

Democratisation, economic development and corruption in East-Central Europe: a 11-nation-study

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Reihe Soziologie
Sociological Series

**Democratisation, Economic
Development and Corruption
in East-Central Europe**
A 11-Nation-Study

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**Democratisation,
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A 11-Nation-Study

Claire Wallace, Christian W. Haerpfer

October 2000

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Founded in 1963 by two prominent Austrians living in exile – the sociologist Paul F. Lazarsfeld and the economist Oskar Morgenstern – with the financial support from the Ford Foundation, the Austrian Federal Ministry of Education, and the City of Vienna, the Institute for Advanced Studies (IHS) is the first institution for postgraduate education and research in economics and the social sciences in Austria. The **Sociological Series** presents research done at the Department of Sociology and aims to share “work in progress” in a timely way before formal publication. As usual, authors bear full responsibility for the content of their contributions.

Das Institut für Höhere Studien (IHS) wurde im Jahr 1963 von zwei prominenten Exilösterreichern – dem Soziologen Paul F. Lazarsfeld und dem Ökonomen Oskar Morgenstern – mit Hilfe der Ford-Stiftung, des Österreichischen Bundesministeriums für Unterricht und der Stadt Wien gegründet und ist somit die erste nachuniversitäre Lehr- und Forschungsstätte für die Sozial- und Wirtschaftswissenschaften in Österreich. Die **Reihe Soziologie** bietet Einblick in die Forschungsarbeit der Abteilung für Soziologie und verfolgt das Ziel, abteilungsinterne Diskussionsbeiträge einer breiteren fachinternen Öffentlichkeit zugänglich zu machen. Die inhaltliche Verantwortung für die veröffentlichten Beiträge liegt bei den Autoren und Autorinnen.

Abstract

The study explores the relationship between corruption (as measured in a cross-national sample survey) and other indicators such as economic growth, democratisation, institutionalisation, increasing freedom and the informal economy as important indicators of change in post-communist Eastern and Central Europe. It was found that corruption perceptions are very highly correlated with economic growth: the higher the level of corruption, the lower the level of growth. It was also the case the more free and democratic a society was (that is, the more open) the less corruption was perceived. The analysis is based upon a representative sample survey carried out in Poland, Hungary, Czech Republic, Slovakia, Slovenia, Croatia, FRY, Romania, Bulgaria, Belarus and Ukraine in 1998 (N=12643).

Zusammenfassung

Die Studie untersucht die Beziehung zwischen Korruption — gemessen als subjektiver Indikator in international-vergleichenden Umfragen — und anderen Indikatoren wie Wirtschaftswachstum, Demokratisierung, Institutionalisierung, zunehmende persönliche Freiheiten und die informelle Ökonomie als wichtige Indikatoren des Wandels im postkommunistischen Zentral- und Osteuropa. Die Autoren fanden eine starke negative Korrelation zwischen subjektiven Korruptions-Wahrnehmungen einerseits und wirtschaftlichem Wachstum andererseits: je höher das wahrgenommene Niveau der Korruption, desto niedriger war das Niveau des Wirtschaftswachstums. Es war auch klar erkennbar, dass eine Gesellschaft, die offener, freier und demokratischer ist, auch ein deutlich geringeres Korruptionsniveau aufwies. Diese Analyse beruht auf einer akademisch-vergleichenden Umfragestudie mit 12.643 persönlichen Interviews im Jahre 1998 in folgenden Ländern: Belarus, Bulgarien, Bundesrepublik Jugoslawien, Kroatien, Polen, Rumänien, Tschechien, Slowakei, Slowenien, Ukraine und Ungarn.

Keywords

Democratisation, corruption, economic development, transition in Eastern and Central Europe, postcommunism

Schlagworte

Demokratisierung, Korruption, wirtschaftliche Entwicklung, Transformation in Zentral- und Osteuropa, Postkommunismus

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Corruption is present in all societies to a greater or lesser extent and was recognised as an integral part of the former Communist systems. Many people are under the impression, however, that corruption has risen in this region since the demise of Communism. Indeed the possibilities and scope for corruption — given the mixture of massive privatisation, weak states and underdeveloped civil societies — are considerable. Here we explore various reasons as to why this might be happening. We are able to look at the variations between eleven countries with very different routes out of communism as well as variations within countries according to different population groups.

According to various papers published recently by either the World Bank or by Transparency International, corruption is a particular problem in transition economies. In these countries, it can be used to steal many assets from impoverished states and impoverished citizens, thus exacerbating a fiscal crisis. It can also undermine faith in the reform process on the part of the citizenry. It can stifle private enterprise at every level and increase the participation in the informal economy (Hessel & Murphy, 1999). Furthermore, the existence and the extent of corruption discourages foreign investment or indeed any kind of investment which can be not only expensive for the investor, but also uncertain, since the processes by which contracts are awarded are opaque. The economic crises in Russia, Ukraine and other countries are to a great extent exacerbated by corruption. Timothy Frye (Frye, 1998) has furthermore argued that there is a difference between organised corruption, whereby there is only one or a few organisations exacting bribes (and the corrupt authority has an incentive to keep the bribe low) and disorganised corruption, where many organisations are exacting payment and each has an incentive to raise the payment. His research shows that these differences are illustrated by the cases of Poland and Russia.

Our argument in this paper is that *corruption is an indication of the lack of the institutionalisation of capitalism and democracy in transition societies*. Economic reforms need to be embedded in a process of political and institutional reform so that market behaviour is regulated. For investment to take place, contracts have to be honoured and business to take place in an atmosphere of trust and security. That means that they have to be publicly regulated and scrutinised. This depends upon the development of a civil society — that is, organised interest groups, a free press and public action which can help to expose or prevent corruption through protest — all features of democratisation. This process also depends upon the existence of a publicly accountable bureaucratic system. As Weber argued, the modern state is based upon the development of a bureaucracy which is in turn founded upon rational criteria and is therefore predictable (Weber, 1921). Yet with the collapse of the moral order associated with Communism, the rationality of the former bureaucracy was also undermined.

