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Anti-Corruption – A Big Bang Theory

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1. Prologue – searching for the keys

In January 2005, my colleague Sören Holmberg and I were approached by the CEO of one of the major funding agencies for research in Sweden - *The Foundation for Strategic Environmental Research*. The reason was that he had heard about our new research initiative - The Quality of Government Institute - and wondered whether we would be interested in working out a “greenish” research program that they could fund. He envisioned “big money”, but the proposal came with a string attached. Our research had to become “user-friendly” and, in order to ensure this goal, we had to work under the direction of a board made up of potential users not only for the eventual research program, but also (and to my surprise) in preparing the application. As head of the board he appointed Mr. Sven Sandström, who had just retired from his position as vice-president of the World Bank. In our subsequent meetings, Mr. Sandström repeatedly stated two arguments. One was the need for a specific time-table for when we would deliver the results that anti-corruption organizations (such as the World Bank) could make use of - what was called “deliverables”.

The second argument was whether we could specify the nature of the “keys” for curbing corruption that he thought our research would produce. He envisioned that such “keys” would come in the form of specific institutional devices that could be put in place and that would set in motion an incentive-driven change that would lead a country (or a certain sector in a region, like the forest industry) out of corruption. My arguments that this could not be done because the very reason you conduct this type of research is that you don’t know what you may find and you also don’t know if your results will be useful for policies, were not well received by Mr. Sandström. Needless to say, this collaboration did not end in a friendly mood (and I came to detest the word “deliverables”).¹

However, Mr. Sandström is not alone in having this idea about corruption research. Most scholars who venture into research on corruption and present their ideas to policy people, students and colleagues outside this research field experience similar things. After having explained why corruption is an interesting topic for research, how you think corrupt practices work and its (devastating) consequences for many areas, the question about “what to do” quickly comes up. Most people, not least other social scientists (not to speak of students),

¹ See my op-ed in the Swedish daily *Dagens Nyheter* 05-06-2006. It is not that I’m against policy relevant research – on the contrary I would very much like for my research to be useful for policy. Instead, it is the idea that you beforehand can know what you will find.

have this idea about “keys”. Their idea seems to be that there are some kinds of buttons you can press that will set in motion an incremental process of change that will function like a path that step-by-step leads a society away from systemic corruption. It seems as if many colleagues in the social sciences are nowadays inclined to understand social changes in a path-dependent, incremental way. Whatever state of affairs a society has reached, this has started from some “critical juncture” or “formative moment” that took place a long time ago. Some sort of minor institutional change has in such a situation set in motion a kind of “feedback mechanism” or “auto-correlation” that leads to a virtuous (or vicious) causal circulation between two or more variables so that they reinforce one another over time and keep the society spinning on the “chosen path”. As Paul Pierson puts it, “As feedback loops become central to the process that follows a critical juncture, it becomes impossible to delineate clear causes and effects; instead, a set of factors mutually reinforce one another.” (Pierson 2004, p. 95) He also states that:

Initial steps in a particular direction may encourage further movement along the same path. Over time, roads not chosen may become increasingly distant, increasingly unreachable alternatives. (Pierson 2004, p. 64).

In this line of thinking, analyses about curbing corruption are geared towards finding those “initial steps”, this magical “key” in the form of a small institutional device that will make a country start spinning on a new path that leads out of systemic corruption. A typical instance of this thinking can for example be found in the World Bank’s report about policy measures to combat corruption in “transition countries”. For the successful implementation of anti-corruption policies, the report states that the challenge is to find “an appropriate entry point for anticorruption work”. Moreover, the report states that “it is critical to begin at a point where the goals are feasible and tangible results can be realized within a time frame that builds support for further reforms. Small gains can provide essential levers to sway public and official opinion.” (World.Bank 2000, p. 75). Thus, if we could only find this magic key (the “entry point”), and change this institutional device, we would be able to advise policy-makers

on this important topic.² If large differences start out with small changes, we need to find this small thing because huge (society wide) things like systemic corruption are otherwise hard to change.

The argument in this paper/thought piece is that this is the wrong way to think about possible policies for curbing corruption. There is no magic key or simple institutional device – instead what is needed in order to change the nature of corruption and its related practices is a “big-bang” change. Moreover, “key-type” small changes are likely to worsen the problem and make corruption and similar practices even more ingrained.

2. Corruption – the nature of the problem

In the recently published *Handbook of Political Economy*, the economic historian (and Nobel Laureate) Douglass C. North has a chapter at the end (the 57th!) titled “What is missing from political economy”. Although he has a few courteous words to say about the other sixty or so authors in this voluminous handbook, he also criticizes the political economy approach for missing “a series of bigger questions”. The most important one he states as: “why aren’t all countries in the world advanced industrial nations? Why do legislatures produce secure property rights and the rule of law in the developed world but not in the developing world?” (North 2006, p. 1003). He also states that “we have yet to figure out what makes the non-developing countries so stable”. His explanation for this “big black hole” in the political economy approach is twofold: First, North argues that current political economy approaches “do not adequately address the problem of non-incremental change” (North 2006, p. 1004). Secondly, almost all analyses focus on the effects of formal institutions while missing out on the informal ones which for North are both more important and more interesting since they structure the agents’ beliefs, mental maps and learning processes. Since systemic corruption is very much an informal institution, and since it is likely to be driven by agents’ beliefs about other agents’ beliefs, it is telling that there is no chapter on corruption or similar issues in this handbook. In fact, looking at the subject index of this eleven-hundred page handbook, it is noteworthy that the issue seems to play a very minor role in the field of political economy. As Michael Johnston recently has argued, it is puzzling that “American political science as an

² And I should confess that I am one of the worst sinners here, see Rothstein 1992, and the critique launched by Shalev 2007.

institutionalized discipline has remained steadfastly uninterested in corruption for generations” (Johnston 2006, p. 809).

