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ORIGINAL ARTICLE

Corruption: A Review of Issues

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Abstract

This paper provides a historical overview of the concept of corruption, the existing models for studying it, and the main costs that corruption imposes on the economy and society at large. Corruption was first understood as a disturbance of the balance of state power, and later as the immorality of political patronage and favouritism of certain groups. It evolved from the public sphere to the intertwining of the public and private spheres, from a political issue to the intertwining of political and economic issues. The fight against corruption evolved from the maintenance of necessary checks and balances, from moral struggles against a system of privilege, to a major motive for state policy. Looking at all these aspects allows us to understand the origins and evolution of corruption and why the fight against corruption is seen as a way to lead »failed countries«, politically backward and immoral societies, to the right path of political virtue. By understanding the historical evolution of corruption and its various forms, institutions and countries in general can develop more targeted and effective anti-corruption policies to limit the occurrence of corruption.

Keywords: Corruption concept, Corruption models, Costs of corruption, Transition countries

JEL classification: B00, D73, F55, K42, P37, P48

Introduction

Corruption is not a new phenomenon. It has been known since ancient times and present in all societies (Klitgaard, 1988).

The concept of corruption evolved from the governmental failure to maintain the balance of power to the immorality of political patronage and the favouring of certain groups. It grew from the public sphere to the entangled public and private sphere, from a political issue to an entangled political and economic issue. What we now refer to as corruption is the abuse of public office for a personal gain (Clarke, 1983; Klitgaard, 1988; Nye, 1967; Rose-Ackerman, 1978). And in the context of the corruption concept, a number of other issues are mentioned such as breach of laws and regulations nominally in force (Andreski, 1968), bad policies and inefficient institutions (Acemoglu & Johnson, 2005; Djankov et al., 2008), weak democracies (della Porta & Vannucci, 1997; Johnston, 1996), unethical public sector (Doig & Theobald, 2013).

Whereas in the past, corruption was seen not only as a bad thing but also as a necessary part of any cycle of government change (Leff, 1964; Leys, 1965), it is now widely recognised to have negative effects on economic growth and society as a whole (Ades & Di Tella, 1997; della Porta & Vannucci, 1997; Gupta et al., 2002; Kaufmann, 1997; Kaufmann & Wei, 1999; Rose-Ackerman, 1999).

This paper aims to provide a historical overview of the concept of corruption, the existing models for studying it, and the major costs that corruption brings to economies and societies as a whole, previously examined in the dissertation on ownership structure, corruption, and firm performance in transition economies (Damijan, 2015).

We look at the concept of corruption from the early philosophies of Plato, Aristotle, Polybius, Machiavelli, and Montesquieu, to the contemporary understanding of the phenomenon. The paper also examines the main models used to study corruption in terms of the costs that corruption imposes on societies. This allows us to understand the origins and evolution of corruption and why the fight against corruption is seen as a way to lead »failed countries«, politically backward and

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immoral societies, onto the right path of political virtue.

The paper is structured as follows. The following section discusses the corruption concept from early beginnings to the concept as we know today. Section 2 describes principal models of corruption and classifies its costs. Section 3 discusses corruption in transition countries and why it is seen as a perennial problem. Finally, Section 4 summarizes and concludes the paper.

1 Corruption concept development through history

1.1 The early beginnings of the corruption concept

The concept of corruption can be traced back to the ancient philosophers Plato, Aristotle, and Polybius, when it referred to a process by which a government without virtue and laws corrupts and degenerates into another form of government. This change in governments was believed to be harmful and often accompanied by violence and unrest. Plato and Aristotle emphasised the paramount importance of laws and the necessary balance of power within governments. Corruption was thus synonymous with the failure to maintain this balance of government.

> *»Where the law is subject to some other authority and has none of its own, the collapse of the state, in my view, is not far off; but if law is the master of the government and the government is its slave, then the situation is full of promise and men enjoy all the blessings that the gods shower on a state«. (Plato in The Laws, 346 B.C./1888)*

Plato believed that laws and trained leaders were paramount to the governance of the state. Aristotle also believed that these laws should also uphold just principles in the common interest of all citizens and not just in the interest of a few.