In Western democracies this process took some centuries to be established and progress was not unilinear, whilst in transition countries it must take place very quickly. Where the political and institutional reform fails to take root, then the rapid withdrawal of the state from

large parts of the economy leaves a vacuum, into which corrupt and uncontrolled private interests can flow. This is what we term a lack of institutionalisation. Another problem is that there may be laws, but these laws are not implemented or enforced, what we might term "weak institutionalisation". Or that the laws inhibit rather than encourage the growth of enterprise (through hefty taxes for example), what we might term "distorted institutionalisation". The lack of institutionalisation of capitalist enterprise means that enterprise which does take place is not controlled or publicly accountable. It develops instead in the black economy, leading to further fiscal loss for the state. This institutionalisation rests not only upon legislative and legal reform but upon the consensus and understanding of the population.

Thus, we would assume that corruption is associated with a lack of democratisation (measured by democratic values), a failure of rational market principles to be established, a lack of freedom (to protest, to expose corruption) and a growth in the informal economy as well as a lack of stable economic growth.

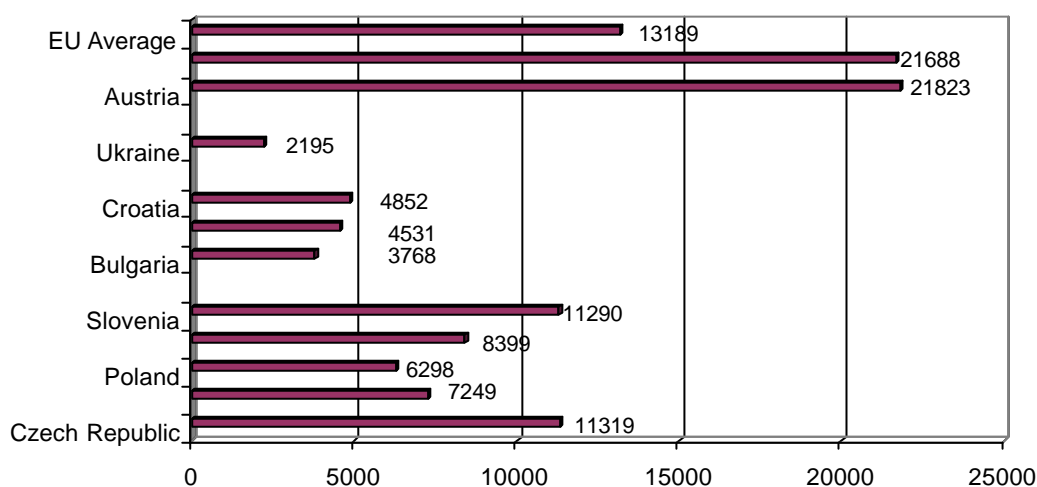
There is a question, however, to what extent corruption is associated with the increasing sclerosis of the old state system or with the new forms of enterprise and the new system. There is a lot of evidence to suggest that the decay of the old system was already well underway in the 1980s and that corruption was endemic there, but under the new conditions as state salaries have declined, or not been paid at all, there is more incentive for government officials to engage in corruption. On the other hand, there is much suspicion among the population (as expressed in newspapers and in qualitative interviews) that the most corrupt people are the new entrepreneurs; that the only way to start a business in the first place and hitherto to become wealthy is basically achieved through corruption.

In this paper we explore various hypotheses, which may affect the level of corruption in post—communist regimes. We are mostly considering perceptions of corruption, but we later go on to consider what implications this has for behaviour. Our analysis is based upon a comparative sample survey of postcommunist citizens in the following countries: Poland, Hungary, Czech Republic, Slovakia, Bulgaria, Romania, Ukraine, Belarus, Slovenia, Croatia and Federal Republic of Yugoslavia (FRY). The paper is divided into four parts: first we construct an index of corruption and look at differences between countries concerning the comparative extent of perceived corruption. Second, we examine the variations between countries by looking at 6 hypotheses as to what might affect in a direct way corruption. Third we look at the variations within countries in terms of population groups and values. Finally we move away from perceptions of corruption and we look at corrupt behaviour, considering just two countries: the Czech Republic and the Ukraine.

Different roads to reform

The enforced homogeneity in this region which prevailed under the former regimes has been replaced by increasing heterogeneity, both between countries and within countries (Agh, 1998). In other words, the diversity of the new post—Communist Europe showed in different roads to reform (Wallace & Haerper, 1998). Thus, whilst the Central European countries of Poland, Hungary, Czech Republic, Slovakia and Slovenia have been relatively successful in establishing a more market oriented and democratic society, the situation to the south in Croatia, FRY, Romania and Bulgaria is more unstable and the situation to the East in Ukraine, Belarus and Russia has been one of more or less dramatic decline. It is evident from Table 1 that there are three clusters amongst these countries in terms of economic development (as measured by GDP per capita). In this paper we are able to explore whether these differences in economic and democratic development have any implications for the level of corruption.

Figure 1 GDP per capita (PPP measures) 1997, USD



How can we measure corruption?

This is clearly tricky as it is by its nature clandestine activity. Corruption is also culturally variable. What may be perfectly acceptable behaviour in conformity with general social norms in Uzbekistan could be seen as corruption and violating the generalised social consensus in the Czech Republic. We have taken as our measure of corruption a survey question in the New Democracies Barometer V (fielded in Spring 1998), which asked whether the respondent felt that the level of corruption had risen since the end of the

Communist regime¹. This gets around the cultural variations in perception, but it does not of course tell us about behaviour.

Perceptions of the corruption is the usual indicator used by Transparency International for constructing their corruption index. However, there are problems with using this as a measure of corruption. Public perceptions of corruption can be affected by media campaigns. For example, in our survey, the data in the Czech Republic was gathered at the time when there were almost daily exposures of scandalous swindles associated with the privatisation process, something in which the Czechs had previously had great confidence. This would have affected the public perceptions of corruption but it does not mean that there is more corruption in the Czech Republic, than in say, Belarus. Belarussians have a rather low perception of corruption because there is not a free press in Belarus, so the corruption there is not publicly known about. Thus, ironically, a free press could actually increase the perceptions of corruption and raise the corruption index precisely by doing it's job properly.