This is peculiar since there is by now quite compelling empirical support for claiming that the quality of a country’s political institutions determines its economic and social development (Mauro 1995; Rodrik 1999; Rose-Ackerman 2004). There is certainly a large discussion of what should count as “high-quality” institutions, but in both political science and economics one can speak about an increased focus on the importance of institutions (for an overview see Rothstein and Teorell 2005). It seems also to be the case that corruption destroys a society’s social capital (Dinesen 2006; Rothstein and Eek 2006; You 2006). Moreover, together with “subjective health conditions”, corruption has a very negative impact on people’s happiness (Helliwell 2006).

The problem with corruption is that this is a phenomenon that seems to be very “sticky” (Rothstein and Uslaner 2005; Uslaner 2008 (forthcoming)). In plain language, most empirical research shows that “once the system gets there, it stays there”. Understood in a game theoretic framework, once corruption becomes systemic and the existence of widespread corrupt practices becomes “common knowledge”, we seem to have a case of an extremely robust inefficient equilibrium. To use Bardhan’s expression: “corruption represents an example of what are called frequency-dependent equilibria, and our expected gain from corruption depends crucially on the number of other people we expect to be corrupt” (Bardhan 1997, p. 1331). As Douglass North has argued, it is a puzzle why not countries “that have institutional frameworks that are inhospitable to economic growth simply adopt the frameworks of the successful economies” (North 1998, p. 493). He also argues that we should realize that “efficient institutions” are the exception and that, contrary to earlier functionalist reasoning, we have to accept the fact that “history is not efficient” in the sense that ineffective institutions will be weeded out by increased competition which was the thought by functionalist type of economic reasoning (North 1998, p. 494).

The reason why corruption is a sticky problem is that none of the “players” in this “game” have reasons to change their strategy (to pay or demand bribes). This is so, even if they all realize that they as a collective stand to loose from the ongoing corruption and even if most agents morally condemn corrupt practices (Karklins 2005). Agents at the bottom of a corrupt system, such as the “street level” tax bureaucrats, policemen or public health physicians, have

no incentive to refrain from corrupt practices because even if they as individuals start behaving honestly, nothing will change as long as most of their colleagues do not change their behaviour (Rothstein 2005). In such situations, collective action for the common good is impossible to establish, at least as long as the majority of the players act so as to maximize their expected utility. This was nicely captured by the Swedish Nobel laureate Gunnar Myrdal already in 1968 in his important work about what he labelled the “soft state” problem in Asian countries. According to Myrdal, the ordinary “street level” official would reason like this: "Well, if everybody seems corrupt, why shouldn't I be corrupt" (Myrdal 1968, p. 409). As is well known, it makes no sense to be the only honest player in a rotten game because that will not change the game. The implication is that a corrupt system usually cannot be changed “from below”.

However, as shown by cases such as Singapore and Hong Kong, corruption can be successfully fought from above (Root 1996). Strong and determined political leaders can successfully fight corruption if they are determined to do so. One problem, at least from a normative perspective, is that both these well-known success stories also come with some bad news, namely that democracy seems not to be the best cure against corruption. Neither country was a democracy when their successful campaigns against corruption were launched. Instead, it was autocratic leaders who were isolated from public pressure and opinions that managed to install effective measures against corruption. In fact, democracy seems to be curvilinearly related to the level of corruption (Montinola and Jackman 2002; Sung 2004). Empirical research indicates that some democracy may at times be worse for impartiality than none. For example, some of the worst cases of corruption have appeared in newly democratized countries, such as Peru under its former president Fujimoro (McMillan and Zoido 2004).

In a comparative perspective, Hong-Kong and Singapore are deviant cases since they have had few followers (Uslaner 2008 (forthcoming)). Despite the huge efforts made by many countries and international organizations to curb corruption during the last decade, there seem to be very few success stories (Johnston 2005, p. 195). The reason may be that while leaders do have the necessary means for launching successful policies against corruption, they usually have no incentives to do so for the simple reason that they are often the ones who stand to gain most from rents in a corrupt system (Johnston 2005).

One more important factor needs to be mentioned. While the practice of corruption clearly has cultural traits, it should not be seen as culturally determined. As shown by, e.g. Hilton Root's studies of Hong Kong and Singapore mentioned above, the quality of political and legal institutions is not culturally determined. As is well-known, those societies have experienced remarkable economic growth, and Root shows convincingly that the prerequisite for that growth was the successful fight against corruption beginning in the 1970s. In a comparative perspective, those countries are distinguished by a relatively low extent of corruption. In the latest measurement published by Transparency International, Singapore was rated 9.3 on their 0-10 scale, sharing 5th place with Sweden, while Hong Kong was in 14th place (index 8.2). The measure used by Transparency International shows that nearby countries, which can be reasonably placed in the same cultural sphere, are considerably more corrupt. China is in 59th place with an index of 3.5. Indonesia, Singapore's neighbour to the south, ended up far down on the list in 96th place with an index of 1.9, and its northern neighbour Malaysia was ranked 33rd (index 4.9).³ We can conclude from these differences between nearby countries that the extent of corruption is not necessarily culturally determined (Hodess, Banfield and Wolfe 2001). According to Rasma Karklin's analysis, "ordinary people" in corrupt systems do not internalize corrupt practices as morally legitimate acts. Instead, they usually condemn corruption as morally wrong and put the blame on "the system" for forcing them to take part in corruption ((Karklins 2005). Given that they were confident that most other agents would not participate in corrupt practices, their main preference would be not to take or give bribes. However, given the opposite, the interest that they de facto act upon, results in corrupt behaviour.

