

Corruption: A New Analysis

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Abstract

The established theory of corruption needs to be re-examined, as it has a few flaws. It attributes a major role to corruption, pretending that it weighs extremely heavily upon social, economic and political outcomes. The lack of comparative data is troubling for vindicating such hypotheses, and it is barely compensated for by the resort to experts' views around the globe, which in the form of the well-known Transparency Index (CPI) gives a probably inflated picture of the occurrence of corruption, especially in Third World countries. In a new approach, one would make crucial distinctions between various concepts of illegal behavior, reserving "corruption" for bribery as well as separating between petty corruption and big corruption.

Keywords

Various Meanings of "Corruption", Petty versus Big Corruption, Corruption Perceptions Index, Rule of Law, WB Governance Project

1. Introduction

We hear daily about accusations of corruption in politics and economics. One may be led to believe that corruption is very widespread and impacts upon social outcomes in a broad manner. But what is corrupt behavior? And does it matter so much for outcomes everywhere?

The often cited index of transparency (CPI) is claimed to constitute the index of corruption. We cite: "Corruption takes many forms, but always involves the abuse of entrusted power for private gain." (<http://www.transparency.org/>). This definition of "corruption" is both too broad, including all forms of government or bureaucracy abuse, and too narrow, excluding the private market sector. It is not a very telling index. We need to go beyond the conventional framework of analysis, based upon the Transparency Index, which actually is heavily skewed against poor countries, or the Third World.

First we need a concept of corruption that is specific and does not denote any crime or abuse. Second, we must revise the stylized and inherited picture that corruption is

mainly a set of Third World phenomena. It is vital to distinguish between two types: petty corruption and big money corruption.

It should be acknowledged from the outset that data is sparse of obvious reasons. To find actual information about specific cases of corruption, one would need access to lots of legal rulings and processes comparatively. Thus, what follow below is mainly some theoretical notes and conceptual deliberations.

2. Semantics of “Corruption”

One may use various sources for a small scale enquiry into the semantics of “corruption”. Here, we go to a few standard dictionaries, like first the Oxford Thesaurus:

“SYNONYMS: dishonesty, dishonest dealings, unscrupulousness, deceit, deception, duplicity, double-dealing, fraud, fraudulence, misconduct, lawbreaking, crime, criminality, delinquency, wrongdoing, villainy,

Bribery, bribing, subornation, venality, graft, extortion, jobbery, profiteering,
North American payola

informal crookedness, shadiness, sleaze, palm-greasing,

Malfeasance, misfeasance, archaic knavery, rare malversation.

ANTONYMS: Honesty”

Source: <https://en.oxforddictionaries.com/thesaurus/corruption>

Reading this long list, one immediately gets the impression of semantic chaos. “Corruption” has several and different meanings and the claim to synonymy is unclear if not unfounded. One may wish to separate between the following concepts:

- 1) Crime
- 2) Misconduct
- 3) Dishonesty
- 4) Fraud
- 5) Bribery (illegal kickbacks)
- 6) Unscrupulousness
- 7) Extortion
- 8) Malfeasance.

These concepts are definitely not the same or identical, reducible to one common foundation, i.e. corruption. A crime like manslaughter does not entail corruption, misconduct does not imply corruption, dishonesty neither nor fraud. On the contrary, bribery entails corruption. For unscrupulousness, extortion and malfeasance holds the same, i.e. no necessary link, only contingency. No small wonder that people write that if corruption is stopped, then big wonders arrive.

Corruption is a sufficient condition for crime, misconduct, dishonesty, fraud and malfeasance, but it is definitely not a necessary condition. In a definition, we would like to cite both necessary and sufficient conditions. Approaching the definition of the concept of corruption, one may travel along the broad route above, but it makes the concept too broad or hollow. Only bribery is an essential property of corruption, in my view.