We address this issue later, when we analyse some additional questions which looked at how people would respond under a variety of situations in which corruption could be appropriate. These questions were about hypothetical situations, but ones which were very common and would likely have been faced by most families – if a child's exam marks are not high enough to be admitted to University, if a person needs a government permit, if a person has a painful disease and wants to be admitted quickly to hospital and if the family would like to get access to a government subsidised flat. Moreover, because they were hypothetically posed (what would you do if...) the respondent is not endangered by their answer² and would have less incentive to conceal the truth.

In this latter set of questions about corruption behaviour, we have distinguished between monetised corruption – offering bribes – and non—monetised corruption – using connections. The latter was probably more common than the former under the former regimes as "network capital" in the words of Endre Sik was used as a way of securing resources and became even more important under the postcommunist conditions when there were more resources to secure (Sik, 1994).

The results are based upon a representative sample survey of the mass public carried out in spring 1998 in 11 post—Communist countries, which was directed by Christian W. Haerpfer, Richard Rose and Claire Wallace. There are at least 1000 respondents in each country and 12 643 respondents altogether.

¹ The question was the following: "By comparison with the former Communist regime, would you say that the level of corruption and taking bribes has: increased, remained much the same or decreased ?"

² These questions were developed by Richard Rose.

In the following tables we have used the perceived level of corruption in form of a "Corruption—Scale" as the dependent variable, the explanandum, and the other variables as independent, the explanans. We have used Eta as a measure of bivariate association, because it measures the association between a dependent variable which is metric and independent variables which can be of any level of measurement. The maximal value for Eta is 1.00 so the higher the Eta value, the stronger the association between the variables.

Where possible we have constructed indexes for different dimensions by combining the results of a number of separate questions.

Part 1: An index of corruption

Following the methodology used by Transparency International, we created an index of corruption based upon the question about perceptions of corruption³ within the general public. The results are set out in Figure 2. Here it can be seen that most people fall at the higher end of the five—point scale. In other words, most people feel that corruption has increased a lot. The mean score is 4.2 and the standard deviation .98 which means that there was not a lot of variation amongst the population. Most people agreed that corruption had increased a lot since the collapse of Communism.

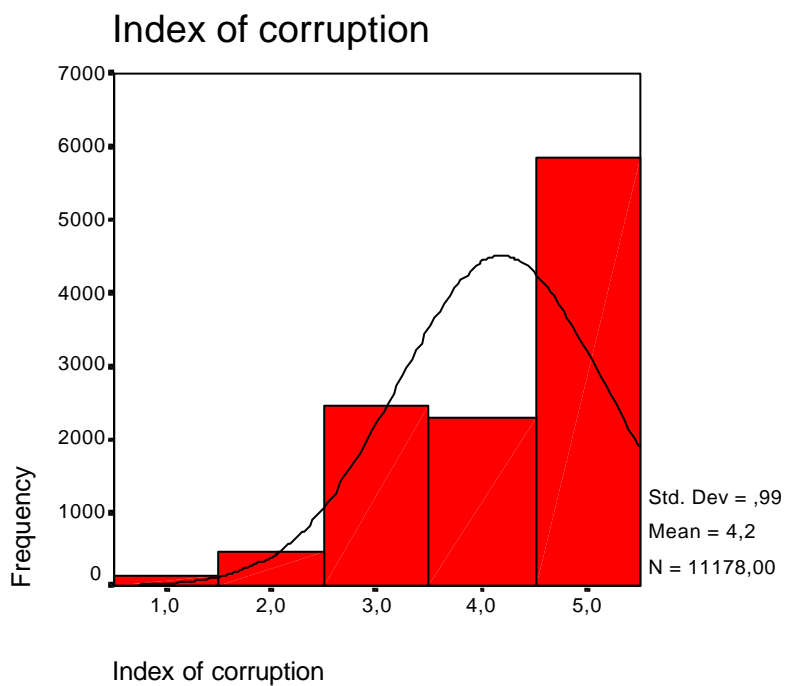
Figure 2: Index of corruption

Statistics		
CORRINDEX Index of corruption		
N	Valid	11178
	Missing	118
Mean		4,1859
Std. Deviation		,9883

³ The exact question wording was "By comparison with the former Communist regime, would you say that the level of corruption and taking bribes has: increased a lot, increased a little, has remained much the same, has decreased a little, has decreased a lot."

CORRINDX Index of corruption

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1,00 Decreased a lot	124	1,1	1,1	1,1
	2,00 Decreased somewhat	474	4,2	4,2	5,3
	3,00 The same	2447	21,7	21,9	27,2
	4,00 Increased somewhat	2288	20,3	20,5	47,7
	5,00 Increased a lot	5845	51,7	52,3	100,0
	Total	11178	99,0	100,0	
Missing	System	118	1,0		
Total		11296	100,0		



The next table shows the ranking of different countries along the corruption index:

Table 1 Corruption Index by country

	Mean	Standard Deviation
1. Poland	3.7	1.02
2. Slovenia	3.7	1.19
3. Croatia	4.0	0.99
4. Bulgaria	4.1	0.92
5. Czech Republic	4.1	0.94
NDB mean	4.2	0.98
6. Belarus	4.2	0.99
7. Hungary	4.3	0.89
8. Slovakia	4.3	0.92
9. FRY	4.4	0.88
10. Romania	4.5	0.85
11. Ukraine	4.6	0.75

In this table we can see that among our countries there was Poland at one extreme, with the lowest perception of corruption and Ukraine at the other with the highest perception of corruption. However, whilst in Ukraine there was very strong agreement amongst all sections of the population on this matter, in Poland there was more variation in opinion. The people of Slovenia also had a very low estimation of corruption, but with the most variation within the population. Croatia is also a low corruption country according to our index with a mean of 0.3 above the NDB mean). Among the middle group (means within 0.3 of the overall NDB mean) we find Bulgaria, Czech Republic, Belarus, Hungary and Slovakia. Among the high corruption countries (means 0.3 points above the NDB mean) we find the Federal Republic of Yugoslavia (i.e. Serbia and Montenegro but excluding Kosovo), Romania and Ukraine.