> *»Governments which have a regard to the common interest are constituted in accordance with strict principles of justice, and are therefore true forms; but those which regard only the interest of the rulers are all defective and perverted forms, for they are despotic. « (Aristotle in The Politics, Book III, 1279a/95)*

Polybius (200–120 B.C.) is also known for arguing for the separation of powers in government. He argued that if one is to gain too much power (political, monetary, or military), he should be removed from the polis. Polybius also believed that corruption was an inevitable process of "constitutional revolutions" where a certain type of government evolves into another type. "It was a force beyond the individual, and so beyond individual moral or ethical behaviour."

Philosophers of later centuries also saw corruption as synonymous with the failure of the system of the balance of power. Machiavelli (16th century) held that anything that upset the balance of power was corruption, whether or not it was the result of immoral behaviour by the individual. Montesquieu (18th century) held that government must have an efficient system of checks and balances to prevent one branch from gaining the upper hand over another. Their solution was to create laws to make individuals behave morally (Skinner, 1999). Wallis (2006) points out in his study that this way of thinking had an impact on the development of balanced constitutions as fundamental law. Any deviation from this balance was considered corruption.

During this time, the term corruption was also defined to include the »manipulation of economic privilege to secure political power« by a few (Wallis, 2006). Throughout Europe, only political and economic elites were allowed to establish organizations that then created economic rents (the rise of the Robber Barons). Commonwealth theorists in Britain, for example, believed that the financial revolution only served the king, who could then undermine the independence of others, which in turn would mean the »rule of one man«. These economic rents of the privileged few were used to influence political decisions, undermining the independence of the other powers (especially Parliament as a symbol of freedom) and corrupting the entire political system. However, in the 18th century, the only available model to promote economic development was precisely the creation of public service enterprises (Wallis, 2006). The creation of these enterprises was most evident in Great Britain and the United States. The prevailing public opinion was that these enterprises promoted both economic development and corruption. One such example was the Albany Regency, which granted bank incorporations only to its political supporters, who in turn supported them financially in order to maintain control of state government. There was a general belief that governments would become corrupt if the balance of power was not protected. In the mid-1800s, the investment boom in corporations, especially banks, led to financial crises and depressions, due to privileges that benefited only the few and were detrimental to the many (Wallis, 2006).

In the 19th century, corruption was understood as a systematic process of selling corporate privileges. The widely held view was that business corrupts politics, not politics corrupts business. To address the corruption problem, antitrust laws were enacted that prohibited corporate privileges and government investment in private companies (Wallis, 2006). Reforms affected all areas of politics and the economy to create a government controlled by the many (voters) and fair competition for the benefit of consumers. It was the time of populist morality and the revival of trust in institutions.

1.2 The concept of corruption in the 20th century

In the early part of the 20th century, the concept of corruption also incorporated the behaviour of individuals (Nye, 1989) and not only a condition of polity based on the "distributions of wealth and power, relationships between leaders and followers, the source of power and the moral right of rulers to rule" (Johnston, 1996). For example, this period witnessed the start of illicit payments by private agents given in exchange for government-controlled resources (Johnston, 1996).

Industrial prosperity, growth of cities, factories, development of new products, transportation, paving, water, electricity, and public health (Teaford, 2019) were accompanied by reorganization of the internal structures of government and increase of government responsibilities, development of civic associations, and independent, nonpartisan press (McCormick, 1981). These factors provided an opportunity for increased corruption. The research shows that although the United States was the leading industrial power, it also had the most corrupt government when compared to similar economies (Steffens, 1957; Teaford, 2019). Across Europe, services and infrastructure development were in hands of governments and state-owned enterprises, while in the United States the governments outsourced many of these functions to private corporations.

The puzzling question is of course how economic development in the United States was not undermined by corruption. One possible explanation is that across Europe governments limited entry of corporations in order to protect the monopoly of state-owned enterprises. This led to a perception that corruption was less widespread than in the United States, where corporations actively were "competing" in the level of illicit payments in order to obtain the license to provide these services. However, by the 1920s, the political elite was largely replaced with mob bosses who took over the control of industry (Menes, 2003). Industrial disorder and inadequate policy priorities caused by corruption led to the worldwide economic crisis of the 1930s and the Great Depression (Dobbin, 1993).

In the post-war era of the 1950s, concerns about corruption declined as other priorities surfaced such as rebuilding countries, institutions and lives. And it was not until the 1980s and 1990s that the debates about corruption were restored due to the rise in international institutions which conditioned development assistance on anti-corruption efforts. For example, the Millennium Development Goals to ensure good governance and effective institutions, including a target to reduce bribery and corruption.