3. Public and Private Sector Corruption

If the Oxford Thesaurus presents a too broad definition, the perhaps the Oxford Dic-

tionary holds a too narrow definition. First, it presents the adjective “corrupt”:

Having or showing a willingness to act dishonestly in return for money or personal gain: “unscrupulous logging companies assisted by corrupt officials”;

Then the Oxford Dictionary goes on to present a definition of the work “to corrupt”:

Cause to act dishonestly in return for money or personal gain: “there is a continuing fear of firms corrupting politicians in the search for contracts”.

Source: <https://en.oxforddictionaries.com/definition/corrupt>

Here, the concept of the bribe is essential, but there is no reason to limit its use to the public sector, i.e. politicians and bureaucrats. The bribe or kickback knows no borders, public or private. But the bribe is the essence of corruption, establishing a link between the person who somehow pays and the person who in some manner receives, making both legally and morally culpable a binary relationship.

Thus, corruption is a relationship, a binary word according to logic. One person supplies something valuable that the other person demands for a service or good. Thus, corruption binds two persons together in a quid pro quo, which is essential. Following this conceptual development, we must inquire into the definition of the term “bribe” to distinguish it from natural gift or ordinary payment, which actually is quite tricky.

4. The Bribe

Google has the following two entries on bribe and bribing respectively:

“Bribing: persuade (someone) to act in one’s favor, typically illegally or dishonestly, by a gift of money or other inducement;”

“Bribe: a sum of money or other inducement offered or given in this way.”

Source: <https://www.google.com/search?rls=aso&client=gmail&q=bribe&authuser=1>

The bribe constitutes a dishonest or illegal quid pro quo between a favour and a payment or gift. To separate an honest or legal quid pro quo from a bribe as well as natural gift or ordinary payment from the bribe is at the heart of all accusations of corruption. Perhaps it can only be done inside the court—room, as outside of court it could be just an accusation. This emphasize upon:

- 1) Binary interaction
- 2) Dishonest favour
- 3) Illegal payment,

makes it possible to identify a specific concept of corruption. And, importantly, one can distinguish the term from other terms, like the following.

- 1) Embezzlement
- 2) Favouritism
- 3) “Concubinage”
- 4) Patronage
- 5) Cronyism
- 6) Money laundering
- 7) Tax evasion

All these phenomena may contingently involve the bribe, i.e. corruption, but it is not a necessity. Embezzlement falls under the concept of theft, whereas the other forms of may involve reciprocity between the favourite and the giver of favours, but it is not

necessary. These relations may be one directional and involve no bribe. Having clarified the concepts of corruption and their differences, one faces the difficult task of measuring the occurrence of specific corruption as bribery, as contract “consideration” between two individuals or two organizations, represented by individuals.

4.1. Moral and Legal Condemnation of Corruption

Instead of naming all kinds of bad economic behavior in the public sector “corruption”, it is better to focus upon the specifics in each case. If it is corruption and not solitary embezzlement or group patronage, then what is the bribe in question? If it is a matter of a general relation of symbiosis, like in cronyism or favouritism, then it is more clarifying to speak of these phenomena directly than place them under “corruption.”

Corruption has a strong illegal connotation, which is lacking in general favouritism. One may even argue that moral accusations of corruption can only be validated by court action. Yet, this would limit the application of the concept too much, because court systems in various countries possess different qualities in terms of the rule of law. Failure to punish corruption does not prove innocence, but it may merely be a matter of lack of evidence or court competence.

4.2. Bribes: Payments or Gifts?

Corruption as bribery is nothing but a tacit contract between two parties where the key element of consideration is kept or must be kept secret.

In contract law consideration is concerned with the bargain of the contract. A contract is based on an exchange of promises. Each party to a contract must be both a promisor and a promisee. They must each receive a benefit and each suffer a detriment. This benefit or detriment is referred to as consideration. We cite again:

“Consideration must be something of value in the eyes of the law-(Thomas v Thomas) (1842) 2 QB 851. This excludes promises of love and affection, gaming and betting etc. A one sided promise which is not supported by consideration is a gift. The law does not enforce gifts unless they are made by deed.”

