition amongst bureaucrats, and allowing more agencies to supply similar rights enables to best dealt with corruption. In a different field, exploring the impact of corruption on economic growth, Drury *et al.* (2006) argue that although corruption occurs in democracies, the electoral mechanism mitigates the detrimental effect of corruption. In other words, corruption in democracies would have no significant effect on economic growth, while non-democracies would suffer significant economic harm from corruption.[11]

According to Montinola and Jackman's econometric findings (2002: 167), "political competition matters, and there is an interesting threshold in this relationship. Corruption is typically a little higher in countries with intermediate levels of political competition than in their less democratic counterparts, but once past the threshold, higher levels of competition are associated with considerably less corruption. Stated differently, corruption is likely to be slightly lower in dictatorships than in countries that have partially democratized. But with more complete democratization (reflected in the nature of elections and the effective power of elected legislators), countries experience much lower levels of corruption". The authors consider (*op. cit.*, 151, 153) that "one mechanism through which political competition reduces corruption is the re-election imperative, which lowers the demand for bribes. […] The electoral process in most democracies ensures the possibility of substantial alternation in office for individual leaders and parties". However, these results show that political competition matters only *beyond* a threshold. Indeed, on the one hand, a dictatorship may in some cases be as effective against corruption as full

[11] Empirical investigations often undermine the veracity of such arguments given the high growth performance of many dictatorships!

democracy. On the other hand, unimpeded political competition does not eliminate corruption, even though it has an impact on its nature and pattern. From this point of view, Dobel's (1978: 964) rejection of "the naïve […] pluralist thesis that the conflict among factions will result in the prevention of tyranny or the long-term maximization of all citizens' welfare" seems sound.

Therefore, corruption could exist in both pluralist-type and elitist-type institutional environments. The same phenomenon of discriminatory behavior based on a positive sum game between interconnected actors is reproduced in different conditions while various possibilities arise concerning the patterns and intensity of these practices. Let us revisit the example of the two configurations presented in the second section. Weak and fragmented elites characterized by strong internal conflicts would result in generalized patron/client relations and widespread "grand" and "petty" corruption, with all manifestations of social life being concerned. Conversely, when different parts of the elite share collective resources "fairly", one could observe an overall low level of corruption or substantial "grand" corruption, albeit without these practices being diffused to the lower strata of society. Indeed, "petty" corruption is linked to "grand" corruption, but "grand" corruption does not necessarily imply "petty" corruption.[12]

Among the approaches that attempt to decipher the characteristics and structure of corruption, *state capture* is the situation in which a few private actors are able to shape laws, policies and regulations to their own advantage by providing illicit private gains to public officials (Hellman & Kaufmann, 2001). Captors receive advantages such as sales growth but also provision of public goods, such as the protection of property rights. When politicians and bureaucrats can privately sell public goods to a few individual actors, with minimal political cost, they have little incentive to provide open access to these goods.[13] The *elite exchange* theoretical framework equally stresses that capture occurs when private actors exercise influence over state policy while bearing little cost for their efforts (for instance, when successful lobbyists gain influence by providing benefits to state officials or representatives). However, it suggests the existence of a *quid pro quo* between state officials and private

---

[12] According to Tanzi (1998: 565), "Corruption can be bureaucratic (or 'petty') or political (or 'grand'); for example, corruption by the bureaucracy or by the political leadership".

[13] Concerning the international business field, captor MNEs are more likely to enter the market, while foreign joint ventures with local partners are more likely to engage in state capture actions than domestically-owned firms (Hellman, Jones & Kaufmann, 2001).

interests. Political and economic elites weakly accountable to social control reap gains for themselves based on mutual interest rather than capture.[14]

Parallel to the institutional structure, institutional stability appears to play an important role.

Institutional stability

The institutional framework has both constraining and enabling qualities. By establishing rigidities and by limiting individuals' expectations, it provides guidance for acceptable behavioral decisions or constraints (Newman 1976, Boland 1979). Stable institutional rules provide a steady structure for everyday life and are backed by enforcement mechanisms involving surveillance, assessment and sanctions.

In times of institutional instability, institutional information will be of sufficient low quality to appear worthless as a guide for decision-making. As Heiner (1983) argues, genuine uncertainty will cause simpler and less sophisticated patterns of behavior, easier for an observer to recognize and predict. "In a high uncertainty situation, firms will tend to be small scale, the most profitable business may be in trade, redistributive activities (mafia, theft...), or the black market. Large firms with substantial fixed capital will exist only under the umbrella of government protection, and payoffs to the policy" (North 1990: 67).

