

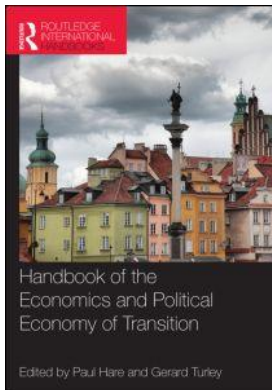
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### **Corruption in the Post-Communist Transition**

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# Part V

## Political economy

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## 17

# CORRUPTION IN THE POST-COMMUNIST TRANSITION

*Daniel Treisman*

## Introduction

Among scholars, journalists and the general public, it is widely believed that the frequency and scale of corruption increased dramatically in the post-communist countries after they began their transition. Corruption is usually defined as the misuse of public office for private gain. It comes in many varieties – from the extortion of bribes and kickbacks from businessmen and citizens to the embezzlement of budget funds, the stripping of state assets, nepotistic hiring and violations of electoral and party finance rules. That said, the prototypical case that informs most research is that of a state official who demands an informal additional payment from citizens in return for providing some public service – in other words, a bribe.

The post-communist transition of the last 20+ years coincided in time with the emergence of a new literature in economics and political science on the empirics of corruption. Scholars have used survey-based measures of the perceived or experienced incidence of bribery to try to answer questions about why corruption is more widespread in some countries and in some years than in others. In this note, I review their early efforts to assess and explain the variation in corruption among post-communist countries. As will become clear, the measures available are problematic, and for that reason the results of this work have been rather frustratingly inconclusive.<sup>1</sup>

## How corrupt?

Since corrupt transactions are illegal, assessing their frequency and scale presents an obvious challenge. Since the mid-1990s, the campaigning NGO Transparency International (TI) and the World Bank have constructed and published measures of subjective perceptions of corruption, which aggregate the ratings of country experts, risk analysts' evaluations, and polls of business executives and citizens. The aim is to determine how corrupt experts, businessmen and citizens *think* a given country is in a given year and to turn such opinions into a cross-nationally comparable index. TI's 'Corruption Perceptions Index' and the World Bank's 'Control of Corruption' indicator are highly correlated with each other, which is not surprising since the sets of surveys and ratings used to construct the respective measures typically overlap.

Some studies have analysed the cross-national variation in these indexes, treating them as perhaps noisy but probably unbiased estimates of countries' actual levels of corruption (e.g. Treisman,

2000; Milanovic *et al.*, 2010). However, concern has grown in recent years that these indexes may reflect stereotypes and ‘folk theories’ about the causes of corruption rather than measuring the actual incidence of corrupt transactions (Treisman, 2007; Donchev and Ujhelyi, 2010). More recently, an alternative type of data has become available – ‘experience-based’ indicators derived from survey questions that ask respondents about their own experience with officials demanding bribes. Since 2004 TI has surveyed the populations of a large number of countries, and asked among other questions whether the respondent or a household member had paid a bribe in any form during the previous 12 months. Since 1999 the European Bank for Reconstruction and Development and the World Bank have periodically polled executives of firms in post-communist countries in their Business Environment and Enterprise Performance Survey (BEEPS). In 1999, 2002, 2005 and 2008–09 they asked the executives how common it was for ‘firms like theirs’ to have to make unofficial payments to officials to ‘get things done’.

Measures of the frequency of bribery derived from such questions about local experience correlate with those derived from expert ratings and opinions. However, among countries thought to have high corruption, the correlation between experience-based and perceptions indicators is relatively weak. Moreover, while the perceptions indicators are correlated with a long list of plausible determinants of corruption – from authoritarian rule to a lack of women in government – such correlations for experience-based measures are much weaker, suggesting perhaps that experts and media opinion-formers simply assume corruption to be frequent in places where its supposed causes are visible (Treisman, 2007; Donchev and Ujhelyi, 2010). Perceptions of corruption also appear to be much stickier than reported experience of it. Among the post-communist countries, the correlation between the World Bank’s perceptions indicator in 2000 and 2009 ( $r = 0.90$ ) is much higher than that between the experience-based BEEPS measure of bribe frequency in 1999 and 2009 ( $r = 0.56$ ).<sup>2</sup>

Recently, certain scholars have devised creative ways to measure corruption in particular countries (Italy and Indonesia), but these techniques have not yet been extended to the post-communist world (Golden and Picci, 2005; Olken, 2009). Both the techniques provide snapshots rather than a means of assessing corruption over time, and in the Indonesian case the measure was only available at the very micro level.<sup>3</sup> Data are available from some countries on prosecutions for bribery and embezzlement, but the problems in interpreting such data are so great as to render their use highly problematic. Different rates of registered crimes and prosecutions may reflect differences in the zeal or budget of enforcers, and in any case only a fraction of actual transactions is probably detected.