Source: <http://e-lawresources.co.uk/Consideration.php>

In a corrupt deal, the consideration is neither explicitly written down nor is it kept open to others. And following Kant’s publicity rule, that what is not capable of being revealed publicly is most probably illegal or reprehensible. A consideration binds both parties to deliver something agreed upon. Thus, there is a binary relation involving a quid pro quo. The promise pays something of value and the promisor delivers a service.

Now, this is a narrow concept of corruption, but it is certainly not restricted in its application to the public sector. The crux of the matter is that the consideration involves the buying and selling of something that is not legally for sale. When proving corruption, it is vital to show that there was consideration about something that cannot be sold, which is not always easy to find evidence for.

Now, how widespread is corruption according to this strictly defined and narrow concept? I would suggest that it is hardly as widespread as claimed, although culture and legal tradition matters. Of course, poverty would be a strong motivation to supply corruption. Poverty may also be a factor on the demand side, but corruption may be

expensive. In an economic approach to the demand and supply of corruption, one must start from the benefits and costs of the individuals involved in this binary transaction, the bribe. In addition, the cost of being caught in the act has to be taken into account.

Interesting cases of corruption arises when the accused of supplying a service defends himself/herself that it was only a matter of a gift without consideration. Consider the examples of Giscard d'Estaing and Olmert.

Gifts as bribery is tricky, as the quid pro quo may be released a long time after the transaction. Payments as bribes may be negative, as when the consideration involves buying a good (e.g. property) as a much lower price than going market price.

5. Stylised Heralded View of Corrupt Practices

In the literature on corruption (see [Holmes, 2015](#)), one finds the following standard tenets:

- 1) There is massive corruption over the whole world, causing lots of negatives;
- 2) The corruption in Third World countries is much higher than in the First World, counting the Second World to the Third World;
- 3) Public sector corruption is more wide-spread and dangerous than private sector corruption.

I suggest that we scrutinize these hypotheses and move to question these beliefs. There is not much data available on corruption, but theoretical deliberations point to a different view compared with 1)-3) above, if we model corruption in a demand-supply framework.

The well-known Transparency Index targets perceived (!) corruption, which is a quite different entity compared with real corruption, according to the more specific concept above. CPI will include whatever the experts in the panel asked state. Thus, it is likely that these expert estimates cover most of the above listed abuses under the heading “perceived corruption”.

Perhaps this is the only research approach possible, when it comes to country comparisons? The CPI states the following definition of “corruption”:

“Corruption is the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.”

Source: <http://www.transparency.org/what-is-corruption/>

This amounts to a most wide concept of corruption, but focusing only upon government and its bureaucracy. Perhaps it is both too wide and too narrow as a definition? This is not the place to question the individual country rankings, but some scores are a little stunning, like for all countries in the Balkans, Latin America in general and Tunisia. Both the validity and the reliability of the transparency index may be criticized. How to know whether one African or Asian country is more corrupt than another?

This concept of corruption covers all forms of abuse of public power for private gains—see the above list. Thus, it would be more appropriate to speak of CPI as an index of “economic crimes in government”.

The perceptions of average economic crimes come from a panel of experts with some international organizations. We read in Wikipedia the following:

“Transparency International commissioned Johann Graf Lambsdorff of the University of Passau to produce the **Corruption Perceptions Index (CPI)**. The 2012 CPI draws on 13 different surveys and assessments from 12 different institutions. The institutions are the African Development Bank, the Bertelsmann Foundation, the Economist Intelligence Unit, Freedom House, Global Insight, International Institute for Management Development, Political and Economic Risk Consultancy, Political Risk Services, the World Economic Forum, the World Bank and the World Justice Project.”

Perhaps the country rankings from 0 to 100 were averaged out for these expert groups? We do not know what materials they employed for the rankings, from much corruption to no corruption.

6. The CPI

Let us look at the average continent scores for 2015 (**Table 1**).

Actually, these average scores do not say much, as the group categories are extremely wide. The span within some of the groups is quite large, meaning that the category continent explains little. “Americas” comprise both North, Central and South America, although their scores vary much. Let us try affluence first and foremost. The same applies to “Asia Pacific”.

Figure 1 shows instead in a clear fashion that these CPI scores are linked with affluence as GDP per capita.

