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PUBLIC CORRUPTION
Causes, consequences and cures
Cheol Liu

Introduction: a quagmire of defining corruption

After realizing that international development requires good governance, the study of corruption has come of age. Policy makers often fail to introduce optimal policies, not only because they do not know what the best policy should be, but also because they would distort public policies for their private interests. Thus, combating corruption can be a means of developing optimal policies (Jain 2001).

A study on corruption should start by defining corruption because its definition determines the model and measurement of the study. Corruption is a deviation from the activities expected from Max Weber’s ideal type of rational-legal bureaucracy. A long debate has concluded that corruption refers to an act in which the power of public office is used for personal gain and the rules of the game are violated. The range of definitions varies widely. Broad terms include diverse elements of clientelism, nepotism, patronage appointment, favoritism, and the misuse of authority and power, such as the “misuse of public power” and “moral decay.” Strict terms limit corruption to a deviation from formal rules regulating public officials’ behaviors, such as bribery (Andvig et al. 2001).

Lancaster and Montinola (1997) classify the definitions of corruption into six categories:

1. Within a public interest-centered definition, corruption is public officials’ behavior deviating from the public interest.
2. In the public office-centered definition, corruption implies public officials’ behavior deviating from legal norms.
3. In the norm-based definition, corruption includes public officials’ behaviors deviating not only from written rules but also from moral norms sanctioned by the public.
4. Patrimonialism means “a form of domination with an administrative apparatus whose members are recruited from personal dependents of the ruler.”
5. According to the market-oriented definition, a corrupt public servant regards his public office as his private business.
6. Finally, corruption is defined as “the perversion of agency relationships” among players in democracy. Under an ideal principal–agent relationship, the agent acts on behalf of the
principal in exchange for some form of compensation. Any behavior deviating from this ideal agency relationship is recognized as corruption.

There is a general consensus that there is currently a lack of a complete and comprehensive definition of corruption. It is impossible to develop a universal list of corrupt practices covering all societies because perceptions, cultures, and formal rules related to corruption vary across societies. It is also impossible to find a consistent definition of corruption even within a society because rules and ideas regarding corrupt behavior change over time. The term “definitional quagmire” expresses the difficulty of finding a single definition and further effort to find a complete and universal definition of corruption appears futile. The literature suggests that researchers focusing on corruption had better simply choose the most useful definition “appropriate for their particular concern and disciplinary taste” rather than getting bogged down in a quagmire of searching for a perfect definition of corruption (Collier 1999; Kaufmann 1998; Lancaster and Montinola 1997).

Causes of corruption

Three key determinants of corruption are discretionary power, economic rent, and (the lack of) deterrents to corruption. First, a public official must have a certain degree of discretionary power with which he or she is able to make, change, or administer regulations. Second, this discretionary power must be related to a certain amount of economic rent. Third, it is assumed that the official’s potential corruption will rarely be detected and/or will be punished lightly.

Discretionary power

Corruption takes place when public officials as agents of the public misuse their discretionary power. By assuming that the agents are motivated to enhance their private interests at the cost of the principal, the literature describes the relationship between public officials’ discretionary power and corruption from a number of perspectives.

First, regulations give discretionary power to those who are able to implement them. A more regulated and controlled economy provides agents with stronger discretionary power compared to a competitive market economy (Rose-Ackerman 1978). A greater degree of discretion afforded to public officials through regulation results in a higher burden on businesses, which makes them move to the unofficial economy (Johnson et al. 1997). Bliss and Di Tella (1997) show that a corrupt agent with discretionary power is able to maximize profit by converting a competitive market to a monopoly.

Second, corruption may take place in the process of liberalization, privatization, and economic reforms as officials’ discretion increases over such a period. Strong involvement on the part of a government is required to introduce liberalization, which enhances officials’ discretionary power and opportunities for corruption (Weyland 1998; Heywood 1997). An official may also enjoy “control rights” in the course of privatization. As an example, market-oriented reforms in China provided local officials and cadres with new discretionary power and created incentives to enrich themselves (Johnston and Hao 1995).

Value of economic rent

Braginsky (1996) argues that the single most important prerequisite of corruption is the presence of rents. Expecting greater rent, a property owner will attempt to evade regulation or
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to provide officials holding discretion with a larger bribe. Corruption is more serious in
countries pursuing industrial policies more actively because they transfer economic rent more
often to firms in favored sectors. There is a strong positive relationship between “the size and
scope of the public sector” (government expenditure) and corruption (Goel and Nelson 1998;
Ades and Di Tella 1997; Scully 1991).