This is important because it makes clear that while standard ideas of micro-level rationality is important for understanding the "inner" self-perpetuating logic of a corrupt (and non-corrupt) equilibrium, it is of little help if we want to explain why different societies end up in such different equilibria (given that utility-based rationality is a concept with universal range). Moreover, standard conceptions of such utility-based rationality cannot be used to explain this type of systemic variation. This certainly creates a problem: if variation in levels of corruption can neither be explained by standard type utility based notions of economic rationality, nor with references to culture, then which type of ideas about what guides agency should we use? One way out of this dilemma has been shown by the game-theorist (and,

³ www.transparency.org – Corruption Perceptions Index 2002.

again, Nobel Laureate) Robert Aumann who together with Jacques Dreeze have made an important addition to how we can better understand the relation between rationality in n-person games and variations in aggregate outcomes. In a paper with the telling title “When all is said and done: How should you play and what can you expect”, they launch the concept of “interactive rationality”. Their major idea is that when analyzing situations of strategic interaction, one should take into account not only that all agents may be rational, but that when deciding “how to play”, all agents must reason about what is the most likely strategy for all the other (rational) agents. This implies that corrupt behavior (or non-corrupt) should be seen as a mutually reinforcing phenomenon – the reason you may believe that most other people will “play honestly” (or not) is because you also believe that they believe that people like you will “play honestly” (or not). Thus, the decision to take part in corruption should not be understood as resulting from what the individual thinks about her own moral orientation (i.e., if she believes that most other people are honest), or her own utility-function, but also what she believes that “other people” think about her (and all the other people’s) trustworthiness and utility-function(s). Thus, “I believe that you can be honest if I also believe that you believe that I can be honest”. And vice versa, I distrust other people in my society because I believe that they distrust most people, including people like me, to play honest. The implication is that:

if one is given only the abstract formulation of a game, one cannot reasonably hope for an expectation and optimal strategies. Somehow, the real-life context in which the game is played must be taken into account. The essential element in the notion of context is the mutual expectations of the players about the actions and expectations of the other players (Aumann and Dreze 2005, p. 9)

Thus, the outcome of social and economic interactions depends on how the “real-life context” has constructed the “mutual expectations,” for example, the expectation of whether the other agents will take part in corrupt exchanges or not. The specific question is how we can perceive of the way a real life agent makes up his or her mind about whether or not to participate in a corrupt exchange.

There is certainly no corruption free country. However, I have now lectured to first year undergraduate students in political science about social capital and corruption during ten

semesters at my department in Göteborg. All in all, I have had about a thousand students. Every semester, I have asked if anyone has been approached by a Swedish civil servant for bribes. Remember that Sweden has an encompassing welfare state and the people therefore have numerous contacts with all kinds of “street-level bureaucrats”. All in all, only two students have raised their hands (and in both cases it turned out to be that they had been given the right to jump the queue for surgery in public hospitals because they were athletes and the leaders of their sports clubs had intervened). Since Sweden has become a country with a sizeable population of immigrants, I get a fair amount of students who come from countries that have high levels of corruption (for example from Bosnia, the Baltic States, Iran, Iraq, etc.). In the following discussion, they often state that this non-corruption is what has most surprised them and their parents/family about Sweden.

Secondly, think of an agent who has lived her whole life in a society where corruption is “systemic”. This is a system where the need to offer bribes and the need to demand bribes in order to maintain what is deemed as the necessary services and/or economic standard is ingrained in most agents’ “mental maps”. When you go to the doctor, when you see your children’s schoolteacher, when you put in a bid for a public contract, when you need a license for your restaurant, when you want to take an exam at the university, when you apply for a job in the public sector, when you are stopped by the police, then paying bribes or carrying out similar illegal actions is simply the “standard operating procedure”. You have done so all your life, as has everyone you know, and this way of doing things is “common knowledge”. To give one example: In 2002, the United Nations Development Program, the organization responsible for the UN’s yearly “Human Development Reports” launched a “regional study” of Bosnia-Herzegovina. The report has a section about corruption in which results from a survey are presented showing that about 70 percent of the population in Bosnia-Herzegovina believe that their local authorities are “severely corrupt”. This was maybe not so surprising, but the fact is that an equal percentage believed that the international aid organizations working in the region, including the UN organizations, were as corrupt. The interpretation of the situation in the report reads as follows:

For the average citizen, therefore, it seems that corruption has broken down all barriers and dictates the rules of life. That is not very different from saying that *they interpret life in terms of corruption.*(UNDP 2002)

If you “interpret life in terms of corruption”, this amounts to what reasonably can be called a *deeply held system of beliefs*. If the ideas presented here about how corruption is reinforced by such beliefs and that we should understand rationality as “interactive”, this has a number of implications for what can count as an anti-corruption strategy with a reasonable chance of success. Simply put, my argument is that in order to change such deeply held systems of beliefs, something “big” and “non-incremental” seems necessary.