The finding in **Figure 1** is an asymptotic curve, meaning that over a certain threshold of affluence, the lack of corruption is established and transparency not augment with more GDP. This magical threshold seems to take place at 4000 - 6000 US dollar per capita, which is maybe an income that makes a person less eager to supply corrupt services—see the demand—supply model below.

Examining **Figure 1**, one is inclined to argue that the CPI measures government abuse in general, and not merely corruption. If one includes all kinds of personal abuses by politicians and bureaucrats, one arrives at the conventional view that public sector criminality is higher in the Third World countries than in the First World countries. But is this really specifically corruption as bribery, covering the entire society, also the market sector? Or is it merely the occurrence of general crime against the state in poor countries?

Table 1. Amount of transparency in the public sector = Average lack of corruption numbers.

The Global Picture:	43
EU & Western Europe:	67
Eastern Europe & Central Asia:	33
Asia Pacific:	43
Middle East & North Africa:	39
Americas:	40
Sub-Saharan Africa:	33

Source: https://www.iaca.int/images/news/2016/Corruption_Perceptions_Index_2015_report.pdf.

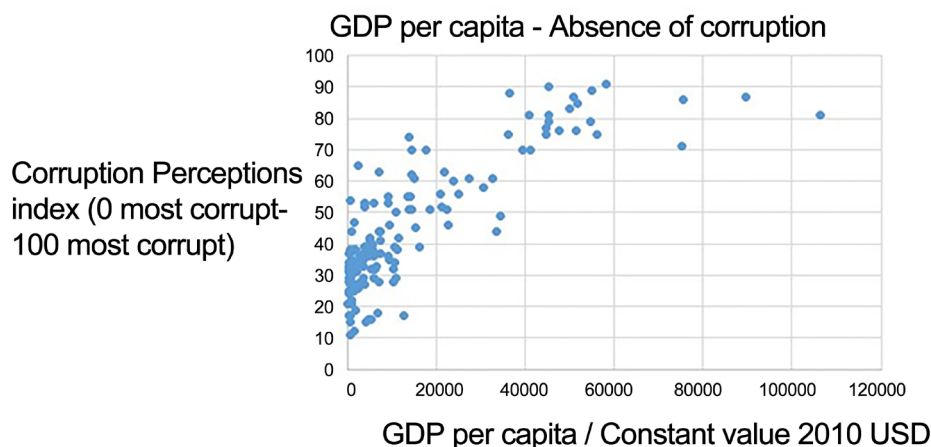


Figure 1. CPI and GDP globally: $y = 0.0008x$, $R^2 = 0.68$.

7. Rule of Law

Is the standard inherited view on crime correct? One may consult other indices that tap the respect for the law and contract enforcement in general, like the rule of law index in the big World Bank Governance project. In the major WB Governance project, the authors make a distinction between the rule of law on the one hand and control of corruption on the other hand. They state:

“Rule of Law (RL)—capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.”

“Control of Corruption (CC)—capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.” (Kaufmann, Kraay, & Mastruzzi, 2010).

The CC index is evidently very much the same as the CPI, i.e. extremely broad, covering all kinds of public abuse for private gain. The WB Governance project state that they made use of the Transparency Index when calculating the CC index.

However, what is troublesome is that the RL index in reality turns out to be much the same the CPI index, i.e. measuring the backwardness of the Third World. **Figure 2** shows the link between WB’s rule of law index and Transparency International’s CPI. They measure the same phenomenon, namely the link between economic criminality and poverty.

Perhaps then, the RL index by the WB Governance project is also a Third World index? Look at **Figure 3** for the same curvature, very low scores in poor nations and then an augmentation up to a certain level, an asymptotic curve. But the CC or CPI was measured independently of the RL index!