The unfortunate conclusion is that we lack a credible method and data source to assess change in the incidence of corruption in the post-communist countries in the late 1980s and early 1990s. If one ignores the problems with perceptions-based measures, these are available for a number of transition countries from 1996. However, for experience-based measures, one must wait until 1999 for the first BEEPS survey of business executives and until 2004 for the first TI Global Corruption Barometer survey of national populations. Thus, what happened to corruption in the years right after the fall of communism will remain a subject of surmise, anecdotes and suggestive case studies.

More data are available regarding the second decade of transition. Table 17.1 shows an experience-based measure of corruption derived from the BEEPS surveys from 1999–2009. Specifically, I show the percentage of business executives interviewed in each country who said it was always, usually, or frequently true that firms like theirs had to make additional irregular payments or gifts to officials to get things done. (Other possible answers were ‘sometimes’, ‘seldom’, ‘never’ and ‘don’t know’.)

Several points are clear from this table. First, there is a great deal of variation, both across countries and over time.<sup>4</sup> The proportion who said it was always, usually, or frequently true

Table 17.1 Percentage of firm executives who said it was always, usually, or frequently true that firms like theirs had to make additional irregular payments or gifts to officials to get things done (BEEPS)

	1999	2002	2005	2009
<i>E. Europe</i>				
Albania	47	36	46	13
Bosnia and Herzegovina	29	22	20	12
Bulgaria	24	33	16	9
Croatia	18	13	11	9
Czech	26	13	10	5
Hungary	31	23	12	5
Kosovo				1
Macedonia		23	25	9
Montenegro				6
Poland	33	19	14	5
Romania	51	37	21	20
Serbia and Montenegro		16	33	
Serbia				20
Slovakia	35	36	11	8
Slovenia	8	7	5	3
<i>Average*</i>	30	24	16	9
<i>Baltic states</i>				
Estonia	13	12	6	3
Latvia		18	7	7
Lithuania	23	21	24	2
<i>Average*</i>	18	16	15	3
<i>Other FSU</i>				
Armenia	40	14	10	15
Azerbaijan	59	27	30	22
Belarus	14	24	22	9
Georgia	37	38	7	4
Kazakhstan	24	30	24	17
Kyrgyzstan	27	44	53	25
Moldova	33	34	19	15
Russia	29	39	39	24
Tajikistan		35	21	19
Ukraine	35	35	28	24
Uzbekistan	47	20	21	34
<i>Average*</i>	35	31	25	19
Memo: Turkey	37	24	13	9
<i>Average post-communist*</i>	31	26	20	13
<i>Median post-communist*</i>	30	26	19	11

Source: BEEPS data downloaded from EBRD at: [www.ebrd.com/pages/research/analysis/surveys/beeps.shtml](http://www.ebrd.com/pages/research/analysis/surveys/beeps.shtml).

Note: \* All averages calculated for only those countries that had data in all years. Percentages are unweighted, since weights only available for 2009.

that firms needed to make informal payments ranged from a high of 59 per cent in Azerbaijan in 1999 to a low of 1 per cent in Kosovo and 2 per cent in Lithuania in 2009.<sup>5</sup> Second, between 1999 and 2009 there was a very consistent fall in the proportion of businesses reporting that bribery was common. This was true across the various sub-regions. (It was also true of Turkey, which was included as a comparator country, suggesting the change may not be a specifically post-communist phenomenon). For 2002–09, the BEEPS survey also included comparable questions that asked what percentage of annual sales revenues a typical firm paid in unofficial payments/gifts to public officials.<sup>6</sup> The average amounts (not shown here) fell consistently in this period across the post-communist countries (but not in Turkey). Of course, rapid economic growth was simultaneously increasing the value of firms' revenues, so the absolute amounts paid may not have decreased.

Thus, although we cannot know whether the frequency of bribery increased in the 1990s, there is evidence that the frequency among businesses fell in the 2000s, and in many countries by large amounts. Improvements were not uniform across policy areas. Between 1999 and 2005, there were significant reductions in corruption related to taxes, customs, and business licensing, but no improvement in government procurement and the judiciary (Anderson and Grey, 2006). The burden of corruption was also heavier for some firms than for others: newer, smaller, privately owned, domestic firms tended to report that bribes were necessary more frequently and for larger amounts than older, state-owned, and foreign-owned firms (*Ibid.*).