The state of anti-corruption research and policy – a critique

A society faced with the task of addressing systemic corruption needs to ask itself two principal questions. First, what types of structural reforms are necessary in order to reduce corruption? Common suggestions are to create new or to change existing legal institutions in order to alter incentive structures for taking or offering bribes. Secondly, which types of *processes* are likely to be successful for enacting such reforms? Most research on corruption has mainly focused on the first, structural, question while the second one about the change of processes, strategies and agents’ cognition have to a large extent been ignored.

One case in point is William Easterly who suggests two measures to curb corruption. “First, set up quality institutions...Second, establish policies that eliminate incentives for corruption” (2001: 252). Similar suggestions have been put forward by Alence in his *Political institutions and developmental governance in sub-Saharan Africa*, which examines how different types of political institutions affect the degree of corruption in 38 African countries. The conclusion is that a combination of electoral competition and institutional checks and balances on executive power has a negative effect on the frequency of corruption. In other words, this strategy suggests that the idea and the practise of liberal democracy work counter to corruption (Alence 2004: 163). In *Seed of corruption – do market institutions matter?* Broadman and Recanatini identify that the establishment of a number of market economic institutions are key to change, among others “clear and transparent rules...and a robust competitive environment” (Broadman & Recanatini 2001: 359). Sandholtz and Koetzle, in a comparative analysis, find statistical support for their hypothesis that low levels of corruption correlate positively with

the presence of formal democratic institutions, such as individual liberties and citizen rights, and with informal institutions like democratic norms. Their idea is that formal democratic structures facilitate citizen oversight and control, and that in a culture characterized by democratic values it is against normal behaviour to act corrupt (Sandholtz & Koetzle 2000: 37-39). Many analyses of Hong Kong have pointed at the importance of an independent anti-corruption agency.

What these examples of the anti-corruption literature tell us is that by "fixing the incentives", the problem of corruption would be solved. It thus seems really simple: just increase the negative pay-off to a point where the fear of being caught would be higher than the greed that leads agents to engage in fraud and corruption. The recipe would thus be that when a society's institutions are constructed so that fear is larger than greed, things go well. There is just one small problem here, namely constructing such institutions is in itself a collective action problem that is not likely to be solved within a society dominated by corrupt agents (Falaschetti and Miller 2001). Or to use Elinor Ostrom's words, there exists a collective action problem of the second order (Ostrom 1998). Why would agents that either stand to gain from corrupt practices or who can only lose by refraining from corruption at all be interested in creating such "efficient" institutions"?

In fact, the list of authors that are content with establishing that institutions which are characteristic for stable democracies with a well-functioning market economy show a relationship with low levels of corruption is very long. But as Hans Blomkvist has asserted, much of the advice emanating from works like the ones mentioned above and from organizations like the United Nations Development Program, the International Monetary Fund, and the World Bank on how to curb corruption, is based on the presumption of access to the kind of administrative praxis and institutions that notoriously corrupt countries lack (Blomkvist 2001).

Instead of explaining the causes of corruption, what authors in this approach have produced is descriptions of how the institutional systems in corrupt and non-corrupt countries differ from one another. To offer transparency, democracy, independent judicial anti-corruption agencies or "good governance" as explanations and solutions to the issue of corruption leaves, in the best-case scenario, many important questions unanswered. A more fundamental critique is that in many cases, what is produced are clear examples of tautologies. In the language of

causality, it could be formulated as if the dependent and the independent variables are so close as to be identical to one another and that the connection between them is reciprocal rather than causal. In states that are blessed with an independent and honest judiciary, effective institutions for anti-corruption measures, effective audit systems, effective laws guaranteeing freedom of information and a free media, and where liberal and human rights are effectively protected, it is obviously quite right that these institutions facilitate political accountability and counteracts corruption. However, in states that on the contrary suffer from systematically corrupt structures, it is likely that the causal mechanism works in the opposite direction, meaning that it is the corruption of precisely these types of institutions that are holding back development towards democratic governance (Warren 2004). In the search for universal theories on causes and solutions concerning corruption, many researchers do not recognize the inbuilt inertia (or path-dependency) of corrupt institutional systems. With the wording of Robert Harris:

...just as a predominantly non-corrupt system will self-correct to deal with corrupt individuals and the legislative or political flaws that facilitated their corruption, so will a predominantly corrupt system self-correct to maintain its corruption following a purge. (Robert 2003, p. 63)

Variables such as “high quality institutions” and “good governance” are in fact very close to what is usually considered as the exact opposite of corruption. As Claus Offe has argued, questions remain on what brings countries into a vicious circle with corrupt institutions and also, in a corrupt context: “which motives, values, and political forces would actually push forward the reform project...what are the incentives to introduce incentives designed to control corruption or to redesign opportunity structures? (Offe 2004, p. 91)

In addition, if new institutions have to be created, the questions about agency becomes central. It seems as if the search for structures that co-vary with low levels of corruption has taken place at the expense of the attention assigned to what agents there are and which strategies they can use. If we are to establish a thorough picture of what can become a successful reform process, research should start to identify different agents’ roles and interests (Dininio 2002: 8). Essential questions are for example what groups can be expected to oppose

reforms and how this resistance should be dealt with? Who are likely to support change and how can they best be involved in the struggle against corruption?⁴

What can possibly curb corruption?

