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## **Understanding Post-Communist Corruption**

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## **What is wrong with corruption?**

Corruption results in economic loss (due partly to high, suboptimal transaction costs and often to clearly inefficient public expenditure). Further, corruption undermines the legitimacy of democracy. It is negative in the moral sense, it contributes to social injustice and in most contexts it results in economic inefficiency – but it remains the result of the actual unpleasant socio-economic organization of society; it is a form of organizing social relations. This is not to be understood as a fatalistic statement; there are specific techniques to curtail it. But a purely moralizing approach to corruption is misleading and it may contribute to a political use of anti-corruption that destabilizes social systems and contributes to new opportunities of corruption.

### **Definitions**

Notwithstanding all the accusations of corruption and talk about the high level of corruption in post communist countries, we do not know how widespread corruption is. Allegations about rampant corruption are most often based on perceived corruption. Indexes here are based on surveys among businessmen or experts, and public opinion surveys. There are attempts to measure ‘actual’ corruption when businessmen are asked about their personal experience, or costs related to corruption. The problem is that the two approaches often result in inconsistent information. Perceived corruption indexes which are the most often used might reflect politically and culturally determined stereotypes as much as actual corruption of a specific sphere. The importance of perceptions is not negligible. Perceptions may mobilize society and government, mostly only on the short run. But perceptions generate moral panic which may also result in misplaced anti-corruption policies and politically motivated witch-hunts. The perceptions and related political accusations have significant effects on normalizing corruption, feelings of disorder, helplessness, and cynicism.

### **Types of corruption**

Most people and many scholars tend to understand corruption as misuse of public office for private gain but mismanagement of public affairs for personal gain relies on many techniques. Corruption is the most prominent source of mismanagement of public resources. Public mismanagement may result from corrupt structures, which allow, for example, for special interests and favouritism to prevail without identifiable quid pro quo. This is increasingly the structural problem in governance in post-communist countries outside the former Soviet Union.

Corruption as is understood traditionally is about low level transactions. This means extortion and bribery in the encounters with the public administration where the benefit is provided in exchange for a service that is otherwise due by the state. However, the benefit is increasingly provided for non-enforcement of the law too. High level corruption is related to policy decisions (building a dam, or even determination of priorities in health care reform, or energy policy). ‘Legalized corruption’ occurs where public choices are determined by special interests through legally approved government practices which allow or predetermine private advantages without the semblance of impropriety. “State capture” is the illegal version of regulation setting dictated by private interests.

When a government official or department opts for a special policy it may well be the case that no one in the department is bribed but the decision will be corrupt in the sense of benefiting private interests to the detriment of the public good. The beneficiaries of the decision will be a special constituency, e.g. a political party and its cronies.

### **Is post-communist corruption high? Is it special?**

From the beginning of the transition to democracy the emerging market economies of the region were perceived as breeding corruption. A few criminal convictions and many instances of inexplicable wealth certainly contributed to the assumption. Perceived corruption is comparatively high.

The increasing perceived corruption can be explained in a number of interrelated ways depending on one’s perspective:

## **1. Moral theories**

In these approaches high level corruption is the result of the collapse or lack of public morality. There is an underlying assumption here of 'geographical morality' in the sense that corruption might be inevitable in certain societies, especially in less developed parts of the world where even gentlemen are entitled to be involved in corruption.

At the beginning the 1960s social scientists challenged the moralistic approach. Corruption was perceived as an inevitable phenomenon at certain stages of development that contributed to modernization.

At least since the collapse of communism and the fading away of corrupt authoritarian regimes in Asia a new moralism has emerged in public and scientific discourses. While "geographical morality" may still prevail among businessmen and in unofficial public representations, the new moralism in social science and politics claims that corruption is universally condemnable; that 'geographical morality' is not applicable any more. This is reflected in international anti-bribery conventions. The emerging moral concept of corruption emphasizes the negative moral and economic consequences of corruption in government. Although the statistical data supporting this statement are robust, it seems that corruption does not rule out economic development, and in some cases the relation between the two is complicated. China and South Korea (in very different ways and with different forms of corruption) achieved considerable economic development, notwithstanding systemic corruption.