In other words, in conditions of institutional instability, uncertainty pushes actors to establish private regulation mechanisms that may produce regressive phenomena, such as widespread corruption. Caiden (1988: 6) argues that "corruption is facilitated by unstable politics, uncertain economies, maldistributed wealth, unrepresentative government, entrepreneurial ambitions, privatization of public resources, factionalism, personalism and dependency". Mauro (1995) shows a "positive and significant correlation between bureaucratic efficiency and political stability", a possible explanation being that "corruption and instability may result from the same coordination problem among members of the ruling elite" (*op. cit.*, 705). From this point of view, the question of institutional stability is related to the question of the cohesion of the ruling elite and to the relative autonomy of the state. As Erawan and Oyamada

[14] For instance, Frye (2000) points out the political coalition between the brokers on the Russian equity market and the regulators in the Federal Commission on the Securities Market. In exchange for granting privileges to the brokers' association, the bureaucrats from the Federal Commission received support from the brokers in their struggle against the Russian Central Bank.

(2004: 4) point out, corruption is a "symptom of political and economic struggle".

Institutional and economic poverty, a lack of credible enforcement of formal rules or external dependence are some key elements of institutional instability.

"Poor societies lack sufficient resources all round, but they are especially short of public resources. Governments are too poor to provide sufficient public goods and services, to maintain public facilities, or to pay their employees a decent wage. There is therefore a mad scramble to obtain whatever is going and to make up for underpayments" (Caiden 1988: 11-12). As Tanzi (1998: 586) notes, "corruption tends to be more common in poorer countries and in economies in transition than in rich countries". A shortage of public resources and the destruction of the common-public good seem to be determinant factors for the type of public/private actors' relations. From this point of view, neoliberal economic policies and a broad privatization of public assets (i.e. expropriation by a few individuals of the common good) appear to be a source of corruption by intensifying the misdistribution of wealth. Indeed, because of the transformational economic crisis and the "minimal state" policies in most transition economies, the *de facto* power of some interest groups were reinforced, capturing important fragments of the state apparatus.

Institutional instability is also related to the lack of credible enforcement of formal rules (North, 1990), which means weakening of the deterrence provided by the legal system by diminishing the probability of detection, apprehension, conviction and the penalties for malfeasant behavior.

Similarly, external dependence appears as a source of institutional instability and, thus, a factor favorable to corrupt practices. The Balkan countries are a well-known historical example. As latecomers, these states were from the beginning relatively weak, underdeveloped and dependent on the Great Powers. The impossibility to reproduce the phases of economic and institutional evolution of the advanced countries organically and to create the mechanisms of collective action typical of modern states endogenously, were at the origin of institutional imitation and imported formal rules. As a result, "the State in the Balkans suffers from lack of legitimacy, poor administrative performance and lack of competences. It is viewed not as a vector of the common interest, but as a coercion force, relay of foreign interests and of rent-seeking strategies" (Rizopoulos, 1999). The tension between formal and informal rules is one of the continuous characteristics of these countries, resulting in unstable institutional combinations.

Patterns of corruption

Given the above developments, we argue that different patterns of corruption are related to the characteristics of:

a) The institutional structure, as it results from the historical evolution and the structural characteristics of public/private relations (elitist or pluralist) in each issue area[15], and

b) The institutional stability, which depends on variables such as institutional and economic poverty, the credible enforcement of rules, and external dependence.

Figure 1 below shows four main configurations.

Figure 1. Patterns of corruption

		Institutional structure	
		Elitist	*Pluralist*
Institutional stability	+	Institutionalized corruption	Marginalized corruption
	-	Hierarchically fragmented corruption	Diffused corruption

Institutionalized corruption

Rich and institutionally stabilized states characterized by elitist models of interaction in various domains generate institutionalized networks of organized corruption at the upper political and economic levels (for example, in some

[15] Elitist and pluralist configurations must not be apprehended at a global (national) level. In a multi-centered and complex world, the state is differentiated internally. Public/private actors' relations vary across different domains in their interactions and outcomes (Brewer, 1992). Institutional environments are not homogeneous, given that issue areas characterized by different institutional structures may exist in the same country (Rizopoulos & Sergakis, 2010). For example, the elitist structure observed frequently in the energy sector of advanced countries is not exclusive of pluralist institutional forms in other issue areas.

strategic activities such as the energy sector, in France or in the U.S.). Institutional stability signifies that the ruling elites are sufficiently powerful and coherent, benefiting from a strong ideological power. Sharing collective wealth through connivances and illicit networks inside the ruling elites do not imply widely diffused corruption practices at the lower levels of society or, only provisionally, in some specific issue areas (for instance, at the opening of new competitive activities, such as the sport betting market in France).