A lack of deterrents to corruption

A public official engages in corruption if the expected gain is greater than the expected loss.
Deterrents to corruption increase the expected loss, which is related to the probability of being
detected, prosecuted, and punished. Deterrents are also related to income, political institutions,
economic variables, and the moral value of society.

The probability of being caught and the extent of punishment on being caught work jointly as
deterrents: The higher the probability of being caught, the lower corruption; the greater the
penalty, the lower corruption; the stronger enforcement, the lower corruption (Sosa 2004; Goel
and Rich 1989; Becker 1968). Corruption is also significantly affected by the openness, accessibility,
independence, and effectiveness of the legal system (Jain 2001; Johnson et al. 1997).

There is a negative relationship between public wages and corruption. An official with a
lower salary is tempted to supplement his income by taking bribes. An official with a higher
salary is more reluctant to engage in corruption because the expected loss from corruption is
higher when malfeasance is detected (Andvig et al. 2001).

A number of political institutions may work as deterrents to corruption. Voting is a
representative method of expelling corrupt officials. The probability that a corrupt official will
be revealed is much higher in a more democratized society because the populace is more
participatory in monitoring and disclosing public figures’ activities. The freedom of the press
induces journalists and interest groups to expose the misuse of office (Paldam 1999; Diamond
and Plattner 1993). Decentralization can be used as an alternative means of deterring corruption
(Fisman and Gatti 2002; Goldsmith 1999; Klitgaard 1988). However, it should be noted that
some empirical studies provide contradictory evidence related to the effects of political
institutions on corruption (Treisman 2000; Manor 1999; Wilson 1989; Banfield 1975).

The literature finds a negative association between economic openness, trade, liberalization,
and corruption. Economic development improves the level of education, literacy, and arm’s
length relationships in a society. Social stigma concerning corruption is substantial and
longstanding in more economically developed societies (Baksi et al. 2009; Wei 2000; Ades and
Di Tella 1999; Ekpo 1979).

A different rate of corruption is also attributed to differences in moral, historical, and cultural
traditions between countries. An activity considered corrupt in one society can be accepted as
normal in another. A “lack of trust” among citizens is a key cultural factor incubating corruption.
Greater ethnic diversity weakens trust among people but generates higher competition for
government-created rent, which leads to greater corruption (Treisman 2000).

Consequences of corruption

Studies of the consequences of corruption may overlap with those of the causes of corruption
because most economic and political variables affected by corruption simultaneously influence
corruption. In view of this, researchers should not compare a situation with corruption against
an “ideal political and economic result.” It makes more sense to compare it against “what
would have happened without corruption” (Johnson et al. 1997).
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Grease the wheels vs. sand in the machine

Corruption may have a positive effect on procedural efficiency and political integration. Bribery “greases the wheels” of rigid bureaucracy and improves it by cutting redundant red tape. Money also serves as political “cement,” integrating multiple interests and groups into a political party (Liu and Mikesell 2014; Nye 1967). However, some studies provide contradictory findings. Corrupt officials will find multiple ways to create bribe-inducing delays by increasing regulations and red tape; in such cases, corruption acts like “sand in the machine” (Gupta et al. 1998; Kaufmann 1998; Tanzi 1998).

Micro- and macro-economic consequences

Public corruption has a negative effect on various economic variables in general. It reduces the amount of capital investment (Brunetti and Weder 1998; Brunetti et al. 1998; Elliott 1997; Mauro 1995, 1997; Knack and Keefer 1995). Corrupt officials make inefficient decisions on public procurement projects. They award projects to those who provide bribes, not to those who provide the best quality service (Celentani and Gauza 2000; Hellman et al. 2000; Rose-Ackerman 1997). Corruption damages private firms’ business activities, output per worker, productivity, and economic growth as a whole (Leite and Weidmann 2002; Hall and Jones 1999; Johnson et al. 1997; Kaufmann et al. 1999; Mauro 1995). The share of the unofficial and underground economy is greater in a more corrupt country. The level of income inequality and poverty becomes worse because of corruption (Jain 2001; Rose-Ackerman 1999; Gupta et al. 1998; Tanzi and Davoodi 1997; Mauro 1995).