What about bribes extracted from the population? Data from TI's Global Corruption Barometer on the proportion of respondents who said a household member had paid a bribe in the previous 12 months are available only from 2004. These percentages also vary considerably both across countries and over time. In a given year, the indicators of bribery for the population (TI) and bribery for firms (BEEPS) are correlated, but far from perfectly (Figure 17.1). Among those post-communist countries included in the survey in all years, the reported frequency of bribery dropped on average from 2004 to 2007, before rising again in 2010. There were some positive stories – countries where the frequency fell throughout the period (e.g. Croatia, the Czech Republic) – but there were also some where the reported frequency was higher in 2010 than in 2004 (e.g. Bosnia and Poland).<sup>7</sup>

### Explaining the pattern

What might explain variation in corruption levels, both cross-nationally and over time? Scholars have suggested a variety of possible causes. A first set has to do with countries' pre-transition characteristics – economic, geographical and cultural. Worldwide, there is a strong correlation between higher economic development and lower reported corruption. Thus, we might expect those countries that were most developed at the start of transition to report less bribery. Some have argued that more plentiful natural resources create battles over rents, corrupting the state. Some former communist countries – e.g. Azerbaijan, Turkmenistan, Kazakhstan, and Russia – are rich in oil, gas, and other minerals. Culturally, the post-communist countries inherited quite different religious traditions, a factor some have linked to variation in corruption worldwide. Four major religions – Islam, Eastern Orthodoxy, Catholicism and Protestantism – are represented, along with many minor ones. The timing of communization might also matter. Communist regimes co-opted and destroyed autonomous civic organizations. If such policies had gradual, cumulative effects, more remnants of civic culture might have survived in countries that became communist later.

A second set of possible determinants relates to the political and civic institutions created during the transition period. The post-communist countries vary in the extent of democracy and constraints on the executive that emerged. They also differ in the independence and vigour

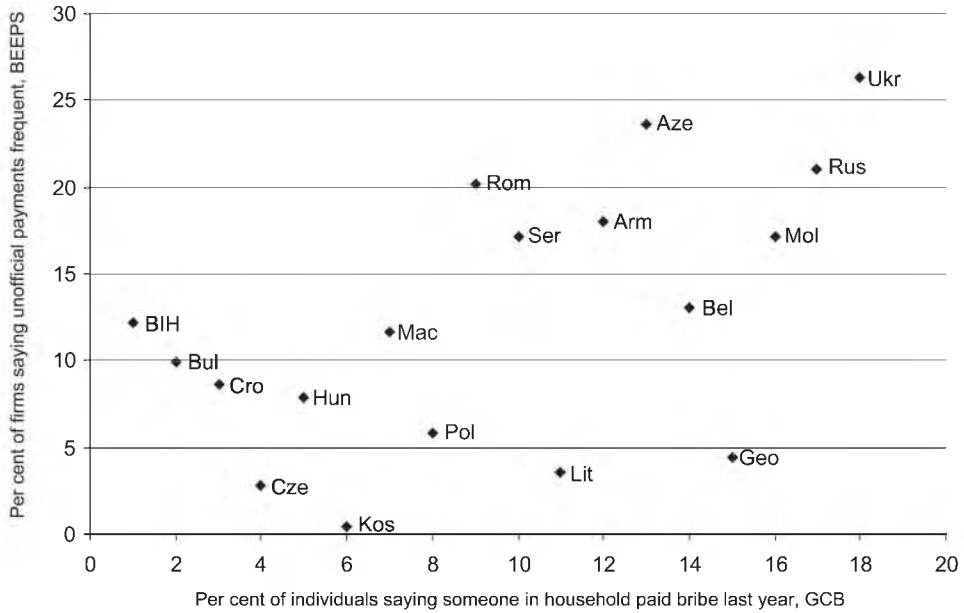


Figure 17.1 Frequency of bribery reported by citizens and firms, transition countries, 2009

Sources: EBRD data download (BEEPS), Transparency International, Global Corruption Barometer 2009, [www.transparency.org/news\\_room/in\\_focus/2009/gcb2009#dnld](http://www.transparency.org/news_room/in_focus/2009/gcb2009#dnld), p.32.

Note: Weighted averages (both surveys), excluding 'don't knows'; because of weighting, percentages differ slightly from those in Table 17.1.

of the press, which is important for exposing corruption, as well as in key details of their constitutional structure such as whether they have parliamentary or presidential regimes and the extent of decentralization. Besides political institutions, differences in political practices during the transition period could have consequences for corruption. Some have argued that turnover of government officials was crucial for improving governance (Shleifer, 1997). More frequent turnover between political parties or leaders might reduce the incentive for firms to invest in clientelistic protections, reducing bribery (Milanovic *et al.*, 2010).