1.3 The concept of corruption as we know today

The concept of corruption as we know today borrows profoundly from the concepts in the past and defines it as abuse of public office for private gain (Klitgaard, 1988; Nye, 1967; Rose-Ackerman, 1978). Olivier de Sardan defines it as "nepotism, embezzlement, influence peddling, prevarication, insider trading and abuse of the public purse" (Olivier de Sardan, 1999). In connection with the corruption concept, a number of other issues are associated such as breach of laws and regulations nominally in force (Andreski, 1968), bad policies and inefficient institutions (Acemoglu & Johnson, 2005; Djankov et al., 2008; Hicken & Stoll, 2011; Hilgers, 2011), weak democracies (della Porta & Vannucci, 1997; Heidenheimer & Johnston, 2011), and unethical public sector (Doig & Theobald, 2013). Many of these scholars adopted the definition of "public office abuse", while at the same time they acknowledged that it may not be enough to explain corruption. However, as Jain puts it, "there is surprising convergence on a minimally agreed upon definition" when studying the causes and consequences (Jain, 2001).

In the post-war period, interest in corruption waned, but in the late 1980s and 1990s it again became a major issue. It was seen as an economic and security threat resulting from weak states being overrun by wealthy criminals (Smale, 2001). In particular, the United States and its businesses saw corruption as a threat to their security and trade. They believed that their business was being harmed by billions of dollars through illegal payments from competitors in these weak countries (Smale, 2001). They also saw it as a disguised form of protectionism, because local companies had informal networks that enabled them to "give the right bribe to the right official at the right time" (Krastev, 2000).

They complained that the United States had enacted the Foreign Corruption Practices Act in 1977, which prohibited bribery of foreign officials, while countries in Europe and the rest of the world allowed

Table 1. The development of the corruption concept in the literature.

Period/year	Key highlight	Key authors
Ancient Greece	Laws should also uphold just principles in the common interest of all citizens (not only of a few)	Aristotle (in The Politics, Book III, 1279a/95)
		Plato (in The Laws, 346 B.C./1888)
	Arguing for the separation of powers in government, since corruption is an inevitable process of "constitutional revolutions"	Polybius (200–120 B.C.)
16th–18th century	Failure or deviation from the system of the balance of power	Machiavelli (16th century)
		Montesquieu (18th century)
19th century	Systematic process of selling corporate privileges	Wallis (2006)
20th century	Abuse of public office for private gain	Klitgaard (1988)
		Nye (1967)
		Rose-Ackerman (1978)
	Incorporation of behaviour of an individual to the concept of corruption	Nye (1989)
	Corruption seen as "nepotism, embezzlement, influence peddling, prevarication, insider trading and abuse of the public purse"	Olivier de Sardan (1999)
2001	Condition of polity based on the "distributions of wealth and power, relationships between leaders and followers, the source of power and the moral right of rulers to rule"	Heidenheimer and Johnston (2011)

bribes even as tax-deductible expenses. This led to disappointing results of market reforms after the Great Depression and World War II. Under pressure from the United States, it soon became a condition of receiving stimulus aid that the rules for granting informal payments be tightened, while at the same time unnecessary rules on foreign direct investment had to be eliminated. The result was the adoption of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1998) and the United Nations Convention against Corruption (2003), which outlawed corruption worldwide.

The global anti-corruption agenda became primarily an economic problem that required liberalization, institutional reform, and the strengthening of good governance. Corruption was seen as the main obstacle to economic development. Governments, civil society, organizations, and consultants fought the causes and consequences of corruption. Numerous tools were developed for this fight, such as Transparency International's corruption perception index (CPI) and other corruption indices, anti-corruption guidelines, and best practice seminars to raise awareness of the problem. This period also saw an increase in studies on corruption and its consequences. World Bank President Wolfensohn's speech on the "cancer of corruption" in 1996 is considered a defining moment in corruption research. Corruption became public enemy number one and the main reason for poor economic performance (Ades & Di Tella, 1997; Ibodullaevich & Bahromovna, 2020; Mauro, 1995; Varraich, 2014).

Table 1 gives a short summary of the key highlights and authors of the corruption concept, which is derived from the relevant academic literature.