## **2. Political Science: Corruption as Politics**

Corruption is political in the sense that it is the political structure itself that enables and requires corrupt practices. Corruption happens not simply as a betrayal of public trust by public officials; it constitutes a series of events dictated by the needs of the political structures. It shapes a specific mode of governmental functioning in the public sphere.

The political science perspective highlights the importance of the use of corruption discourse in politics both domestic and international. Corruption became a fundamental accusation to challenge political opponents and delegitimize governments in populist environments. Such accusations, supported by everyday routine experiences of bribery and extortion play well into a moralistic understanding of politics. The self-identification of the post-communist countries as countries affected in a fundamental way by corruption is reinforced by the West that uses the label of corruption as a tool of control. The Western frustration with its own corruption generates the need to prove its moral superiority at a moment when corruption and sleaze became, once again, highly visible in Western politics.

### **3. Cultural and historical explanations**

Certain cultural explanations are superficial, for example when one refers to national characteristics, or historical path dependence. Claims are made that the culture of bribes of the Ottoman or the Czarist Empire survived in an aggravated form in communism and this is what explains high levels of public everyday corruption, even today. Anecdotal evidence based theories remain pseudo-historical given that certain patterns of behavior quickly spread (as explained in epidemiological contagion and communication theories in sociology). A new pattern of corruption is easily established and once it is normalized it is hard to challenge and change it.

There are however, rather robust cultural variables which are strongly correlated with long term perceptions of corruption. Religion seems to be one of the strongest cultural (mental) independent variables. Countries with protestant cultures have consistently lower perceived corruption, especially compared with Catholic countries. Estonia, an overwhelmingly Protestant country as to its 'full' (i.e. non-Russian) citizens (with little actual religious practice) is considered one of the least corrupt post-communist countries. Unfortunately for this theory, predominantly Catholic Slovenia is the other one. It is not clear how religion lowers corruption, and it is unlikely that some kind of a higher morality results from specific religious doctrines. Perhaps Estonians were interacting with less corrupt Nordic businessmen, perhaps the religion based public attitudes contributed to a more democratic political culture, or the tradition enabled more competitive business organizations and interactions that were less inviting to corrupt practices.

### **4. Institutional explanations**

Institutional explanations draw our attention to resource scarcity: lack of efficient government supervision and control (notwithstanding official promises to the contrary) are partly due to scarcity of resources and also to institutional resistance to external supervision as well as by concerns of legitimacy of the institutions.

A second institutional factor contributing to lower perceived corruption is believed to be the robustness of democracy: The longer established a democracy is and the more the press is free and widely read the less corruption is perceived.

### **Political economy of corruption in the transition period**

The leftovers of the socialist shortage economy increased the opportunities for corruption. The economic and political need for rapid privatization and rent seeking interests of those in charge as well as the competition among foreign investors with irresistible financial resources determined the early stage of economic development. Public bureaucracies (from ministries to universities and hospitals) turned into rent seeking institutions because there was little competition in services in these public sectors. Though these factors were present in all post-communist countries the actual patterns of development vary considerably. Such differences were influenced by pre-existing conditions that were only partly related to the nature of communism in a given country. In some surveys corruption rankings of Estonia, Slovenia and even Hungary were in the same cluster as Greece and Italy, while some Central Asian countries are compared to African authoritarian kleptocracies.

For economists corruption is partly opportunity driven: state assets were to be distributed rapidly. This was a deliberate political choice, perhaps motivated by graft and pressure from Western investors and their governments. As a result, serious anti-corruption provisions were sometimes deliberately omitted which made asset stripping easy.

Many economists would argue, however, that the level of perceived corruption in the post communist countries is 'normal' in the sense that in non transition countries with a similar level of per capita GDP similar information on corruption is gathered. In other words the corruption that businessmen report as their personal experience in Russia is at the level of other countries with similar GNP and the level of perceived corruption is best explained by the level of economic development in 1989. Irrespective of the long term patterns of economic development natural resource endowment is likely to increase corruption (see e.g. Turkmenistan).