Third, economic performance during the transition might affect corruption. In conditions of rapid growth, citizens, appeased by rising incomes, might be less motivated to monitor and punish officials who enrich themselves. On the other hand, if economic development brings with it increases in state capacity and modernization of society, this might reduce corruption. Fourth, the policies enacted in the transition period might be important. Faster deregulation might reduce the number of licenses and permits in return for which officials can extract bribes. Some argue that rapid privatization increased corruption (although proponents of this view rarely compare the extent of corruption observed during privatization to that which might be expected had the assets remained under the control of the bureaucrats). Some countries moved faster than others to enact policies specifically aimed at reducing corruption (Rousso and Steves, 2006). Finally, for those countries with a realistic hope of joining the EU, this was said to create incentives to clean up governance (although improvements might slow after a country was actually admitted, as some believe happened in Bulgaria and Romania).

Surprisingly few studies have examined which of these factors correlate with perceived corruption levels in the post-communist countries, and even fewer look for links to experience-based



measures. Treisman (2002) analysed two perceptions measures of corruption and one experience-based one (the percentage of revenues reportedly paid by firms in unofficial gifts and payments from the 1999 BEEPS survey).<sup>8</sup> I found that four factors, already fixed at the start of transition – initial GDP per capita, the number of years the country had been communist, a measure of the country's natural resource endowment, and the percentage of the population that adhered to Protestantism – could explain from 62 to 87 per cent of the variation among post-communist countries in perceived corruption and 64 per cent of the variation in the bribe burden. (In fact, natural resources were never statistically significant, so the other factors were doing the work.) Those countries that were initially more developed, that had become communist later, and that had a sizeable share of Protestants (Estonia and Hungary) had both lower perceived corruption and a lower reported burden of bribery. A few of the variables included to capture aspects of the transition (measures of democracy and decentralization; leadership turnovers; polarization of executive and parliament; the extent of market reform, privatization and legal reform) were significant in regressions of corruption perceptions, but none was significantly related to the experience-based measure of the bribe burden.

One interpretation of this is that any relevant differences in policies or political and economic performance during the transition were themselves predetermined by differences in a country's initial levels of economic development and duration of communist domination. Both of these were, in turn, highly correlated with a country's location – in general, the further east the country was, the lower the initial income and the earlier the communist takeover – and consequently also with the odds of quick admission to the EU. Another interpretation is that I failed to find results because of the crudeness of available data and problems of reverse causation that I was not able to address.

I also found that perceived corruption was significantly higher (as of 1998–2001) in post-communist countries than the average in other parts of the world, but that most of this difference could be eliminated by controlling for income and years of democracy since 1950. Thus, it was not the communist legacy *per se*, but rather the relatively lower income and lack of democratic experience (itself a consequence of communist rule) that made post-communist countries stand out. One can now examine the same question using the experience-based measure from TI's Global Corruption Barometer. In 2004 respondents in post-communist countries were significantly more likely to say that a household member had paid a bribe during the previous year: the post-communist average was about nine percentage points higher than the average for other countries. However, this difference steadily decreased over the years. By 2010 the post-communist effect had turned negative, although not statistically significant.<sup>9</sup>

Milanovic *et al.* (2010) explore the effect of leadership turnover on perceived corruption (using the World Bank measure). They find that more turnovers of power between opposed parties in the early years of transition correlate with lower perceived corruption as of 2006. An interesting question not answered in the paper is whether this effect would remain significant using experience-based corruption measures.

To assess the effectiveness of policy, Rouso and Steves (2006) constructed measures of the extent to which post-communist countries introduced explicit reforms to fight corruption. They focused on three common types of anti-corruption measures: the adoption of integrated anti-corruption programmes, the passage of legislation to enhance governance institutions and accountability, and the signing of international anti-corruption conventions. They then looked at how the intensity of corruption fighting, thus measured, correlated with the main experience-based corruption indicators from the BEEPS survey. They found that, although the apparent levels of corruption in 2002–05 declined significantly, the change was 'not associated with the intensity of anti-corruption activity in the preceding period' (1999–2002). They

conclude that the apparent reduction in frequency of bribery in the transition region 'is not necessarily related to the high-profile anti-corruption initiatives adopted in so many of these countries' (*Ibid.*, p. 266).