One may pursue this finding one step further, by looking at the link between the GDP scores and the so-called World Justice index. It calculates thus: “The WJP Rule of Law Index relies on over 100,000 household and expert surveys to measure how the rule of law is experienced in everyday life around the world. Indicators are grouped

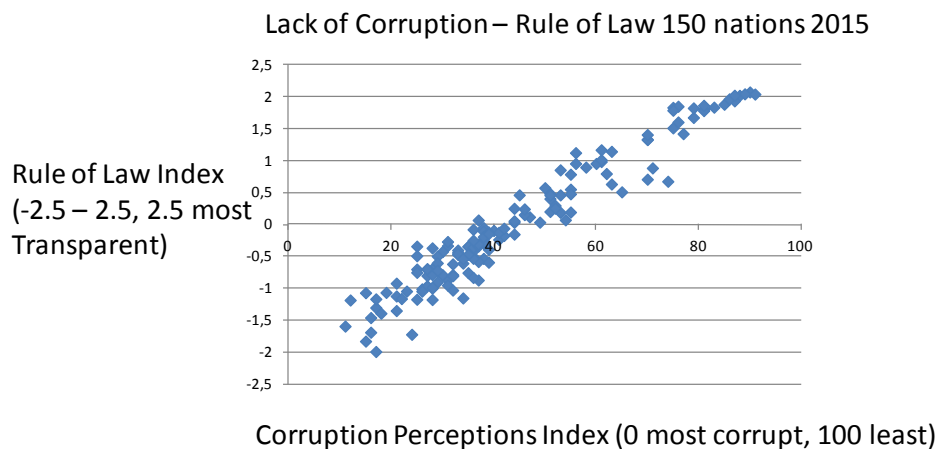


Figure 2. CPI and WB: RL; $R^2 = 0.94$.

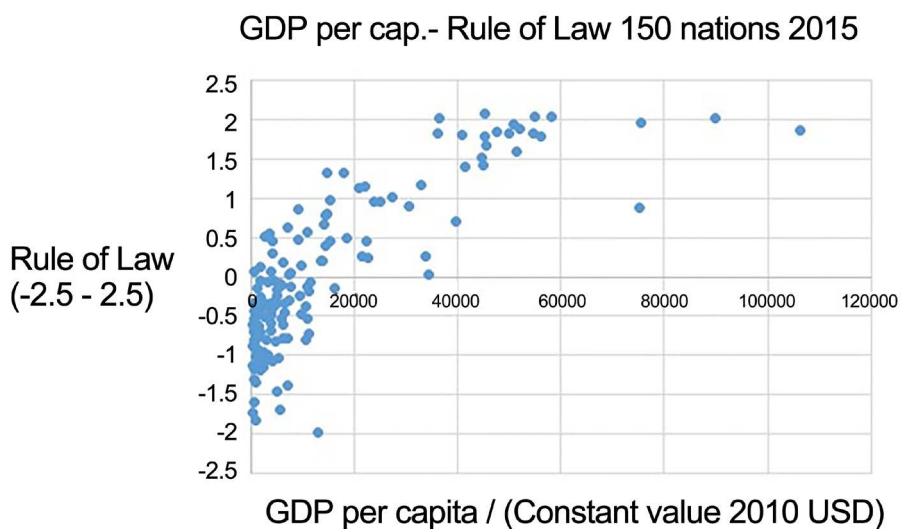


Figure 3. GDP—Rule of Law (WB): $R^2 = 0.6485$.

around the following nine factor:...” “Performance is measured using 44 indicators across eight primary rule of law factors, each of which is scored and ranked globally and against regional and income peers: Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order and Security, Regulatory Enforcement, Civil Justice, and Criminal Justice.”

Source: <http://worldjusticeproject.org/rule-of-law-index>

The World Justice Project out of Washington DC covers not only corruption or rule of law but criminality at large at arrive at the picture as the CPI index, namely in **Figure 4**.