2 The evolution of modelling the effects of corruption in the literature

Since the mid-1990s, there have been numerous theoretical and empirical studies on the determinants and costs of corruption. In general, standard economic and socioeconomic approaches are used in studying the causes of corruption. The standard economic approach assumes the existence of discretionary powers associated with economic rents. The literature shows that inefficient regulation is the main cause of discretionary and economic rents (Ades & Di Tella, 1997; Becker & Stigler, 1974; Fisman, 2001; Rose-Ackerman, 1978). Countries where firms have higher economic rents tend to have higher levels of corruption and uncompetitive markets (Ades & Di Tella, 1997). Johnson et al. (1998) also argue that the more discretion officials have, the more firms have incentives to operate in the informal economy because of corruption. The socioeconomic approach assumes that corruption is a result of social norms, culture, and history. According to Treisman (2000), the extent of corruption is related to the degree of involvement in civil society, legal culture, and religion, while Aidt (2003) adds that individual values inhibit corruption. In societies where corrupt behaviour is accepted as the norm, corruption levels are more likely to be higher (Aidt et al., 2008).

Just as there are two underlying determinants of corruption, there are two main costs of corruption. Corruption is believed to have significant effects on economic growth (Mauro, 1995; Shleifer & Vishny, 1993; Tanzi & Davoodi, 1997) and equity (Gupta et al., 2002; Welsch, 2004). There is also a difference between the immediate costs of corruption (income redistribution) and the consequential costs (misallocation of

Table 2. Corruption modelling – key strands in the literature and overview of empirical findings.

Model	Key theoretical points	Key empirical findings	Author and year
Principal-agent (P-A) model	Costs and benefits associated with corruption between two principals (one of whom corrupts) and the agent (who is corrupted)	Confirmed the theoretical implication of P-A model with empirical study and showed that electronic government could potentially limit bureaucratic corruption	Sadik-Zada et al. (2022)
	Extent of corruption can be reduced by an appropriate motivational structure of the institutional setting in which it occurs	Empirical support for the theoretical model exploring policies that can be used to combat corruption	Zheng and Xiao (2020)
	Important factors in the model: incentive, sanction, and cost		
Resource allocation model	Costs of inputs, the rent-seeking behaviour of agents, and the outputs of the economy	Hidden rent seeking may be crucial for distortions allocations of transfers	Mixon et al. (1994)
	Considers the cost function, the demand function, and the supply function	Corruption (via indirect connection) alters volume of funds (available for allocation government) by affecting tax collection	Tanzi and Davoodi (1997)
	Important factors in the model: the cost of rent seeking, the availability of rent, and the number of agents involved in rent seeking		

resources) (Jain, 1998). Gupta et al. (2002) state that both costs affect each other. While the classification of economic and social costs is discussed further in the text, the key stands in the literature and empirical findings of the below-mentioned corruption models can be found in Table 2.

2.1 Principal models of corruption

There are two main methods for modelling corruption: the principal-agent model and the resource allocation model. They are commonly used to understand the theoretical and empirical relationship between corruption and institutional efficiency.

The principal-agent model considers the costs and benefits associated with corruption between two principals (one of whom corrupts) and the agent (who is corrupted) (Groenendijk, 1997; Klitgaard, 1988; Rose-Ackerman, 1978). The roles of the agent and the principal are sometimes different. Occasionally, rulers act as principals and bureaucracies act as contractors (Becker & Stigler, 1974). According to this model, the extent of corruption can be reduced by an appropriate motivational structure of the institutional setting in which it occurs (Jain, 2001). One of the most important theoretical principal-agent models is the one developed by Becker and Stigler (1974), which explores ways to increase the efficiency of law enforcement while reducing corruption within its structures. Law enforcement officers, as agents, benefit from corrupt activities but also risk being removed from office.

In this model, there are three important factors: the incentive (what the benefit is), the sanction (the likelihood that the corrupt act will be discovered and punished), and the cost (what the actor will lose). The principal-agent model has been used in theoretical and empirical studies to examine corruption between different actors and systems, such as between elected officials and bureaucrats (Rose-Ackerman, 1978), the behaviour of leaders in democratic systems (Rose-Ackerman, 1999), the defence industry and government (Gupta et al., 2002), and the behaviour of autocratic rulers (Jain, 1987; Klitgaard, 1991; Rose-Ackerman, 1999; Shleifer & Vishny, 1993). The central question within the principal-agent model is how to control both principals and agents, which in turn depends on the efficiency of institutions (Persson et al., 2000). Research shows that corruption is not simply determined by calculating expected benefits versus costs and the probability of getting caught (Pierson, 2004).