In an extended analysis of the BEEPS data from 1999 to 2005, Anderson and Grey (2006) sought to explain the trend of improvement visible in Table 17.1. They suggested that deregulation and simplification of rules may have helped to reduce corruption. In cross-section, they found a negative correlation between a measure of 'ease of paying taxes' from the World Bank's *Doing Business* indicators and the reported frequency of bribery related to taxation. However, they lacked the data to test for dynamic effects, and the cross-sectional relationship was not robust to inclusion of other controls (Anderson and Grey, 2006, p. 94). They also found that the more cumbersome and costly it was to enforce a contract, the greater was the reported frequency of bribery with regard to courts (*Ibid.*, p. 96).

Besides this, Anderson and Grey (2006) endorse the notion that prospects of joining the EU helped. Dividing countries into different groups on the basis of their closeness to EU admission, they conclude that those countries whose accession in a given period was 'probable but not certain' were the most active in enacting anti-corruption legislation (*Ibid.*, p. 81). Of course, this relationship also might not survive the inclusion of controls. Also, based on the study of Rouso and Steves just cited, one might wonder whether enacting such legislation had any clear effect on the corruption level.

Their other findings are mostly negative. Faster economic growth between 2002 and 2005 was not related to change in reported corruption (p. 29); nor did the length of time the country's leader had been in power seem to matter. They suggest that there may be an inverted U-shaped relationship between civil liberties or constraints on the executive and corruption: more authoritarian countries like Belarus and Uzbekistan and more democratic ones like Slovenia and Estonia tend to have lower reported corruption than those in between them. As they acknowledge, however, lower reported corruption in authoritarian states might reflect 'the strong control environment, the low level of private-sector activity, different conceptions of what constitutes corruption, or the hesitation of respondents to answer questions freely'.

## Conclusion

The lack of quantitative data makes it difficult to test the widespread view that corruption spread and intensified in the first decade of transition from communism. During the second decade, more survey data on respondents' concrete experiences with corruption have become available. These data suggest that the frequency of corruption varied a great deal, both across countries and in a given country over time. The extent of bribe extraction from businesses fell quite dramatically after 1999, and bribe extraction from citizens may have fallen at least until 2007. In 2004 the citizens of post-communist countries were more likely than their peers elsewhere to report that a household member had paid a bribe in the previous year; by 2010 this was no longer the case.

Evidence about why reported bribery is much more frequent in some post-communist countries than in others is limited. Most of the variation in a given year maps onto the East-West divide: countries further east – which were mostly less developed at the start of transition, had been communized for longer, and had poorer prospects of rapid EU accession – generally have higher corruption levels. Attempts to identify effects of policies enacted during the transition – whether aspects of economic reform or explicit anti-corruption measures – have not been successful. It is possible that once scholars have enough data to look for dynamic effects in multi-year panels they will find more evidence for such influences. In the meanwhile, a great deal remains unknown about the path and logic of corruption in the post-communist world.

## Notes

- 1 A sizeable literature has already developed on governance in the post-communist countries. Limited by the genre to a very short list of references, I apologize to the authors whose contributions I am unable to cite.
- 2 My calculations from the respective databases. Across all countries, the correlation between the World Bank's 2000 and 2009 measures is  $r = 0.93$ .
- 3 Golden and Picci (2005) compared the estimated value of the stock of public infrastructure to the value of past investments in it. Olken assessed the level of corruption in a road building project by having engineers analyse samples of the materials used.
- 4 There were some changes in the details of the BEEPS questionnaire and implementation over these years, but not significant enough to explain large differences.
- 5 The figure for Kosovo is surprising, given the common perception that corruption remained quite widespread (see, for instance, 'Corruption in Kosovo: Time to Go Straight,' *The Economist*, March 18, 2010, [www.economist.com/node/15731392](http://www.economist.com/node/15731392)). Large-scale incidents of embezzlement and grand corruption would not necessarily be captured by the enterprise survey.
- 6 The same question was also asked in 1999, but the answers were coded as falling within a number of unequally spaced ranges; from 2002, the actual percentage was recorded.
- 7 Lack of data precludes any serious consideration of the Asian communist countries of China and Vietnam in this article; neither was included in the BEEPS survey, and they were only included in the Global Corruption Barometer in recent years. For what it is worth, the percentage of respondents who said in 2010 that a household member had paid a bribe during the past year was 44 per cent in Vietnam (almost as high as Azerbaijan) and 9 per cent in China, the same level as in Austria (Transparency International, *Global Corruption Barometer 2010*, p. 46). I would like to see some more years of data before accepting the China figure at face value.
- 8 This study also examined a measure of 'state capture' – i.e. the percentage of firms who said that firms like theirs often had to 'make extra, unofficial payments to public officials to influence the content of new laws, decrees, or regulations'.
- 9 My calculations using data supplied by TI.

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