In the past few years, revealed widespread "conflicts of interest" (government and high-level public servants working in parallel for private interests) reflect the emergence of new political elites, clearly subject to the globalized financial elite, implying an extension of the institutionalized "grand" corruption networks.

Hierarchically fragmented corruption

This situation corresponds to a fragmented elitist institutional framework in which conflicts and antagonism between different parts of the ruling elites, are sources of instability. Multiple and hierarchically organized corruption networks are competing for the control of collective resources and for a share of the rent. This type of corruption involves vertical interrelations between strata of "grand" and "petty" corruption.

In China, the political system tends to be dominated by a powerful ruler (the Chinese Communist Party), and policy tends to favor industry leaders and big business. Meanwhile, mini-states within the state – especially at the regional level – equally intervene and introduce a great complexity in the game. The best performing firms tend to have direct relationships with local authorities, i.e. the lowest level of government that controls all local public goods (licenses and permits) and infrastructures. At the same time, the vertical nature of connections may destabilize even well elaborated rent-seeking strategies. As an example of this multilevel game, the U.S. firm McDonalds, after having used political connections to obtain a good location in Beijing in the early nineties, experienced the negative impact of corrupt practices when a local well-connected entrepreneur used his more powerful personal relationships with Chinese officials to influence the legal system in order to secure the site. Also, the interwoven relations between the central state and tribal social affiliations in African countries, combined with strong dependency on external neocolonial interests (e.g. the *Françafrique* connections linking the French political, economic and military elite to African elites, or Canadian networks of corruption[16], among others) are well-known situations that generate hierarchically fragmented corruption which often leads to violent conflicts in order to share available resources.

Diffused corruption

A certain degree of plurality combined with a relatively unstable institutional framework may be at the origin of corruption diffused at all levels of political, economic and social life, but which is generally not hierarchically organized. Greece is an example of this pattern. The upper levels of the state are involved in institutionalized but relatively unstable patterns of corruption given the multiple dependence links both inside and outside the country. At the same time, widespread "spontaneous" corruption characterizes the lower levels of the socio-economic interactions. As an example, some professional bodies give discriminatory access to specific high-value services (hospital doctors), local government attributes discretionary construction licenses, and public sector administrations carry out politically affiliated recruitment, including for non-qualified jobs.

Marginalized corruption

The combination of pluralism, institutional stability, social coherence, relative equality and wealth limits corruption that can be observed exceptionally without having a structuring impact on the social and economic game. Scandinavian countries represent this configuration.

Conclusions and discussion

In this paper, corruption is defined as all relations and mechanisms that favor specific interests, in a positive sum cooperative game involving a limited number of connected and interdependent insiders, and causing damage to outsider actors or to collective interests. Political and economic inequality and the relative autonomy of the state, compared to specific interest groups are two crucial points concerning the extent of corrupt practices. However, it is difficult to establish a univocal relation between these variables. Different types of inequality or state autonomy have dissimilar effects on public/private actors' relations and imply diverse degrees of corruption and different corruption patterns.

[16] See Deneault *et* al. 2008

We argue that the starting point for understanding corruption is the specific structural and functional characteristics of the institutional framework and the rules governing the relations between different groups of interest. In this sense, the framework developed here explores the impact of institutional determinants on the nature and patterns of corruption. Indeed, this paper shows that corruption exists in both pluralist-type and elitist-type institutional environments. The phenomenon of discriminatory behavior based on a positive sum game between interconnected actors is reproduced in various conditions. Structural features of the game are important explanatory factors, but in order to understand their impact, the degree of institutional turbulence has to be taken into account. Both institutional structure and stability differentiate corruption patterns in each issue area and country (institutionalized, hierarchically fragmented, diffused and marginalized corruption).

Despite the interest of this analytical framework, some limits do exist. Regarding the conceptual framework, we consider the taxonomy developed in this paper to be a useful initial insight into the nature and patterns of corruption. For the purposes of our modeling, we have restricted the figure to a single domain. However, actors' relations and strategies implying discriminatory behavior are more complex and multilevel. As a result, some trade-offs between a more in-depth analysis of real-life corruption patterns and the simplified forms of the matrix presented here would be useful.