In a recent article, the Romanian political scientist Alina Mungiu-Pippidi stated that although international donor organizations put great effort and spend large sums on anti-corruption policies, there seems to be little evidence that this has accomplished much and there are few success stories to tell. She warns that the many campaigns and efforts that turn out to be ineffective “renders voters extremely cynical and threatens to subvert public trust in emerging democracies” (Mungiu-Pippidi 2006, p. 82). The problem according to her is that these campaigns fail to take into consideration that corruption in a country like Romania is rooted in a particularistic political culture in which almost all public goods are distributed on a “nonuniversalist basis that mirrors the vicious distribution of power” within this type of society. The risk is therefore that the anti-corruption measures that are put in place with support from international organizations (such as a new anti-corruption agency) will be taken over by corrupt or semi-corrupt networks. At the root of systemic corruption is a particularistic political culture, which is defined as a system in which the government’s treatment of citizens “depends on their status or position in society, and people do not even expect to be treated fairly by the state; what they expect is similar treatment to everybody with the same status”. Thus, within such a particularistic political culture, where what you get from the public sector depends on your connections, your ability to bribe, or your participation in various clientilistic networks, the establishment of a few new “western style” institutions will not help against corruption because they will become impregnated by the dominating particularistic political culture. According to Mungiu-Pippidi even the most

⁴ In addition, I do not believe that the argument put forward by for example Tanzi (2000) and Alesina and Angeletos (2005) that it is the size of government that causes corruption is convincing. For example, when the latter, from deductive reasoning, concludes that “a large government increases corruption and rent-seeking” (2005:18) this flies in the face of all known empirical research. One example is that the countries that according TO all established measures of corruption score best are the Nordic ones. Much can be said about these countries, but not that the size of their public sectors are small or that they lack policies for regulating the economy and social conditions.

famous of Swedish anti-corruption institutions, “the ombudsman”, which has been reproduced in many emerging democracies “has been largely unsuccessful, as the historical process that promoted universalism at the expense of particularism in the Scandinavian countries has not been replicated as well.” (p. 96). This conceptual division between universal and particularistic political cultures resembles what North, Wallis and Weingast in a recent paper have labelled a “limited access social order” versus an “open access social order”. The former is according to the authors characterized by “privileged access to valuable rights and activities” and “builds on inherent affinity in human nature for building *personal* relationships” (North, Wallis and Weingast 2006, p. 31f). An aristocratic-feudal state, a third world “crony-capitalist” autocracy, or a Soviet style communist state comes to mind. In contrast, the “open access social order” (mainly the advanced OECD countries), is according to North et al. characterized by free access to political and economic arenas of competition using specific but *impersonal* contractual forms (p. 40). It is this Weberian “impersonal” form of governance and contracting that can be characterized as the basic norm in an “open access” or “universal” social order/political culture. The point I want to make is that both North et al. and Mungiu-Pippidi argue that corruption and similar practices are rooted in deeply held beliefs about the proper order of exchange in a society – personal-particularistic versus impersonal-universalistic. The implication is that to really curb corruption etc., the whole social order/political culture has to move from the “limited access” or “particularistic” equilibrium to the very different equilibrium characterized by impersonal-universal forms of exchange. In both papers, a central argument is that a specific type of institution (for example the legal system or a constitution) will have vastly different functions under different settings. The implication is that taking small steps by installing a few specific institutions, such as the Swedish type of “ombudsman”, to induce change from one political culture/social order to the other, is in all likelihood a meaningless policy. “History... does not seem to present us with a wide spectrum of societies gradually making a transition from old to new political and economic institutions” (North 2006, p. 1003). Unfortunately, how such a transition can be made we know very little about (Levi 2006). The establishment of universal, impersonal and impartial political institutions that make “credible commitments” between competing actors possible remains a mystery, not least from a rational choice perspective (Falaschetti and Miller 2001; Hechter 1992; Lichbach 1997; Rothstein 2005, ch. 7). Or as it is stated in another recent handbook chapter, the puzzle is that such “efficient” institutions “operate in a few advanced contemporary countries and only in recent times. We know surprisingly little,

however, about the institutional developments that led to these modern successes” (Greif 2005, p. 773).

So far I have only talked about changes in formal institutions, but many scholars, including North, emphasise the role of informal institutions as well. The operation of such institutions is of course difficult to detect, but one clue may be found in the strong correlation that exists between high levels of social trust and high levels of trust in the legal system and low levels of corruption (Rothstein and Stolle 2008). There is a vast discussion of how the standard general trust question can be interpreted (or if it measures anything of value at all). I agree with Delhey and Newton that when people answer the survey question of whether they believe that “most other people can be trusted”, this can be interpreted as their evaluation of the moral standard of the society in which they live (Delhey and Newton 2004). Logically, if most people think that most people in their society will behave in an honest way, the individual agents who enter into a transaction with someone whom for her is unknown have less reasons to fear becoming a victim of treacherous or exploitative behaviour. Therefore, cooperation between people who do not have personalized knowledge about each other will be more common in a society with a high level of social trust. If we follow the idea of “interactive rationality” as stated above, the outcome of social and economic interactions depends on how the “real-life context” somehow has constructed the “mutual expectations”, for example the expectations of whether the other players can be trusted or not. Such a real life context can be the perceived level of corruption because it is likely that when people evaluate the moral standard of the society in which they live, the conduct of public officials serves as their main heuristics (Rothstein 2003). If the health care people in the local public hospital, the local police, judge, school teacher or other civil servants cannot be trusted because they demand bribes or discriminate against “people like you”, then how can you trust “ordinary people” in your society. As the German proverb goes: “Der Fisch stinkt vom Kopf her”. This does not imply that in a society with a high level of social trust, people will entrust complete strangers with very valuable assets without having some other reassurance against being exploited. Instead, it is more reasonable to think that in such a society, people may buy a used car from someone who does not belong to their ethnic tribe, hire a person to work in the small business who is not from ones own extended family, or rent out ones house while on a sabbatical to someone who does not belong to the same academic network (or clan). The implication is that social trust can be understood as a sort of “default position” when dealing with unknown people which is the same as saying that it is a Douglass North type of