The literature notes the seriousness of governments’ budgetary corruption. This leads to inefficient and ineffective resource allocation. First, budgetary corruption makes public spending wasteful. Corrupt governments are likely to launch unnecessary and unproductive public projects. Public services and purchases tend to become over-estimated in a more corrupt country. Public resources can be given to “ghost employees” and wasted on the private interests of a few corrupt officials (Tanzi 1998; Molza 1983). Second, public corruption distorts the resource allocation of a government because of corrupt officials’ rent-seeking behavior. Rent-seeking behavior pervades in items with greater rent, higher secrecy, and lower competitiveness. A government with a higher level of corruption is likely to spend more on sectors such as defense, infrastructure, the military, energy, and housing, at the cost of spending on education, welfare, health, and social protection (Baraldi 2008; Delavallade 2006; Gupta et al. 1998; Mauro 1998; Shleifer and Vishny 1993). A recent US cross-state study has found that more corrupt states waste substantial public resources. Moreover, corruption distorts state governments’ resource allocations in favor of “bribe-generating” and “more-lucrative” sectors, such as construction, capital, highways, borrowing, and total wages and salaries, while it reduces spending on education, public welfare, health, and hospitals, which are ‘less lucrative’ for corrupt officials (Liu and Mikesell 2014).

The effects of public corruption on international macro-economic variables are also substantial. A country with a higher level of corruption faces difficulty attracting foreign direct investment (FDI). Corruption has a harmful impact on the volume of trade because international agents escape from a market contaminated by corruption. A nation with a higher level of corruption is likely to have a higher loan-to-FDI ratio and face difficulty borrowing from international financial markets, which leads it to fall into a currency crisis (Lambsdorff 1998; Wei 1997, 2000).
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Political and social consequences

Nye (1967) is a pioneer in the study of the effect of corruption on political development. Most political science studies on corruption describe a negative influence of corruption on a number of political and institutional variables. These include democracy, the legitimacy of the government, freedom of press, campaign funds, decentralization, political stability, interest groups, civil society, citizens’ confidence and trust, public participation, electoral turnout, government quality, and governance. Corruption has a negative effect on social variables such as distrust and civic culture, deteriorates “good” social capital, generates a set of “dark networks,” and undermines the foundation of rule of law (Themudo 2014; Linde and Erlingsson 2013; Villoria et al. 2013; Holmberg et al. 2009; Rothstein and Teorell 2008; Fisman and Gatti 2002; Rose-Ackerman 1999).

Public managerial and administrative consequences

Public administration scholars agree that it is one of the fundamental objectives of public administration to reduce public corruption (Perry 2015; Themudo 2014). Corruption has a negative impact on financial management, budget report transparency, information management, administrative performance, and the legitimacy of government administration (Ongaro 2011; Bastida and Benito 2007; Rocheleau 1999; Gould and Amaro-Reyes 1983). Graycar and Villa (2011) find that public employees’ petty corruption has a deleterious effect on governance capacity and the administrative practices of a city government. They conclude that a loss of governance capacity due to public corruption is more than a monetary loss. Compared to the other disciplines above, there remains room for further study on the impact of corruption on public management and administrative variables.

Cures for corruption

One of the most important issues regarding corruption is how to curb it. The search for an effective cure for corruption should start from understanding and controlling the major determinants of corruption. The cures for corruption suggested by the existing literature are classified into three perspectives, namely, the lawyer’s approach, the businessman’s approach, and the economist’s approach (Andvig et al. 2001; Ades and Di Tella 1997; Rose-Ackerman 1997). Similarly, the Organization for Economic Co-operation and Development notes two general approaches to improve ethical conduct in the public sector: compliance-based or integrity-based ethics management. The one focuses on strict compliance with formal procedures and rules. The other emphasizes incentives and encourages good behavior of public servants, based on aspirations (OECD 2000).

Lawyer’s approach: penalties and monitoring

The lawyer’s approach stems from the seminal work of Becker (1968) and focuses on strengthening laws and their enforcement to increase the costs and risks of engagement in corruption. Two dimensions of this approach are penalties and monitoring. First, effective penalties should be tied to the marginal benefit of payoffs received from corruption. A penalty includes both the probability of detection and punishment, and the level of punishment upon conviction. The expected penalty should increase as the extent of corruption becomes higher. Both those who pay and those who receive bribes should be punished. Second, monitoring
means collecting information about officials’ activities and prosecuting any dishonest behaviors detected. This provides public officials with incentives against corruption (Ades and Di Tella 1997; Rose-Ackerman 1997).