From a methodological point of view, one important question concerns the possible correlation between institutional structure and institutional stability. It seems reasonable to assume that a variable of instability such as external dependence could influence institutional structure as well. In fact, by taking into account the institutional structure's historical evolution, we integrate this influence, but the matrix representation becomes more problematic in the case of a possible co-evolution of the two variables. Future research has to clarify this point and perhaps lead to a reformulation of the two explanatory factors used here.

Ongoing research can be oriented in both theoretical and empirical directions. The articulation of national, subnational and supranational levels of corruption, and the relations existing between various corruption patterns, constitute an interesting topic to explore. For instance, institutionalized "grand" corruption in rich and stabilized countries may generate hierarchically fragmented corruption in dependent countries. The organized corruption of the illicit *Françafrique* networks thoroughly demonstrates the type of interdependencies between different models of corruption. Also, case studies in specific issue areas would reveal the structural and interaction features of the corresponding public/private relations. Comparative approaches of corrupted practices in different domains inside the same country could focus on the relations between the type of resources distributed and the corruption patterns, while the types and density of links could be integrated into formal models issued from the graphs theory, enabling the structural characteristics of the corresponding corruption networks to be illustrated.

References

Bellon, Bertrand (1986), *L'interventionnisme libéral*, Economica, Paris.

Boerner, Kira and Christa Hainz (2007), *The Political Economy of Corruption and the Role of Financial Institutions* (October, 2),

http://www.compecon.vwl.uni-muenchen.de/dateien/discussionpaper/hainz_2007_3.pdf

Boland L. (1979), "Knowlegde and the role of institutions in economic theory", *Journal of Economic Issues*, XIII (4), December: 957-972.

Brewer, Thomas (1992): "An issue-area approach to the analysis of MNE-Government Relations", *Journal of International Business Studies*, 23 (2): 295-309.

Caiden, Gerald E. (1988), "Toward a general theory of official corruption", *The Asian Journal of Public Administration*, Special Issue: A focus on corruption, 10 (1), June: 3-36.

Cheung, Steven N.S. (1996), "A simplistic general equilibrium theory of corruption", *Contemporary Economic Policy*, XIV (July): 1-5.

Dobel, J. Patrick (1978), "The Corruption of a State", *The American Political Science Review*, 72 (3), (September): 958-973.

Deneault, Alain - with Delphine Abadie and William Sacher (2008), *Noir Canada. Pillage, corruption et criminalité en Afrique*, Ecosociété, Montréal.

Drury, Cooper, Jonathan Krieckhaus and Michael Lusztig (2006), "Corruption, democracy, and economic growth", *International Political Science Review,* 27 (2): 121–136.

Economakis, George and Phillip Bouras (2007), "The socioeconomic and political role of small-holding peasantry in France of the middle 19th century: the analysis of Marx and aspects of its theoretical development by Poulanzas", *Theseis* (in Greek), 99 (April – June): 57-89.

Erawan, I Ketut Putra, and Eiji Oyamada (2004), "Understanding the political economy of corruption at local level: The case of Indonesia", *Working Paper*, DAC Development Partnership Forum, *Improving Donor Effectiveness in Combating Corruption*, OECD and Transparency International (December, 9-10): http://www.oecd.org/dataoecd/41/25/34097312.PDF.

Frye, T. (2002): "Capture or exchange? Business lobbying in Russia", *Europe-Asia Studies*, 54 (7),

Frye, T. (2000): *Brokers and bureaucrats: Building market institutions in Russia*, Ann Arbor University, Michigan Press.

Gray, C. W. and Kaufmann, D. (1998), "Corruption and development", *Finance & Development*, 35 (1), March: 7-10.

Heiner R. (1983), "The origin of predictable behavior", *American Economic Review*, 73 (4), September: 560-595.

Hellman, J., G. Jones, and D. Kaufman (2000), "Seize the State, seize the day: State capture, corruption and influence in transition", World Bank, Working Paper, 2444, Sept,

http://www.worldbank.org/wbi/governance/pubs/seizestate.htm

Hellman, J. & Kaufmann, D. (2001), "Confronting challenge of State capture in transition economies", *Finance & Development*, 38 (3), September.