“informal institution”. As could be expected, the level of social trust in different countries is also very stable over time (Rothstein and Uslaner 2005). The implication so far of this analysis is quite negative. First, corruption is driven by the workings of a large set of formal and informal institutions in a society. Secondly, neither the formal institutions nor the informal ones are easily changed since they constitute “self-reinforcing” equilibria. If an agent tries to reform a single or a small set of the institutions in a corrupt-particularistic-limited access political culture, it will in all likelihood backfire since the new institutions will be overtaken by the corrupt etc. networks and practices which, in its turn, will increase cynicism among the population and serve to de-legitimize all future anti-corruption efforts.

19th Century Sweden – how corruption came to and end

When Daniel Kaufman, chief economist at the World Bank Research Institute, visited a conference held by the Quality of Government Institute at Göteborg University in November 2005, he made an interesting remark about our research program. Instead of studying corruption in severely and semi-corrupt countries, we should study why Scandinavian countries have such low levels of corruption. For Kaufmann, this was something of a puzzle since these countries have many of the features which, according to leading economists, should spur corruption. For example, they have large public sectors, are big on public services, have lots of regulations, high levels of taxation and large bureaucracies which, moreover, have lots of discretion in how to apply laws and policies. According to most established theories, these countries should be corrupt beyond repair. However, as is well-known, precisely the opposite seems to be the case. A similar story is told by Robert Neild in his book “Public Corruption – The Dark Side of Social Evolution”. According to Neild, he got the idea to write the book from a conversation he had had in the late 1960s with Gunnar Myrdal, who had convinced him that “instead of asking the conventional question, ‘why is there so much corruption about and what can be done about it?’, one should ask. ‘why was corruption ever suppressed?’” (Neild 2002, p. 201).

Contrary to what is often believed, the early 19th century Swedish state was clientistic and to quite some extent corrupt (Rothstein 1998). Probably not to the level of some African or Balkan countries; a fair guess would point to Romania or Hungary (if such a comparison is at all meaningful?). Nevertheless, in the early 19th century Swedish civil service, it was common

that one and the same civil servant held 5-6 full-time positions, that personal contacts with the King's court was more important than impersonal laws, that those belonging formally to the nobility had precedence to positions in the courts and the civil service, and that obedience to laws were seen as a more or less voluntary thing. The *accord system* allowed civil servants who wanted to advance their careers to persuade higher-ranking civil servants to resign their offices by paying them an *accord* in the form of a certain sum of money (Frohnert 1993, 287). The higher ranking civil servants could then, in turn, use the money to purchase new positions or they could use it as their pension. The system worked partly because no sort of effective pension system for civil servants had yet been established. But it also worked because there had been no age limit established for when a civil servant could be forced to leave his post. Neither severe forms of illness nor any other gross inability to carry out ones duties were valid grounds for removing someone from public office. This of course was a consequence of public offices being regarded as the officeholder's property comparable to fiefdom type land. During the eighteenth and nineteenth centuries a number of royal prohibitions were issued that addressed this position-purchasing system (Myrberg 1922). The fact that these hardly made an impact provides insight into the legislative system of a particularistic limited access type of society.

Another example is education and skills. In a Weberian type of universalist bureaucracy, civil servants have to have a certain degree of specific knowledge about the legal and administrative systems of the state, and recruitment is to be meritocratic. In the early 19th century Sweden, this was not usually the case. In his history of Uppsala University, Sten Lindroth describes the education in law as being stuck in a veritable intellectual as well as organizational morass that lasted to the first decades of the nineteenth century. The same situation has been depicted about another Swedish university during the same period (Lindroth 1976, 163-166; Lunds universitets historia 1971, 224). For example, in 1797 there were complaints from the chancellery college to the governing board of the University of Lund:

at times we must understand that the young men who seek entrance to the chancellery offices have not possessed the knowledge in science and language necessary for a chancery subject, notwithstanding they were furnished with academic qualifications (ibid.).

This slump pertained, not least of all, to the so-called *ämbetsexamina* (the degree qualifying for higher civil service posts) which served as the foremost recruitment instrument for employment in the central administration. In 1859 Samuel Olivercrona writes the following in his historical account of the legal education at the Uppsala University School 1785-1823:

during the long period when Hernberg, Lundström and Drissel occupied the prominent *juris patrii* profession, the purely legal studies sank to their lowest point of ruin. The so-called *Hoffrättsexamen* became insignificant, the Bachelor of Law degree was implemented with the highest degree of ease, and in the study of Roman jurisprudence, even the most cursory knowledge was not required (Olivercrona 1859, 14).