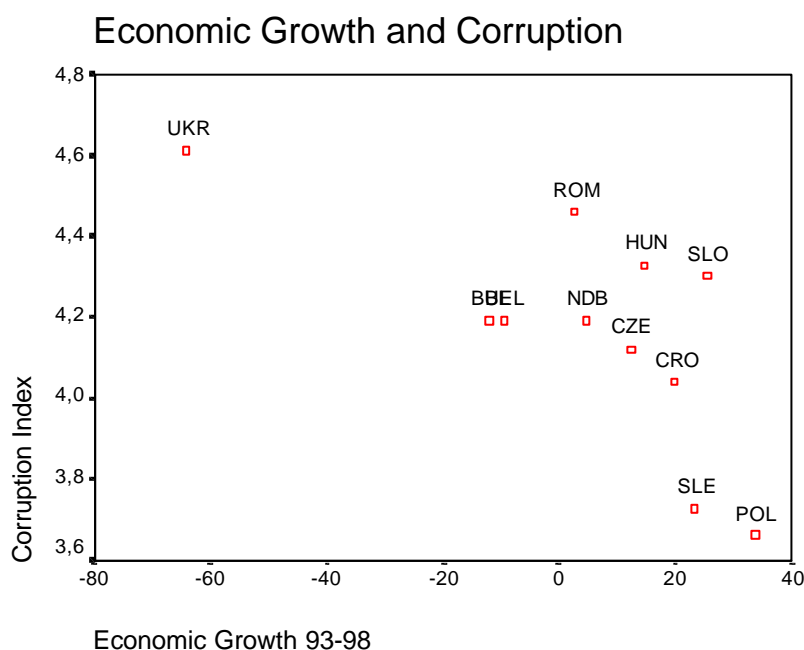
Part 2 Variations between countries

In this part of the paper we look in a more systematic way at what affects the variations in levels of corruption between countries. In particular we look at the role of economic growth, democratisation, levels of freedom, the informal economy, the extent of successful implementation of institutions and attitudes to market reform (marketisation).

Hypothesis 1: That corruption declines with economic development

One measure of the success in the institutionalisation of capitalism is economic development. Here we take economic growth in the period between 1993 and 1998 as indicator of economic development. Our indicator of economic growth is the cumulation of annual changes of the GDP from 1993 until 1998 on the basis of the annually published EBRD—Transition Reports. Our hypothesis is that corruption will decline as economic growth is improving.

Figure 3: The relationship between Economic Growth and Corruption
Correlation Coefficient Pearsons $r = -0.69$



We did find a high correlation of -0.69 between economic growth on the one hand and the level of corruption on the other. That correlation is the second strongest behind the impact of marketisation upon corruption in the whole study. Poland is the country with the highest cumulative growth of 33,8 per cent between 1993 and 1998 (See appendix, Table 1) and Poland is at the same time the country with the lowest level of corruption perception.

Slovenia has the third highest level of economic growth and also a very low level of corruption. Croatia is also fulfilling that clear and distinct pattern of a negative correlation between economic growth and level of corruption. Slovakia has the second best level of economic growth between 1993 and 1998, but shows a relatively high level of corruption, which might be explained by the fact, that the Slovakian survey was conducted in May 1998, when the government of Prime Minister Meciar was still in office. The impact of the change of government in Slovakia after the General Elections in September 1998 upon the interrelationship between growth and corruption will be visible, when we will conduct our next comparative survey, the New Europe Barometer, in 2000 in Slovakia and 10 other post—Communist countries.

The Ukraine shows with a value of –64,3 per cent the most dramatic reduction of GDP between 1993 and 1998 and she is also the country with the highest level of corruption. The Ukraine shows extremely clearly the importance of stable economic growth for the fight against corruption. The link between negative economic growth and high levels of corruption is also visible in Bulgaria and Belarus.

Hypothesis 2: That corruption declines with democratisation

This hypothesis is based upon the idea that democratisation will make institutions more transparent and more accountable, which should lead to a decline in corruption. Democratisation is important for bringing about the kind of enforceable regulation of economic activity for which there is a consensual agreement. It is also important for creating a civil society, which would ensure the enforcement of those regulations. Thus it would seem that democratisation is essential for the development of a market economy which is open and fair and not controlled by Mafia or other clandestine interests, an 'Open Society' in the sense of Karl Popper.

An alternative scenario however, and one that many of our respondents subscribe to, so that communism imposed a certain conformity of behaviour upon people and a certain moral order, but with this having collapsed, it is replaced by an "anything goes" society where individual interests take precedence over collective ones and over the social good. In other words, freedom is associated with a general moral as well as economic decline.

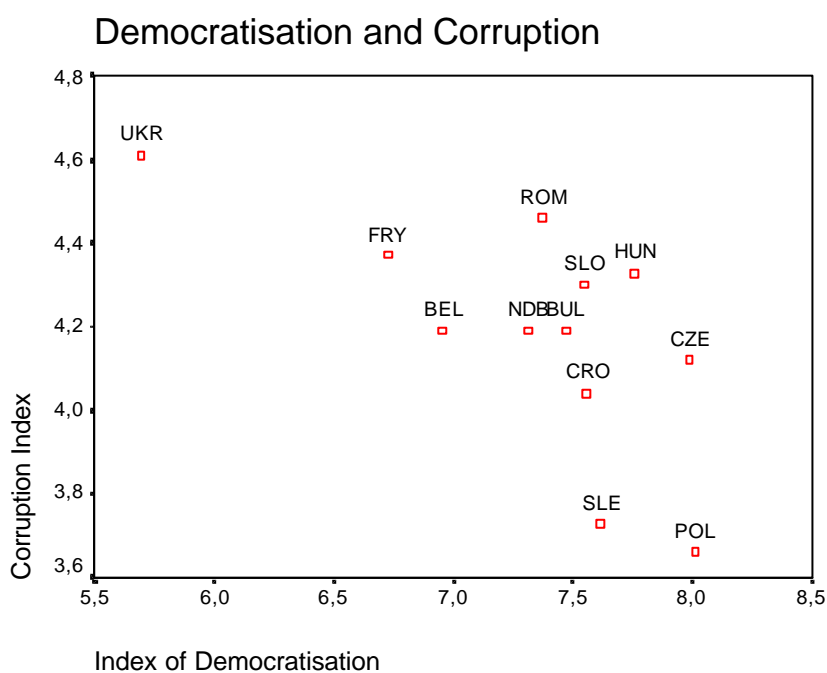
Here we looked at the association of our 10 point index for democratisation against the five point scale for corruption.⁴ The index for democratisation is based upon a series of 9 questions, which measured attitudes to democratic transformation in spring 1998.