The resource allocation model considers the costs of inputs, the rent-seeking behaviour of agents, and the outputs of the economy (Jain, 1998). One of the best-known rent-seeking models is the one developed by Shleifer and Vishny (1993), which examines corruption in the small bureaucracy by considering the cost function (provision of services), the demand function (number of actors competing in the rent-seeking activity), and the supply function (monopoly on the service). One of the main challenges is the uncertainty associated with this model, as there are no guarantees that the transactions will occur unless the gains from corruption are shared with those who can impose costs on the corrupt official (Jain, 2001).

As with the principal-agent model, there are three important factors in this model: the cost of rent seeking, the availability of rent, and the number of agents involved in rent seeking (Paul & Wilhite, 1994). The resource allocation model has been used in theoretical and empirical studies to examine corruption, such as the rent-seeking behaviour of firms and the resources devoted to it (Krueger, 1974), the rent-seeking behaviour of governments competing for their higher budgets (Katz & Rosenberg, 1994), the performance of customers in return for favours from government officials (Mixon et al., 1994). Finally, there is the question of at what equilibrium corruption will persist in a society. Bardhan (2017) argues in his study that this depends on the number of corrupt officials. The more corrupt officials there are, the lower the marginal utility of honest officials and the greater the persistence of corruption in society.

Empirical findings are somehow consistent with the theoretical framework. Tanzi and Davoodi (1997) explored the connection between corruption, public investment, and growth. They found that corruption alters the entire decision-making process, which is connected to public investment projects. Corruption also affects tax collections indirectly and has direct effect on funds allocation – where more funds are assigned to more corrupted projects. Zheng and Xiao (2020) find similar empirical evidence of the principal-agent theoretical model while trying to explore policies that can be used to combat corruption. They show that infrastructure investment is negatively correlated with anti-corruption effort. Additionally, building on the principal-agent model of corruption, Sadik-Zada et al. (2022) managed to confirm theoretical implications of the model. They confirmed the hypothesis that electronic government could potentially limit bureaucratic corruption.

2.2 *The consequences of corruption*

If corruption was not considered a bad thing in the past, it is now widely recognised that it has a negative impact on economic growth and society as a whole. Studies conclude that in some cases corruption can grease the »wheels« of the economy by helping to overcome bureaucratic burdens and inefficient regulation (Leff, 1964; Leys, 1965). Bardhan (2017) recalled episodes from European and U.S. history that illustrate situations in which corruption may have favoured development by allowing entrepreneurs to grow from bribes.

Rose-Ackerman (1999), however, believes this view is mistaken because corrupt acts are treated as isolated events rather than systematic patterns that affect other parts of the system. Moreover, Kaufmann and Wei (1999) agree with Rose-Ackerman in stating that if corruption “greases the wheels," more informal payments to officials would lead officials to be more efficient. A number of theoretical and empirical studies also support the view that corruption is primarily “sand in the wheels" (see review of the studies of Ades & Di Tella, 1997; della Porta & Vannucci, 1997; Gupta et al., 2002; Kaufmann, 1997).

The main costs of corruption can be divided into economic, political and social costs. Table 3 summarises main consequences of corruption. According to the below mentioned research, corruption hinders investment, reduces growth, distorts government spending, strengthens the informal economy, increases poverty and income inequality, and reduces trust in institutions. The remainder of this text provides an overview of some important economic, political, and social costs of corruption.

Corruption reduces domestic and foreign investment, because it involves higher costs and uncertainty. One of the first to study the impact of corruption on investment was Mauro (1998), who found that corruption has a negative impact on the ratio of investment to GDP. Since corruption has the same effect as taxes, it also reduces foreign direct investment. A number of studies have come to similar conclusions that countries with less corruption have higher domestic investment and FDI (Abed & Gupta, 2002; Campos et al., 2010; Knack & Keefer, 1995).