The effectiveness of internal control systems will be promoted by some external institutions such as an independent and honest judiciary, investigative agencies, anti-corruption commissions, auditing bodies, and an ombudsman. Whistle-blowers and watchdog groups should be protected and a free press should be guaranteed. The active role of non-governmental organizations and the public should be encouraged. The case of Hong Kong illustrates that some drastic measures are sometimes required to make anti-corruption campaigns effective. The Prevention of Bribery Ordinance of Hong Kong stipulates that those accused of corruption should prove their innocence. The Independent Commission Against Corruption (ICAC) of Hong Kong is allowed to search and seize without a legal warrant. Hong Kong ranks very low in international corruption indices (Tanzi 1998; Ades and Di Tella 1997).

**Businessman’s approach: providing incentives not to engage in corruption**

The businessman’s approach would “buy out” corruption by giving officials sufficient incentives and compensation for them not to engage in corruption. The incentive mechanism includes wages, bonuses, commission, and performance pay. The most common formal incentive proposal is to pay very high fixed wages to public officials who may otherwise commit malfeasance. Some informal incentives are also applicable, such as career concerns and reputation.

The effectiveness of wages in deterring corruption is not clear. It is argued that inadequate wages are a prime cause of bureaucratic corruption and higher wages increase the value of remaining in a job, which reduces the possibility of a public official shirking. An “efficiency wage” scheme allows a manager to pay employees more than a market-clearing wage to increase their productivity or efficiency. Besley and McLaren (1993) find that this solves the moral hazard problem and deters bribery. The “fair wage–effort hypothesis” develops the discussion on the effect of pay on corruption in the civil service. It assumes that public workers are willing to forego opportunities for corruption if they receive wages that meet the subsistence level or are “fair” (Akerlof and Yellen 1990). However, the “shirking model” suggests that wages have no influence on corruption if the expected income from corruption is very high. It has been found that a rather large wage increase is required to remove corruption solely by raising wages. Some officials engage in corruption even under the risk of losing their jobs when income from bribery is very large. Therefore, to deter corruption, it is necessary to raise wages to a very high level, which implies that the wage policies suggested may not be very practical (Van Rijckeghem and Weder 2001; Gould and Amaro-Reyes 1983). Chand and Moene (1999) find an incentive system works better when both wages and bonus schemes are introduced together.

There are other incentive schemes such as pay for performance, competitive salaries, internal promotion, career stability, and meritocratic recruitment. However their effect on reducing corruption is not clear either. The main reason for this is that the effectiveness of the schemes depends on multiple institutional factors of an organization. These factors include the precise range of instruments available for providing incentives, the extent of discretion available to bureaucrats, the relevant dimensions of bureaucratic performance, team work, and equity within the bureaucracy, and the external legal and political environment (Rauch and Evans 2000; Mookherjee 1997).
**Economist’s approach: reducing discretionary power and rent**

The economist’s approach is also called a market approach, focused on reducing the range and value of transactions that might be exploited by corrupt officials. When the discretionary power of public officials is weakened, the opportunities for corruption will be reduced. Deregulation and the streamlining of unnecessary laws aim to reduce public officials’ discretion. Transparent and simple rules also weaken officials’ discretion by making administrative processes public and open. The introduction of market-based user charge schemes in the area of environmental protection is often designed to limit regulators’ discretion (Rose-Ackerman 1997). Another way to reduce discretion is to increase competition among public officials, which dampens their monopolistic power and allows clients to obtain public services from multiple sources (Ades and Di Tella 1997; Shleifer and Vishny 1993). Transparency and the “free flow of information” to control public corruption are also important. It has been found that the lack of fiscal transparency of East Asian countries has undermined trust in them, heightened their funding costs, and resulted in financial crises as a consequence (Kaufmann 1998).

The three approaches above are not exclusive. To be effective, reform to curb corruption should utilize all of them together. In addition, the importance of commitment from top leadership cannot be overemphasized in fighting corruption. Reforms should not be incidental or short term. The literature notes the importance of sustainable corruption controls (Galtung 1998).

**Conclusion**

What is missing in the existing corruption literature? Compared to studies on the consequences of corruption, systemic studies on the cures for corruption are lacking, although the principal objective of corruption study is to search for optimal policies to curb corruption. In addition, there remains room for efforts by public management students to investigate the effect of corruption on public administration and management variables. Future corruption studies should explore cases in developed countries because the existing literature deals mainly with cases in developing countries. Public resource allocation looks to be one of the sectors most vulnerable to public corruption. Closer attention is required in this area, in particular the fiscal resource allocation of governments. There is an urgent need to search for rigorous research methods which would help researchers overcome the fundamental problems of empirical study in the field of corruption, such as endogeneity occurring because of omitted variables that are correlated with corruption and errors simultaneously and reverse causality. Such measures would enhance the trustworthiness of empirical corruption studies.

**References**


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