8. Towards a New Approach

The image of global corruption typically rendered on the basis of the index of transparency is too blunt, placing most corruption with Third World countries under a most general definition of “corruption” as public sector abuse for private gain. Targeting the

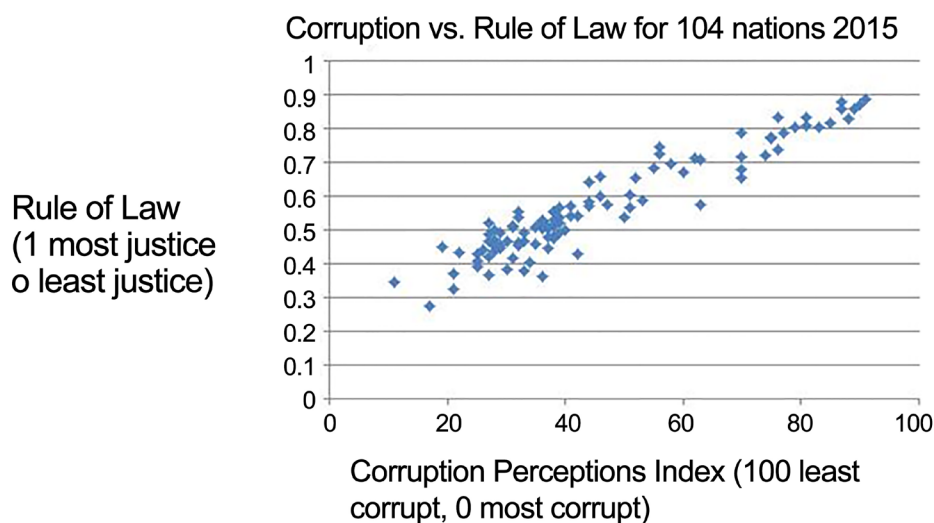


Figure 4. CPI and Rule of law (WJP): $y = 0.0069x$; $R^2 = 0.90$, Source: [Corruption Perceptions Index](https://www.transparency.org) from Transparency International, www.transparency.org; World Justice Project, worldjusticeproject.org.

concept of corruption as bribery, one may construct a more nuanced picture where corruption in the First World is fully recognized on the one hand and corruption in the Third World is better understood as mostly petty corruption on the other hand.

8.1. Opaqueness of Private Sector Corruption

The Transparency Index deals only with the abuse in the public sector. This is a major limitation, because in the private sector the opportunities for abuse are more numerous and much more difficult to spot and correct. Two reasons for this may be identified:

- The rules are less clear and enforceable;
- The spirit of collusion typical of private sector governance often hinders full scale revelations of abuse.

In the market sector with huge multinational enterprises and financial institutions, there is plethora of remuneration types that can be employed the grey-zone between legality and illegality. The amount of money for compensation is often staggering, with so-called bonuses reaching over 100 per cent of normal salary. Another opaque concept besides the ambiguous “bonus” (for what?) that may invite corruption is the “commission” in market dealings.

The CEO may often count upon support from the board of his firm for large salary increases, regular or ad hoc, because he/she may suggest at the same time huge augmentations of board members’ remuneration—perfect collusion against shareholders or stakeholders.

8.2. Principal-Agent Gaming

Some forms of corruption adhere to the principal-agent model, where an employee uses corrupt practices to go behind his/her principal to get extra revenue in an illegal manner, more or less tacitly. As public employee is bureaucracies in the Third World have a

very low income in general, the supply of services or goods for bribes is huge. Similarly, as the quantity and quality of public services is low in poor countries, there is a large demand for improvements that may be the quid pro quo of a bribe.

8.3. Big versus Petty Corruption

Poverty feeds crime. That is the conclusion one draw from the above Figures. But one knows not much about corruption in its more strict meaning as bribery. Theorizing corruption in a more strict definition as a binary relationship concentrated upon the bribe, one cannot assume that it occurs much more often in poor than in rich countries. It is vital to separate petty corruption from big corruption.

Petty corruption is often occurring in Third World countries. Why? Poverty! Often salaries of public officials are low, or they may not have been paid full salaries for some time. One can analyse petty corruption as a market phenomenon, where the buyer and seller meets, given their ambition to maximize expected value. The bribe has an additional cost or benefit, namely the risk of disclosure and loss of work or punishment.

The occurrence of corruption in Third World countries reflects their poverty and it is mainly a matter of petty bribery of low paid officials. The difference between the Third World and the First World may be visualized in a demand and supply framework (Figure 5).