Huther, Jeff and Anwar Shah (2000), "Anti-Corruption policies and programs: A framework for evaluation", *Policy Research Working Paper 2501*, The World Bank - Operations Evaluation Department – Country Evaluation and Regional Relations Division (December).

Jens, Chr. Andvig (2006), "Corruption and Fast Change", *World Development*, (34) 2: 328–340.

Jessop, Bob (1990), *State theory*, Polity Press, London.

Khan, M. H. (1996): "A typology of corrupt transactions in developing countries", *IDS Bulletin*, 27 (2).

Klitgaard, R. (1998): "International cooperation against corruption", *Finance & Development*, 35 (1), March: 3-6.

Kramer, J. M. (1998): "The politics of corruption", *Current History*, 97, October: 329.

Liaropoulos, Lycourgos, Olga Siskou, Daphne Kaitelidou, Mamas Theodorou, and Theofanis Katostaras (2008), "Informal payments in public hospitals in Greece", *Health Policy*, 87 (1), July: 72-81.

Lui, Francis, T. (1996), "Three aspects of corruption", *Contemporary Economic Policy*, Vol. XIV (July): 26-29.

Marx, Karl (1852), *The eighteenth Brumaire of Luis Bonaparte*, http://www.marxists.org/archive/marx/works/1852/18th-brumaire/

Mauro, Paolo (1995), "Corruption and growth", *Quarterly Journal of Economics*, 110 (August): 681–712.

Mauro, Paolo (1997), "The effects of corruption on growth, investment, and government expenditure: a cross-country analysis", in Kimberly Ann Elliott (ed.) *Corruption and the Global Economy*, Washington DC: Institute for International Economics: 83–108.

Mauro, Paolo (1998), "Corruption: Causes, consequences, and agenda for further research", *Finance & Development*, 35 (1), March: 11-14.

Montinola, Gabriella and Robert W. Jackman (2002), "Sources of corruption: A cross-country study", *British Journal of Political Science*, 32: 147-170.

Newman G. (1976), "An institutional perspective on information", *International Social Science Journal*, XXVIII (3): 466-492, in G. Hodgson (1993), *The economics of institutions*, Edward Elgar, Aldershot: 288-313.

North, Douglas (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, Cambridge.

Nye, J. S. (1967), "Corruption and political development: A cost-benefit analysis", *American Political Science Review*, 61 (2): 417-427.

Poulantzas, Nicos (1974), *Fascism and dictatorship: The Third International and the problem of fascism*, London: NLB.

Poulantzas, Nicos (1987), *Political power and social classes*, London - New York: Verso.

Rizopoulos, Yorgos (1995), Groupes d'intérêt, action publique et dynamique industrielle", in W. Andreff (ed.) *Le secteur public à l'Est : Restructuration industrielle et financière*, L'Harmattan, Paris : 105-123.

Rizopoulos, Yorgos (1999), « Quelle est la spécificité des transitions balkaniques ? », *Revue d'Etudes Comparatives Est-Ouest*, 30 (4), décembre : 5-13.

Rizopoulos, Yorgos and Dimitrios Sergakis (2010), “MNEs and policy networks: Institutional embeddedness and strategic choice”, *Journal of World Business*, vol. 45 (3): 250-256.

Robbins, Paul (2000), “The rotten institution: corruption in natural resource management”, *Political Geography,* 19: 423–443.

Rose-Ackerman, Susan (1997), “The Political economy of corruption”, in Kimberly Ann Elliott (ed.) *Corruption and the Global Economy*, Washington DC: Institute for International Economics: 31–60.

Rose-Ackerman, Susan (2004), “Corruption”, in Charles K. Rowley and Friedrich Schneider (ed.) *The Encyclopedia of public choice*, New York, Boston, Dordrecht, London, Moscow: Kluwer Academic Publishers: 67-76.

Shleifer, Andrei. and R. Vishny (1993), “Corruption”, *Quarterly Journal of Economics*, CIX: 599-617.

Tanzi, Vito (1998), “Corruption around the World: causes, consequences, scope and cures”, *IMF Staff Papers*, 45 (4) (December), *International Monetary Fund*: 559-594.

Tullock, Gordin (1996), “Corruption theory and practice”, *Contemporary Economic Policy*, XIV (July): 6-13.

Van Rijckeghem, Caroline and Beatrice Weder (2001), “Bureaucratic corruption and the rate of temptation: do wages in the civil service affect corruption, and by how much?”, *Journal of Development Economics*, 65: 307–331.