The dynamics of corruption in the post-communist transition was partly dictated by the public finance difficulties in the concerned countries. At least in the early years of the transition the drops in economic output and the disintegration of government mechanisms made it difficult to collect enough revenue to fund law enforcement. Large scale privatization with the participation of cash and slush fund rich foreign investors increased both the opportunity and the incentive to corruption.

Some political science oriented theories argue that post-communist corruption is the legacy of communism where nomenclatura related personal connections were decisive and have enabled clientelistic structures. Communist disregard of rules was facilitated, communist legacy denied from the very beginning the formalism of the rule of law.

### **The transformation of corruption after transition**

Beyond the transition period the patterns of corruption gradually transform. The path of the transformation of corruption is different in the different countries.

In post-communism corruption is primarily political: systemic corrupt practices are dictated by the necessities of patronage politics. Politics becomes the opportunity for mismanagement of public resources.

With the emergence of the market economy in some countries corrupt practices seem to change in accordance with the structure of the market, in others the political structures that emerged in the transition process continue with extortion in a politically authoritarian environment.

In new democracies with more open markets market distribution replaces administrative distribution: the lesser the administrative distribution the lesser the opportunity of public corruption. For example, where higher education is offered exclusively in terms of paid private services (or at least the state higher education offers entry possibilities to all who can afford it) the likelihood of bribing public officials will diminish. Or, it is transformed, at least.

Given that the political system and parties in particular have to satisfy the demands of their clientelistic constituency, the political system quickly learned how to legalize corruption by writing laws and regulations that turn corrupt practices into legal, or at least hard to disclose, and nearly impossible to prosecute.

In the privatization stage corruption was a one time opportunity (a single game). But as long as the public sector remains a monopolistic or at least an important provider, in the context of continued allocation of state resources repeated games are played. Here all players will have the opportunity to learn how to cooperate with each other in a corrupt environment. As a result business expenditure related to public procurement is higher in absolute terms and in term of volume than it was in the case of privatization.

### **The political economy of anti-corruption policies**

Notwithstanding the above changes in patterns of corruption politicians and the public often look at corruption as an inevitable moral plague of post-communism. This assumption is factually wrong. In Georgia in less than a year the deeply corrupt police changed its patterns of behavior and the public changed its perception of, and behavior in regard to, police. This was enabled by a radical salary increase, professional control and dedication to integrity at the highest levels of the police (new leadership). The new political leadership of Georgia had a fundamental stake in the change and stood for it whole heartedly, as they were brought to power in a revolution against corruption. Such changes remain exceptional and anti-corruption policies most often fall prey to political campaigns, vendetta or governmental short-sightedness. There is a very serious risk that civil society and governmental anti-corruption strategies and campaigns will become tools of party politics.

We do not have robust data about the impact of governmental anti-corruption policies. Some efforts which were greeted with optimism, like judicial reforms in Latin America turned to be non-sustainable. Hong Kong and Singapore managed to improve their image but in a non-democratic environment. As to the new member states of the European Union the European Union encouraged institutional reforms in government and in law

enforcement and has certified those measures, without so far changing perceived corruption. (In the eyes of the public and business some new member states are more corrupt than before entry, which might be related to political dissatisfaction.)

While corruption related research has developed an important set of instruments to improve governance and government integrity, many of these lie outside government structures, though some of them can be enabled through government measures. A free press and a transparent government that operates under a freedom of information regime are statistically correlated to lower the perception of corruption, at least on the long run. Other measures concerning public administration (deregulation, internal control, accountability rules, conflict of interest rules, fine-tuning public procurement, computer based decision making, etc.) are somewhat efficient and are clearly within the purview of administrative reform. But corruption related research indicates that there is a high level of uncertainty as to corruption policies and a high risk of abuse of the anti-corruption agenda.