Moreover, corruption reduces economic growth. There are a number of studies that show a significant negative impact of corruption on growth (Brunetti et al., 1998; Knack & Keefer, 1995; Mauro, 1995; Méon & Sekkat, 2005; Pellegrini & Gerlagh, 2004; Tanzi & Davoodi, 2001). Most studies conclude that corruption has a negative impact on growth, especially in the context of low quality governance.

Moreover, corruption distorts government spending and reduces revenues. For example, it can reduce the quality of infrastructure, because spending on road maintenance declines (Tanzi & Davoodi, 1997) and spending on education and health declines (Mauro, 1995). Gupta et al. (2002) find that in countries with high corruption, government services are inefficient and therefore of lower quality (e.g. health care). As evidence, they note that infant mortality rates are one-third higher in corrupt countries. In addition, the government spends less money on education because of corruption (Gupta et al., 2002; Mauro, 1998). A positive correlation is also found between corruption and the size of the shadow

Table 3. Consequences of corruption – key findings in the literature and overview of empirical findings.

Consequences	Key findings	Key Authors (year)
Economic	Reduces growth (and weakens economic performance)	Abed and Gupta (2002); Brunetti et al. (1998); Campos et al. (2010); Guetat (2006); Knack and Keefer (1995); Mauro (1995); Méon and Sekkat (2005); Pellegrini and Gerlagh (2004); Tanzi and Davoodi (1997);
	Lowers investment (domestic and foreign)	Abed and Gupta (2002); Mauro (1998)
	Distorts of government spending	Gupta et al. (2002); Mauro (1998); Tanzi and Davoodi (1997)
	Increases income inequality – directly (e.g. distorted tax system) and indirectly (e.g. human capital formation, and educational inequalities)	Gupta et al. (2002); Li et al. (2000)
	Lowers the quality of government services (e.g. health care)	Gupta et al. (2002)
	Increases the size of the shadow economy (e.g. reducing tax revenues and total revenue relative to GDP)	Friedman et al. (2000); Johnson et al. (1998); Tanzi and Davoodi (1997, 2001)
	Negatively impacts trade (e.g. due to unwillingness of exporters to do business with corrupt countries and investor sensitiveness to the topic)	Habib and Zurawicki (2002); Lambsdorff (1998, 2003)
Political	Reduces the trust in public institutions and civil participation (e.g. in democracy)	Bjørnskov (2003, 2011); Frey and Stutzer (2000, 2010)
	Increased political instability	Mauro (1998)
	Reduced stringency of policy formation (e.g. environmental regulations – only in times of low political instability)	Fredriksson and Svensson (2003)
Social	Increases poverty	Gupta et al. (2002); Justesen and Bjørnskov (2014)
	Stagnation of satisfaction and happiness amongst the population (e.g. due to poor governance and institutions)	Frey and Stutzer (2000, 2010); Helliwell (2003, 2008); Welsch (2008)
	Negatively impacts public health (e.g. mental health)	Gupta et al. (2002); Sharma et al. (2021); Vian (2008)

economy, which reduces tax revenues and total revenue relative to GDP (Friedman et al., 2000; Johnson et al., 1998; Tanzi & Davoodi, 1997, 2001).

Corruption has a negative impact on trade. Exporters are less and less willing to make informal payments to countries, and investors are increasingly sensitive to corruption (Habib & Zurawicki, 2002; Lambsdorff, 1998, 2003).

Poverty and income inequality are higher in more corrupt countries. For example, Gupta et al. (2002) find that a 2.5-point decrease in the corruption index increases the Gini coefficient by 2.5 points. Moreover, corruption increases inequality in education, which in turn contributes to higher income inequality (Gupta et al., 2002; Li et al., 2000). However, most studies show indirect effects of corruption on poverty through economic and governance factors. Corruption affects income inequality through a distorted tax system, poor choice of social programs, human capital formation, and educational inequalities (Gupta et al., 2002). Those who suffer most from corruption are the poorest in a society.

Last but not least, corruption weakens public confidence in the state, its institutions, and the law. A number of studies show that good governance and good institutions increase citizen satisfaction and happiness (see review of the studies by Frey & Stutzer, 2000, 2010; Welsch, 2008). When citizens believe that basic public services are provided because of corruption, the government loses accountability, citizens do not participate in society (Bjørnskov, 2003, 2011), in direct democracy (Frey & Stutzer, 2000, 2010), or they even try to migrate to other countries where they have more opportunities for fair access to public services.