⁴ The index of democratisation consists of the following groups:

1. Persons, who evaluate the Communist political system negatively
2. Persons, who evaluate the current democratic political system positively

We can see from figure 4 that there is a strong negative association between democratisation and corruption with a correlation coefficient of -0.66 . Poland and Ukraine are at the most extreme points. In Ukraine there was the lowest level of democratisation and the highest level of corruption, whilst in Poland there is the highest level of democratisation and the lowest level of corruption. Slovenia is close to Poland on both axes, whilst the rest of the countries are clustered around the middle. FRY and Belarus are also situated with lower levels of democratisation, which appears not much of a surprise, if one is analysing the democratic performance of those states and rather high levels of corruption. Croatia and the Czech Republic have relatively high ratings concerning the democratic transformation, but also comparative low levels of corruption. Hungary, Slovakia and Romania have high levels of corruption as well as higher levels of democratisation and this is particularly the case in Romania. The outcome of this analysis implies that in general, corruption declines with higher levels of democratisation. Democracy is an effective weapon in the fight against corruption in societies in transition.

Figure 4: The relationship between Democratisation and Corruption
Correlation Coefficient Pearson's $r = -0,66$



-
3. Persons, who are optimistic about the future of democracy in their country
 4. Persons, who are against a Military Regime
 5. Persons, who are against a return to the old Communist Regime
 6. Persons, who are against a strong authoritarian leader
 7. Persons, who are against Monarchy
 8. Persons, who think that the suspension of the democratic Parliament is unlikely
 9. Persons, who are defending the democratic Parliament

Hypothesis 3: That corruption declines with increasing marketisation

The acceptance of capitalist market values by the population are an important element in the institutionalisation of capitalism in post—Communist countries. Here we constructed an index which put together the values in nine questions measuring attitudes to market reform⁵. Figure 5 shows the relationship between corruption and marketisation.

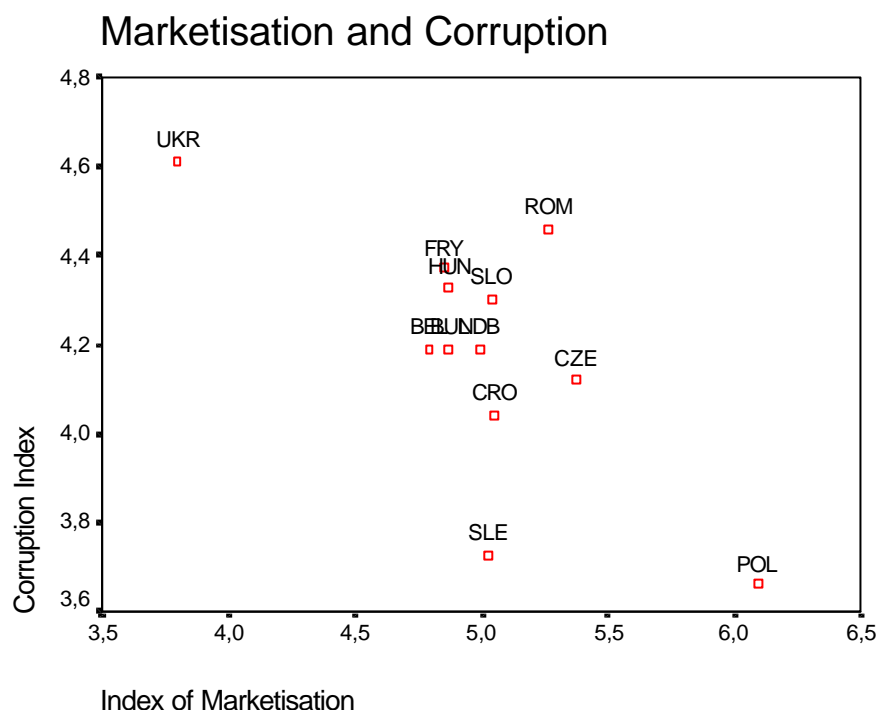
In Figure 5 we can see an extremely strong negative association between marketisation and corruption with a correlation coefficient of -0.70 . That is the strongest bivariate coefficient of association throughout our whole study. Once again, Poland and Ukraine lie at the two extremes, with Ukraine having the highest corruption combined with the lowest level marketisation and Poland having the highest marketisation and lowest perception of corruption respectively. Most of the other countries fall somewhere along this backward sloping axis. The outliers in this chart are Slovenia with low corruption and middle marketisation and Romania, which has high corruption and high marketisation. In the Czech Republic, we notice a high level of marketisation, but at the same time a medium level of corruption as consequence of the cases of economic corruption under the government of Prime Minister Vaclav Klaus (Wallace, 1998).

In general we could say that the higher the degree of marketisation as expressed by a general and widespread acceptance of market values, the lower the level of corruption. The extent of marketisation is the most crucial factor in fighting corruption in post—Communist economies.