Some may question the ambition to subject corruption to a demand and supply type of analysis. It could smack of economic model imperialism, as with [G. Becker's framework \(2013\)](#) or like the ideas of an economic analysis of law with [R.A. Posner \(2004\)](#). Yet, the aim here is just conceptual, i.e. to pin down a more precise concept of corruption and offer a reasonable theory of the difference between First World and Third World corrupt practices.

It is of course possible to speak of demand and supply of corruption, since there is the typical element in a contract between two parties, viz. the consideration. On the one hand, the promisor offers something and the promisee receives something and on the other hand there is the contra exchange of something valuable. There may be defection, but it would have to be settled outside of court, by means of retaliation.

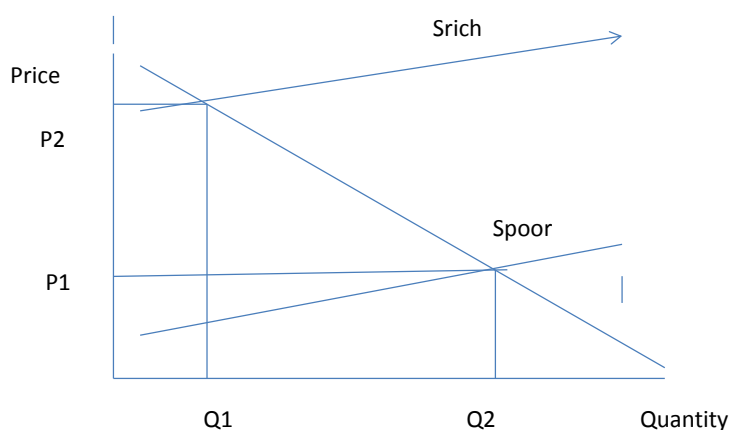


Figure 5. Demand for and supply of petty bribes in poor societies (Q2) and rich societies (Q1).

One has to add the potential legal costs to the calculation of benefits and costs in corruption. It is a probability assessment that lies at the core of offering and taking bribes, but it is a question of subjective probabilities that may be completely wrong. In petty corruption, the probability of a incarceration must be taken into account somehow, whereas in big corruption the reputational costs could be enormous for a business.

The supply of petty bribes will be highly restricted in rich societies, because officials are paid decent remuneration and fear much the legal consequences of revelation. The demand curve is the same.

8.4. Omnipresence of Big Corruption

When it comes to big corruption, then each society comprises a clientele who dares to engage in such activities, focussing upon millions or billions of dollars. Here it is the demand curve that differs between the poor and rich country.

Big corruption is not often of the principal-agent gaming kind, but involves organisations, buying for licences or contracts. Kickbacks often take this form, where an organization promises to do some extra favours for the state, if awarded the deal. A firm may also pay an employee an astonishingly high bonus, if he/she can get hold of the contract in question. Sometimes firms operate a whole system of bonuses that far outweighs the normal salary in order to create inducements. Whether this is legal or not is a question for the grey-zone, but the temptation for the individual employee to fix the deal may become too tempting.

One has recorded several cases of firm corruption in defense procurement as well as in the competition for e.g. telecom contracts or defense procurement. [Rose-Ackerman \(2016\)](#) argues that corruption has increased, but are we talking about big or petty corruption, corruption as bribery or kickback or merely economic crimes against the state?

Rose-Ackerman presents an analysis along Chicago School Economics of corruption as resulting from the incentives of public officials. She suggests numerous reforms to “reduce the incentives for bribery and increase the costs of corruption”, reminding of Becker’s famous analysis of crime—“three strikes and you are out”.

Yet, why care about petty corruption? Big corruption is different, violating for instance the World Trade Organisation’s rules for public procurement. In petty corruption like in Nigeria, bureaucrats often simply try to stay alive, sometimes not paid or paid properly. Big corruption occurs in the summit of states and markets, but it is not the same as e.g. embezzlement, patronage or money laundering.

An accusation of big corruption must provide evidence of mutual consideration, involving some form of bribery or illegal kickback ([Figure 6](#)).