The so-called *kameralexamen* (finance degree), one of the above-mentioned civil service degrees with which the very highest positions in the state apparatus could be reached, was regarded by the famous so-called “Genius Committee” (a committee of learned scholars put up by the government for investigating the education system) in their report of 1828 as pure parody (Lindroth 1976, 165). Per Frohnert’s detailed study of the local tax administration also shows a lack of requirements of formal education for local civil servants during the 18th and early 19th centuries. The Crown did not reward academic degrees when such local positions were filled. The reason seems to have been that the rules and practice of tax collection differed between different counties (Frohnert 1993, 165). This is of course an indication that “general rules” in a Weberian sense did not play a significant role even in such a crucial matter as taxes.

In 1797, in response to the criticism against the low quality of education of its graduates, the University Chancellor explained that the one factor primarily responsible for the unfavourable conditions was that students who were still children were being enrolled in the universities. He was referring adolescents in their early teens, who for understandable reasons could not benefit from the education they were being offered. This in turn was a consequence of the fact that

parents and relatives, whose main goal is only to hasten the early entrance of their children to a civil service career, either out of conceit or ignorance,...build their hopes of future advancement more on wealth and privileged connections than on duly

founded ability through hard-earned requisite learning (Lunds universitets historia 1971, 238).

Since the principle of seniority was the most important for competitive advancement, it was a matter of gaining entrance for one's offspring to a department where he could be employed already as a two-year old child (naturally without being required to work or receive compensation).

Eventually rules were introduced that established guidelines for the minimum time of study, as well as age limit requirements for employment in the civil service departments. Nevertheless, in response to a letter regarding the education of future civil servants, the then Professor Holmbergsson at Lund University stated in 1831 that education was not going to be improved by establishing minimum time of study regulations and age limit requirements. Holmbergsson proposed that what instead needed to be done was to change the promotion system of governmental departments so that actual merits and years of service, rather than personal relationships, were the deciding factors for career advancement (Lunds universitets historia 1971, 244).

In addition, the system of pay was far from being universal and impersonal during the first half of the nineteenth century. Even though pay in kind was the most common, monetary remuneration did exist. Perquisites and fees for job-related services (henceforth, service fees), or bribes by today's standards, were abundant (Cavallin 1996). It was also common for the civil servant to receive income from land and residences that belonged to the position (Westerhult 1965, 107-123, Rabenius 1866, 324-330; Kammarkollegiets historia 1941, 274-278). Civil servants were often appointed, especially within the higher administration and the universities, in the absence of sufficient funds with which to pay them, and without the expectation that they were going to perform any work (Lunds universitets historia 25-27). In the local government administration, for example, income for the very same job was, according to Westerhult, "so varying that many of the best-paid civil servants had twice the pay of their less fortunate colleagues" (Westerhult 1965, 197). Frohnert's study of local bailiffs during the 18th century shows that "a large portion of wage income was, through the *indelningsverket* (system of allotment), tied to individual peasants who were obliged to deliver grain, money or other goods" (Frohnert 1993, 367). In a letter to His Majesty the King in 1811, the directors of the Exchequer Board pointed out that since the pay had fallen to such

a low level, a large number of civil servants had taken work in other national boards or agencies or with county governments (all the while retaining their old positions, of course), and that this had considerably complicated and delayed work within the agency (Kammarkollegiets historia 1941, 278). The holding of several positions in this way was very common and the system was not prohibited until 1879. In a 1822 report, the government departmental committee appointed in 1819, declared that owing to the poor pay those civil servants who did not have private fortunes were forced to either look for other posts and public offices or gain their livelihood through private business affairs (in Rothstein 1998). In sum, in the beginning of the 19th century, the public administration in Sweden was “pretty bad”.

The change towards a Weberian style bureaucracy came between 1855 and 1875 and was both “non-incremental” and dramatic. Most important, the whole idea of what it meant to be a civil servant changed. Instead of seeing this as the equivalent to a feudal type of enfeoffment that the “owner” could use for extracting rents pretty much according to his own will, a public position was instead now understood in a modern Weberian way. In other words, it was transformed into a full time job for a fixed wage that one could only get in an open meritocratic competition and that was going to be carried out according to a set of stipulated universal rules and laws (Rothstein 1998). Corruption, clientilism and similar practices did of course occur, but there were no longer seen as the “standard operating procedure”. Maybe the most telling evidence for this is the novel “The Read Room” published in 1879 by Sweden’s still most famous author – August Strindberg. In this novel, Strindberg (who was a leftist radical) gave a very vivid and negative description of a prototypical civil service administration (the fictitious National Board for the Payment of Wages for the Civil Service). The bureaucrats were described as utterly conservative, lazy and ineffective (this still makes for a good read). However, he did not portray them as corrupt! A fair guess is that if civil servants would have been generally considered corrupt at this time, Strindberg the radical would have added this to his long list of faults in their behaviour. But he did not do so and my guess is that the reason was that it would not have had broad resonance in the public opinion at this point in time.

The research about how this change could come about is still in progress. However, what is remarkable for this period is the many and dramatic changes that took place during a fairly short period of time. Below is just a partial list:

1842-1862: Major reforms of the public school system – mandatory and free basic education for everyone is established together with the National Board of School Inspectors

1845: The right for the government to confiscate newspapers is abolished (de facto establishment of the freedom of the press).