3 Corruption as a perennial problem in transition countries

The post-1990s period has seen an increased interest in the study of corruption, which is particularly evident for Central and Eastern European countries and the countries of the former Soviet Union. The period since the 1990s marks the fall of the communist states and the end of the Cold War, which led to the establishment of a number of independent countries and market economies. The newly formed countries saw a general decline in living standards and life expectancy, the rise of oligarchs, and disproportionate social and economic development. It is the period of colossal democratization and reform movement, privatization of state industries, all of which provide fertile ground for corruption (Shivakumar, 2005).

The political and economic reforms of these transitional countries vary, leading to growing unease in international society about the impact of corruption on their development efforts. One way to think about the reasons why transition countries have not reached the level of development of Western European countries is that their governments are generally corrupt and have systematically pursued economic policies for years that promoted political interests and maintained political control of the people and parties in power (Bracking, 2007). Another line of argument is the imbalances in the various systems that these countries experience (Bayley, 1966; Nye, 1967). They argue that corruption in these countries is due to political institutions that differ from traditional cultures, as well as slower legal development compared to economic development. Scholars have considered each of these three areas as separate factors, but the interactions between culture, legal systems, and rapid economic development is an area that needs further research.

Around the same time, the international community changed its policy and realized that corruption was holding back economic growth. In fact, the problem of corruption is not limited to the transition countries, as there have been a number of corruption scandals in the developed countries as well. However, in transition countries, corruption is seen as an ongoing problem (Bracking, 2007). Earlier, we mentioned that the international community has made zero tolerance for corruption a condition for receiving development assistance. In addition, the European Commission required all countries applying for EU membership to ratify anti-corruption conventions (such as the aforementioned OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1998, and the United Nations Convention against Corruption, 2003), because of their high moral stakes in development.

There is no doubt that a lower level of corruption is beneficial. There is also no question about the good intentions of fighting corruption. However, obsession with corruption and policies aimed only at fighting it in transition countries can sometimes be counterproductive. First, political discussion degenerates from fundamental policy issues to accusations of corruption among policy options within countries (Ivanov, 2007). Second, rash anti-corruption rhetoric can lead people in transition countries to harbour undue resentment and view all successful businesses and private wealth as illegally acquired, because of a lack of trust and social participation. Finally, Ivanov (2007) argues that focusing exclusively on fighting corruption leads to the illusion that removing corrupt elites from office will immediately lead to development progress. Much more needs to be done, and the challenge for policymakers is to build respectable governments and effective institutions. Building them is a multifaceted, long-term project.

4 Conclusion

Corruption is an old concept. Plato, Aristotle, and Polybius believed that corruption was a necessary part of any cycle of governmental change. A balance of power was required to control this process. Failure of this balance was tantamount to corruption. Later philosophers such as Machiavelli and Montesquieu also saw corruption as synonymous with the failure of the balance of power. The solution was to create laws prescribing moral behaviour for individuals.

The concept of corruption first evolved from the disturbance of the state balance of power to the immorality of political patronage and the favouring of certain groups. It evolved from the public sphere to the intertwining of public and private spheres, from a political issue to the intertwining of political and economic issues. The fight against corruption evolved from the maintenance of necessary checks and balances, from moral struggles against a system of privilege to a primary motive for state policy. What we call corruption today is the abuse of a public office for personal gain. And to this day, the fight against corruption is seen as a guide for »failed countries«, politically backward and immoral societies, to the proper political virtues.

While corruption was not necessarily seen as a bad thing in the past, it is now widely recognised that it has a negative impact on economic growth and society. It inhibits investment, reduces growth, distorts government spending, strengthens the shadow economy, increases poverty and income inequality, and reduces trust in institutions. This is seen as a persistent problem, especially in the countries of Central and Eastern Europe and the former Soviet Union, although the problem of corruption is not limited to these countries. Without strengthening the efficiency of institutions and implementing effective anti-corruption measures, it is unlikely that reforms toward a more efficient market can be implemented in these countries.

History shows the presence of corruption since the beginning of human life, and most likely we will never be able to eradicate it. However, if we understand the historical evolution of corruption and its various forms, institutions (governments, NGOs, the private sector) can develop more targeted and effective anti-corruption policies.

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