⁵ The index of marketisation consists of the following groups:

1. Persons, who evaluate the Communist economy negatively
2. Persons, who evaluate the current market economy positively
3. Persons, who are optimistic about the future of the market economy in their country
4. Persons, who link income with personal achievement
5. Persons, who hold the individual responsible for welfare
6. Persons, who prefer private enterprise and ownership
7. Persons, who prefer market mechanisms for prices
8. Persons, who support the Western model of market economy
9. Persons, who trust private enterprises

Figure 5: The relationship between Marketisation and Corruption
Correlation Coefficient Pearson's $r = -0,70$



Hypothesis 4: that corruption declines with increasing institutionalisation

With this hypothesis, we test the proposition that institutional reforms will bring about a decline in corruption. Hence, it is claimed that corruption will undermine trust in public institutions, lead to cynicism and delay or divert a transition to democracy. By institutional reform we mean the creation of democratic institutions such as the courts, the government, the Parliament, the political parties etc. We measure institutionalisation by recording the level of trust in nine different institutions. Thus, a high degree of trust in the various institutions would lead to a higher level of institutionalisation⁶

⁶ The Index of Institutionalisation consists of the following sub—groups:

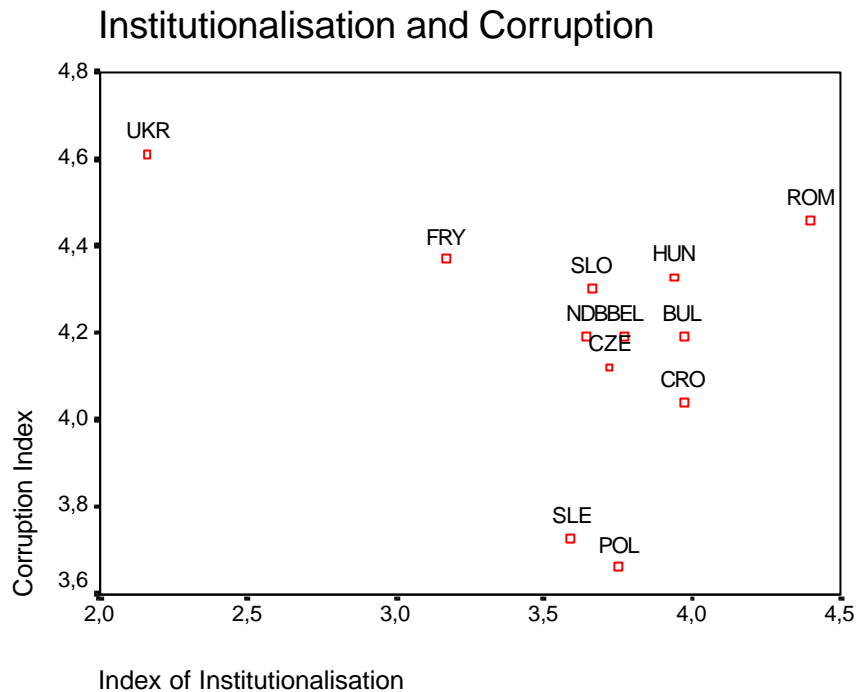
1. Persons with trust in political parties
2. Persons with trust in courts
3. Persons with trust in the police
4. Persons with trust in civil servants
5. Persons with trust in current government
6. Persons with trust in the military
7. Persons with trust in current parliament

In Figure 6 we show the relationship between institutionalisation and corruption in the different countries. There is quite a strong negative association between the two indices with a correlation coefficient of -0.33 . Again, Poland is at one extreme, with low levels of corruption and high levels of institutionalisation, whilst Ukraine is at the other with extremely low levels of trust in institutions and high levels of corruption. The general trust in institutions and the extent of successful institutionalisation is very low in the Federal Republic of Yugoslavia, even well before the conflict in Kosovo. Most of the other countries are slightly above this axis since in general there were rather high levels of institutionalisation. Romania is once more an outlier with the highest levels of institutionalisation and the high levels of corruption. Slovenia and Poland had lower levels of institutionalisation than other countries but also lower levels of corruption. Interesting is the case of Slovakia, where we could find towards the end of the era of Prime Minister Meciar a rather high level of corruption perception within the Slovak society as well as only a medium trust in Slovak political and public institutions.

Therefore in general we could say that the higher the level of institutionalisation (as measured by trust in a variety of institutions), the lower the levels of corruption, but for us a rather surprising result is that this was not as strong as in the case of support for marketisation and democracy, or regarding the impact of economic growth upon subjective perceptions of corruption. Therefore, whilst corruption does undermine faith in public institutions, there is not a uniform strong pattern. It is possible to have a lot of trust in institutions and still to believe in an increase in corruption.

-
8. Persons with trust in current President
 9. Persons with trust in current Prime Minister

Figure 6: The relationship between Institutionalisation and Corruption
Correlation Coefficient Pearson's $r = -0,33$



Hypothesis 5: that corruption declines with increasing freedom

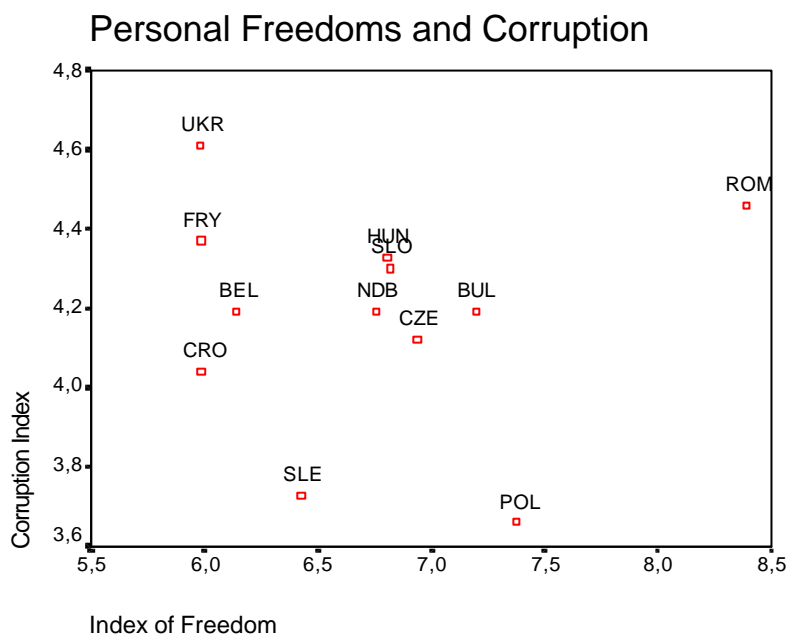
In this hypothesis we consider whether an assessment of the amount of freedom in the country after the end of Communism is influencing the subjective perception of Corruption at the level of the mass public. The Freedom Index, which we developed especially for this study, consists of the following nine classical freedoms, well known from the discourse about human rights and civil rights in political theory:

1. Freedom of opinion
2. Freedom of association
3. Freedom of travelling and movement
4. Freedom of influencing government
5. Freedom against unlawful arrest ("Habeas Corpus")
6. Freedom of interest in politics

- 7. Equal and fair treatment by government
- 8. Freedom of religion⁷

The idea would be that the more free people feel, the more they feel that corruption is low because they would feel free to do something about corruption. In fact we found almost no association between freedom and corruption, with a correlation coefficient of only -0.04 .

Figure 7: The relationship between personal Freedoms and Corruption
Correlation Coefficient Pearson's $r = -0,04$



In comparison with the other indices of economic and political transformation and of the process of building new institutions, we found out that the subjective perception of more personal freedom is not associated with low levels of corruption. There is practically no correlation between the perception of corruption on the one hand and the perception of an improvement of personal freedoms in comparison between the Communist and the Democratic regime on the other hand. The greatest difference between personal freedoms under Communism and under post—Communism was found in Romania, where the regime of Ceaucescou was successful in destroying all forms of individual freedom. Hence,

⁷ The wording of the question was as follows: "Please think of the difference between the old system of government under the Communists and our present democratic system. I will read out a series of statements (Freedoms) on this card. Please tell me for each point whether you think our present political system, by comparison with the Communists, is much better, somewhat better, equal, somewhat worse or much worse."

Romania shows a high level of personal freedoms after the demise of Communism and at the same time a high level of corruption. Poland displays an expected regular pattern of medium levels of personal freedoms and low levels of corruption. The subjective perception of freedom under post—Communism is particularly low in the Ukraine, the Federal Republic of Yugoslavia, Belarus and in Croatia. Poland can again be regarded as the model country of transformation: Polish society shows a high level of improved personal freedoms under post—Communism and a very low level of corruption. In Slovakia, for obvious reasons, the perception of improved political freedom during the government of Prime Minister Meciar was not very good, it will be interesting to analyse the impact of the recent change in government in Slovakia upon the Freedom Index in Slovakia.

Hypothesis 6: that corruption declines with the increasing formalisation of economic activities.

Here we test the proposition found in many papers that corruption is associated with an increase in informal economic activity and the black economy. In the index of formalisation we have not measured so much the informal economy, as the extent to which household members are more or less entirely participating in the formal economy. In other words it is an index of the formalisation of economic activities⁸, putting together five different survey questions relating to the formal economy. The formal economy here means the extent to which people rely upon their earnings from a regular job or a pension for their livelihood. Our argument is that if economic activities take place more within the formal economy, there will be less corruption.

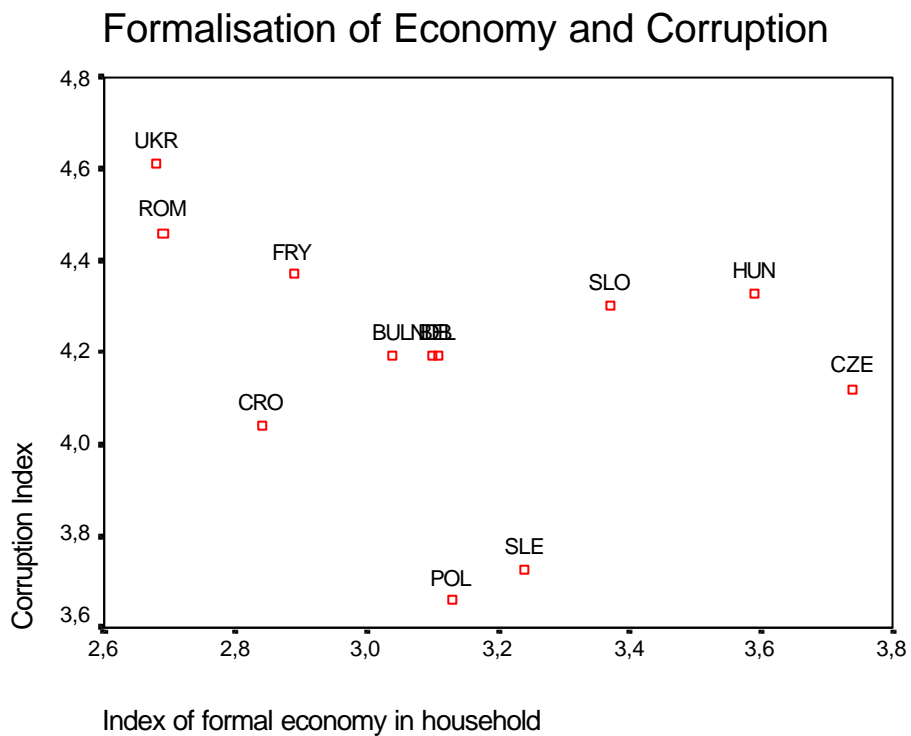
Figure 8 shows the relationship between formalisation and corruption. Here we can see once more a negative association between formalisation and corruption with a correlation coefficient of -0.31 . However, the pattern is more uneven than for the other indicators which has pushed down the intensity of bivariate association. At one extreme we have Ukraine, Romania and FRY with very low levels of formalisation of the economy and high levels of corruption. At the other extreme we have Slovenia and Poland with middling levels of formalisation and low levels of corruption. However, Hungary, the Czech Republic and Slovakia are all above the axis – they have high formalisation combined with relatively high corruption. Interesting in that context is the high level of formalisation of economic activities at the household level in the Slovak economy.