1845: The last formal aristocratic prerogative for higher positions in the state is abolished

1845: Law about the right to equal inheritance between men and women

1846: The guild system is abolished

1848: Introduction of the joint-stock company law

1864: Freedom of trade is established

1853. New rules for university educations establishing higher standards for degrees

1858: Freedom of religion is established

1870: Jews can be MPs and can become civil servants

1866. Major reform of the Parliament – the four estate system is abolished and a “modern” bicameral Parliament is established

1840-1862. Many new public boards/agencies are established for carrying out large investments in communication infrastructure (National Railway Board 1862, National Board for Telegraphic Communication 1856, National Board for Roads and Canals 1841). This brought in a whole new cadre of civil servants. Technical skills and merits became important.

1855-1860: Major revision of the wage system in the civil service

1860: The right to leave the State Church for any other congregation

1862: New general criminal code which includes a new law on misconduct in office

1862: New laws for cities, county councils and local municipalities greatly increasing decentralization

1878: Abolishment of the “accord system” and introduction of a working pension system for civil servants. The “accord system” seems to have finally BEEN abolished during 1886.

1868: Parliament decides to start abolishing direct payments for services to individual civil servants. The fee/money should no longer belong to the individual civil servant but be state property.

1869: Parliament decides that taxes had to be paid in money instead of IN goods⁵.

⁵ Thanks to Dr. Maria Cavallin Ajmer for providing me with this information.

In sum, it is fair to state that this period can be characterized as a non-incremental “BIG BANG” change. Not a few, but almost all major political, social and economic institutions were changed during a relatively short period of time. Wherever the individual looked, he or she saw that major change was taking place. A reasonable conclusion is that this would cause the agent to thoroughly reconsider “how to play” and “what to expect”.

It is of course crucial to know if this type of BIG BANG change only occurred in Sweden, or if this is a general phenomena among the low-corrupt countries. It seems to be the case that one can interpret the successful anti-corruption strategies in Hong Kong and Singapore as similar to this type of non-incremental change (see Uslaner forthcoming). It also seems possible to interpret the change during the progressive era in the United States in these terms. Certainly, a theory like this needs to be confronted with much more detailed historical research. My guess is that institutional changes of this magnitude can only come about if a country faces a great external threat or if it hit by major economic and/or technological change.

Anti – corruption: The Big Bang Theory

Social scientists use two very different ideas about how to understand human agency. Either agents are more or less “doped” by their culture and history and are thus structurally and/or historically determined to act the way they do, or they are utility-maximizing rational agents using their computational skills to make constant cost-benefit analyses of various incentive systems that they encounter. Since we lack good theories on how culture or incentive-inducing institutions change, these ideas of human agency do not give much room for explaining change. Both are, in fact, very unlikely descriptions of how humans make up their minds about “how to play” or “what they can expect”. A more realistic picture of how we can understand human agency comes from H. Peyton-Young’s work in evolutionary game theory. This sort of theory is interesting for anti-corruption research because instead of focusing on “one-shot” interactions, this type of game theory thinks of development as an (endless) set of consecutive forms of big and small n strategic interactions. With this comes a more realistic notion of human agency that I think is very useful.⁶ The first is that “agents are not perfectly rational and fully informed about the world in which they live”. Instead “they base their

⁶ I happen to be a card-carrying member of the “realist” school in science theory, see MacDonald 2003 and Shapiro & Wendt 1992.

decisions on fragmentary information” and “they have incomplete models of the process they are engaged in”. However, Peyton Young is certainly not a cultural (post-modernist) theorist; people are not “completely irrational”. Instead: “they adjust their behaviour based on what they think other agents are going to do, and these expectations are generated endogenously by information about what other agents have done in the past” (Young 1998, p. 6). In other words, if we want to understand why people would change their behaviour away from corruption, understanding their preferences, norms, and attitudes is of little help. In a thoroughly corrupt setting, even people that think corruption is morally wrong are likely to take part because they see no point in doing otherwise (della Porta and Vannucci 1999). What is important is their beliefs about the other agents’ beliefs, or in other words, their beliefs about how the world works. From a policy perspective, this has some important implications. First, this theory does not point out any single set of institutions as most important for change. The courts are not more and not less important than the civil service, the integrity of the politically elected, or civil society or the mass media. The reason is that if you only reform one set of institutions, corruption is likely to creep over to the other. rather, agents in, for instance, a powerful corrupt network must realize that everywhere they turn, “there is a new game in town”. Secondly, everything (almost) has to change and this should be conducted as simultaneously as possible. One can think of this as the need to reach a Schelling-type “tipping point” in order to reach a new equilibrium (Schelling 1996). If the anti-corruption policy measures are limited to the introduction of small measures (“entry points”), they will not convince enough agents that continuing their corrupt practices are no longer a viable option and the likely result is that the system will not reach the crucial “tipping point” but slide back into its old practices of systemic corruption. Simply put, do not do anything small.

This theory thus stands in sharp contrast to the idea launched by for example Michael Johnston that change should be “gradually” and that “building a sound framework of social, political, and state institutions is the work of generations” (Johnston 2005, p. 208 and p. 198). Another example of this gradualist way of thinking about anti-corruption reform can be taken from the “Anti-corruption toolkit” report issued by the UN Office on Drugs and Crime Prevention that states: “Reforming institutional cultures also requires time as those accustomed to the old values come to understand and adopt new ones.” (p. 85). If the Big Bang theory could be backed by empirical research, the policy advice would be: If you only have a few resources, it is better to save them until you can muster a BIG BANG change. Otherwise, you may then end up in a worse situation because the anti-corruption forces that you have put in place are (or are seen as) supporting corruption (Offe 2004).

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