Comparing [Figure 2](#) with [Figure 1](#), we arrive at the conclusion that petty corruption would be expected to occur mainly in poor countries, whereas big corruption would be expected to take place predominantly in rich countries. Big corruption cases receive lots of attention, because they are important for market ethics and state integrity. But accusations of big corruption are not always validated by a court—see for instance the many cases in Israel! Big corruption typically involves the market sector with private firms seeking illegal favours in some quid pro quo. The limitation in the CPI to the public sector is arbitrary!

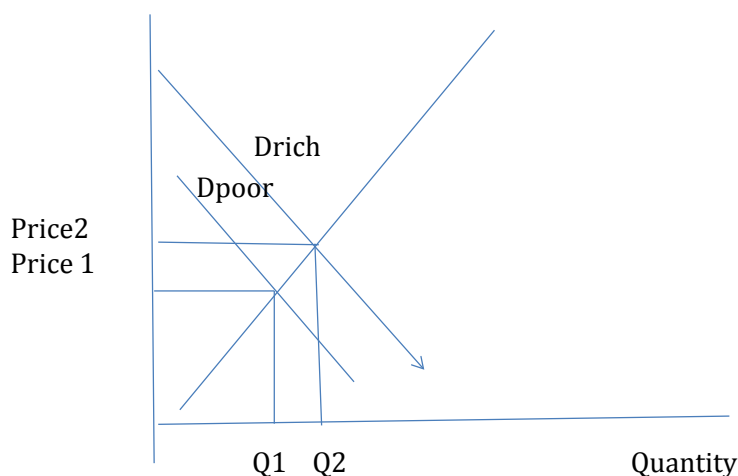


Figure 6. Demand for and Supply of Big Bribes.

9. If the Concept of Corruption Has Several Connotations, Then Maybe It Lacks a Unique Denotation

A few scholars regard corruption is the “cause” of all evil, almost as in a religious theory. They take the reliability and validity of the corruption rankings in Transparency Index for granted, and they correlate these numbers (low for Third World, high for First World) with all bad phenomena. They conclude, like religious believers: Eliminate corruption and the world is saved from evilness! They even go on to suggest a basic remedy, viz. social trust. The problem with the concept of social trust is the same as with corruption in the Transparency Index: too many different connotations and no validated unique denotation. It has even been proposed that the [R. Inglehart \(1999\)](#) individual indicator: “Survey question: “Most People can be Trusted” (interpersonal trust or generalized trust) can measure the amount of resistance to corruption in a whole society. This is merely an ecological fallacy ([Burnham et al., 2008: p. 41](#)), as it may be the people who answer YES who engage in corruption! A bizarre accusation of “corruption” in this “research” is the absurd claim that economics by studying how rational decisions can lead to irrational outcomes (Prisoners’ dilemma) is in fact promoting “corruption”, meaning that the Nobel Prize in economics may be entirely misguided ([Rothstein, 2015](#)). Economics should not teach Nash equilibria, but some moral theory (which?) linked with social trust. I believe that generalized trust may not be a rational strategy in an environment that terrorism infested. Science is not moralism. And how would social trust or social capital theory deliver a partial not to speak of a complete mora theory (liberal, socialist?)? The entire framework of social trust or social capital is a conceptual muddle ([Guinnane, 2005](#); [Durlauf, 1999](#); [Stirrat, 2004](#); [Franklin, 2004](#)). Actually, there is a lot of normative economic theory that is relevant for moral philosophy. Distinguish positive and normative economics!

10. Conclusion

The heralded theory of corruption, based upon the Transparency Index, presents a few serious flaws:

- It targets economic crime against the state, which is much wider than corruption; it

is highly moralistic in tone;

- It presents a picture of corruption as mainly a Third World problematic, bypassing the occurrence of big corruption in advanced economies;
- It neglects the typical features of corruption as a binary relationship involving the bribe and a quid pro quo.

When the concept of corruption is theorized in a more precise manner and modelled according to demand and supply, then it is to be found in both poor and rich countries, but it is not the same dominating type of corruption. I hope this argument contains a more nuanced view of corruption.

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