⁸ The Index of Formalisation consists of the following sub—groups:

1. Persons with job or transfer within formal economy
2. Persons earning enough money from formal job for standard of living
3. Persons and households with no informal job
4. Persons, for whom the formal economy is most important for standard of living
5. Persons, who got by financially the last year

We could say therefore, that whilst in general there is a tendency for corruption to decline with formalisation, this is with the exception of Slovakia, Hungary and the Czech Republic, countries where despite the generally successful nature of the transition, there have been many scandals associated with privatisation, which may have raised levels of the perception of corruption.

Figure 8: The relationship between Formalisation of Economy and Corruption
Correlation Coefficient Pearson's $r = -0,31$



Part 3: Variations within countries

In the following analysis, we looked at factors within the populations of each country which lead to them perceiving an increase or a decline in corruption. The results are presented as a series of Eta values of bivariate correlation in Table 2.

Here we can look at the variations in economic development by different social groups within the country and see what effect this has on perceived levels of corruption. In this respect we need to distinguish between objective measures of poverty, of which household income and ownership of consumer goods are the best measures, and subjective measures such as how poor the person feels themselves to be.

First, if we look at household income, we find a slight tendency for those who think corruption has increased to be in the lower income range (see Table 10), although car ownership was a slightly better measure of this.

However, subjective measures of poverty were better indicators for the perceived levels of corruption. In particular, if the person felt that their situation had declined relative to the past, this was very strongly associated with the idea that levels of corruption had risen. In other words, the sense of individual decline was reflected in their sense of societal decline. Other poverty/wealth indicators which pointed in the same direction, included being able to earn enough money from one's main job to buy the things one really needs and a scale of deprivation which included if the respondent had had to do without food, heating and clothing in the last year to make ends meet. All of these were strongly associated with perceived levels of corruption – the more deprived a person felt, the more they felt that corruption had risen.

This pessimism also emerged in their assessment of the system as a whole. Those who thought corruption had risen felt that the socialist economic system in the past was a better one, and rated the present and future economic systems negatively.

Finally, we considered whether the sector in which one was employed made any difference to perceived levels of corruption. We found no significant impact of different sectors of employment upon the perceived level of corruption.

We considered what influence a range of demographic variables had upon the perceived levels of corruption, but neither education nor gender nor town size were of any significance. However, age did affect perceptions of corruption – older people were likely to perceive more corruption.

Table 2: Social groups and Corruption
(Eta Values for bivariate relationship)

Variable	Eta
Economic variations	
Car ownership	.075
Household income	.059
On a welfare benefit	.007
Earning enough money from main job	.176
Deprivation scale	.150
Economic situation compared with past	.238
Socialist economy rating	.211
Current economy rating	.269
Future economy rating	.194
<i>Government agency</i>	.028
<i>State enterprise</i>	.008
<i>*Privatised company</i>	.003
<i>New private enterprise</i>	.026
<i>Private farm</i>	.004
<i>Collective farm</i>	.016
Political Values	
Communist political system rating	.220
Current political system rating	.243
Future political system rating	.176
Demographic characteristics	
Gender	.003
Age	.084
Town size	.013
Education	.026
Corrupt behaviour	
If exam marks bad	.108
If there are bureaucratic delays	.172
Move up hospital waiting list	.125
Action to get a non—entitled flat	.177

Part 4 Corrupt Behaviour

In two of the countries under consideration, a series of questions asked how a person would respond if faced with a range of everyday situations: if their child's exam marks were not good enough to be admitted to University, if a person needs a government permit to do something, if they have a painful disease and want to be admitted quickly to hospital and if they want to get a government subsidised flat to which they are not entitled. In each case, the respondent was given the choice between offering a bribe (monetised corruption), using connections (non—monetised connections), writing a letter (formal methods), paying privately (private market solution) or resigning (nothing can be done). The Czech Republic and Ukraine were chosen as offering possible extremes in corrupt activity, the former having a relatively successful, institutionalised democracy and market economy and the latter having none of these things.

People in the Ukraine were far more likely to offer a bribe than people in the Czech Republic. In most cases, the people in Ukraine are also more likely to use informal connections than are people in the Czech Republic. The people in the Czech Republic, on the other hand, are almost always more likely to write a letter, using formal methods of protest, than are the people of Ukraine. The differences are very striking. The number "resigning" are fairly similar in both countries.

But what is the association between perceptions of levels of corruption and corrupt behaviour? The associations here were all rather strong ones. We can assume therefore, that there is a high correlation between perceived level of corruption and actual behaviour.

Next we considered in which employment sectors the person worked against their corruption behaviour. In each case it was those who worked in the state sector rather than the private sector who were likely to use both monetised and non—monetised forms of corruption. This would imply that it is the state sector which is a source of corruption more than the new private sector.

If we now consider age group, once more, an interesting factor emerges. Whilst older people are more likely to feel that corruption has increased, younger people are far more likely to use corruption or connections in almost every instance. Older people are much more fatalistic – they are more likely to feel that "nothing can be done" and are also more likely to resort to letter writing than other age groups. We might say, therefore, that young people have absorbed more a culture of corruption.

Conclusions

1. Corruption increased strongly in all post—communist countries in comparison with corruption under Communism
2. The strongest influence upon corruption perception is the extent of **marketisation**. Identification with the basic principles of market economy in a given economy correlates with a decline in corruption.
3. The second strongest factor of subjective evaluation of corruption consists in **economic growth**. The higher the economic growth in the period 1993—1998, the lower the perceived level of corruption.
4. The third strongest influence upon perception of corruption was identified by the extent of **democratisation**. Identification with the basic principles of democracy and support for the current democracy correlates highly with a decline in corruption.
5. The fourth strongest factor of perceived corruption relates to the extent of **institutionalisation**, the creation of new institutions during the transition process. High levels of trust in political, public and civil society institutions correlates with a decline in corruption. Successful institutionalisation appears to reduce the scope for corruption.
6. High levels of political and civil **freedoms** in post—Communist societies are not correlated with a decline of corruption. The new freedom of the post—Communist citizens in an "Open Society" is not inevitably moving against corruption.

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