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CORRUPTION MARKETS: AN ANALYTICAL FRAMEWORK FOR ASSESSING ANTI-CORRUPTION CAMPAIGNS

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CORRUPTION MARKETS: AN ANALYTICAL FRAMEWORK FOR ASSESSING ANTI-CORRUPTION CAMPAIGNS³

Assuming that there is a “missing factor” in the modern corruption studies, authors develop a new conceptual approach to the study of corruption and effectiveness of anti-corruption regulations in the public service. This “missing factor” is a “corruption market”, particularly, its size, type and nature. Conflict of interest regulations aim at controlling key channels of corruption behavior, and corruption market in its turn determines prevailing channels of existing corruption behavior. Misidentification of corruption market’s type is the main reason for the failure of anti-corruption policies, no matter how new and effective models are imported.

Corruption market’s size is defined as the number and average price of corruption deal. The nature of corruption market depends on the side, capable of setting the final price of corruption deal. Resulting from institutional characteristics of public administration, corruption markets are either seller’s or buyer’s markets. Seller’s corruption markets are sensible to ethic regulations of public service, and the only effective way of tackling buyer’s corruption markets are “cut-red-tape” reforms and introduction of compliance-based regulation of conflict of interest. Type of corruption market encompasses 3 dimensions: quality of institutions, scope of regulations and degree of regulations. Basing on the introduced model, authors identify and analyze 8 types of existing corruption markets. Each type of corruption market has its own transformational dynamics and, consequently, own opportunities for anti-corruption policies.

A new conceptual model of corruption market evolution is introduced in the article. Transformations of corruption markets depend on several factors. The key factors are personalization of political regime, “new public management” reforms of public administration, populist policies and creation of rentier states, and set up of the Welfare State.

JEL Classification: Y00.

Keywords: corruption market, corruption deal, quality of institutions, scope of regulations, degree of regulations, conflict of interest, public service, patronage networks, seller’s market, buyer’s market, demand and supply of corruption

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Introduction

This paper contributes to the diverse field of corruption studies. According to a Scopus analysis, the vast majority of authors in corruption studies concentrate within social and economic sciences (69.4% and 32.9% respectively)⁴. Despite such a concentration, corruption studies have developed into a rather fragmented field.

A lot of research applies a comparative methodology to corruption studies (Political Corruption in Transition 2002) or uses formal models. Some papers study corruption as a system-based phenomenon (Rose-Ackerman 1999). Also, a number of academics cover the economic (Okada and Sovannroeun 2014) and institutional effects of corruption. Another well-established research line in corruption studies is analyzing different forms and types of corruption, and producing classification of various kinds.

However, one of the most fruitful segments of corruption studies deals with corruption primarily as a public administration phenomenon. This paper also addresses this dimension of corruption, closely related to the conflict of interest in public service. The overwhelming majority of scholars in this area conduct comparative studies with focus on conflict of interest's regulations and "best practices" identification. This approach is promising in finding all the possible alternatives of conflict of interest regulations for combating corruption, although it fails to explain the absence of a universally applicable model of conflict of interest regulations. Indeed, a number of recently conducted public service reforms clearly demonstrate that the-adaptation of best global practices in conflict of interest regulations lead to unexpected results. New, low-risk channels for corruption behavior and new wave of corruption in public administration are the most intriguing of them. Such typical, although unexpected reform sequences indicate a "missing factor" in particular decision-making processes and, more generally, in corruption studies, which we consider to be a type and size of corruption market.

Our hypothesis is that the type of the corruption market poses limitations on applicability of certain anti-corruption measures. The type of corruption market depends on corruption supply and demand scissors, which, in turn, are predicted by quality of institutions (QOI), scope and degree of government regulation (SGR and DGR). Different configuration of these parameters allows for possible corruption activities in administrative, political or street-level corruption. The

⁴ Authors base their hypothesis on the publication analysis conducted with abstract and citation database Scopus. The analysis included all types of publications since 1975 to September 2014 (Scopus 2014). Some of the analyzed publications belong both to social and economic sciences.

misidentification of national corruption market leads to distorted anti-corruption campaigns, focusing on minor symptoms of corruption, while neglecting major corruption channels. In other words anti-corruption efforts are effective if the type of corruption market is clearly defined and relevant measures are chosen.

Defining the corruption market

This paper applies A. Marshall's classic economic model of supply and demand scissors (Marshall 1910) to corruption in public administration. Assuming that corruption markets function in the same way as their economic prototypes, we perceive a corruption market as a sequence of corruption contracts over a given period. These contracts are agreements on price (bribe amount) between a buyer (citizen or interest group) and a seller (bureaucrat or politician). Implying that number and conditions of corruption deals can vary from state to state, we predict that different state would have differently shaped and sized types of corruption markets.

The distinctive feature of corruption contracts as compared with market contracts is absence of an equilibrium price. Demonstrating this argument by contradiction: the equilibrium price of a corruption market presupposes a number of choices both for buyers and sellers. Buyers can have "the best service at the best price" just by making a price-based choice between different offers of the same service, coming from different sellers. And sellers can segment the market according to service quality and price-dependent consumer preferences. Literally, you can bribe traffic police officer asking him to get your driver's license back, when you are stopped for drunk driving or you can pay a larger bribe to his boss to get an "indulgence" for possible future violations.

Such an ideal market model is faced with at least two institutional constraints when applied to public administration. First, a centralized state aims to provide citizens with equal access to similar quality public services. Second, opportunity costs of the principal-agent model limit the number of channels for agent's corruption behavior.

Thus, we argue that corruption markets exist either as buyer's or seller's markets. Buyer's markets emerge when supply of corruption contracts exceeds demand and buyers establish the price. Seller's markets appear under the opposite conditions: demand for corruption contracts exceeds supply and sellers set the price.

The Stiglitz-Pelzmann⁵ model describes the functioning of seller's corruption markets. This model is part of the "capture theory" and "normative theories as positive analysis" (Joskow and Noll, 1981) The model suggests that utility-maximizing politicians and bureaucrats provide regulatory policy in response to the demand of interest groups. The best way for a group to ensure beneficial regulations is persuading the state to apply its' legitimate force to the group's opponents. All agents in the model have rational motivation, i.e. they make decisions to maximize their own utility. Public decision-makers also act rationally when providing regulations to the interest groups or citizens.

Due to the limited numbers of public servants in the state, seller's corruption market develops extensively. This type of corruption market expands by the increase of the average contract price or/and by the number of contracts made by one public servant. Consequently, two sets of measures are used for combating corruption of the seller's market type. The first aims at decreasing the demand of corruption. These measures are primarily "cut red tape" reforms and the reduction of bureaucratization. The second set of measures addresses the average contract price. Heavy regulation of corruption suppliers, such as compliance-based models of conflict of interest regulations in the public service, and criminal law provisions for both active and passive corruption, increases the average price level for corruption contract.

Buyer's corruption market, by contrast, develops within the upper border of the demand curve, when the supply of corruption contracts in given market exceeds demand. The World Bank studies have one of the most relevant descriptive models of buyer's corruption market: utility-maximizing (economic) agents influence the provisions of state regulations. Kaufmann and his colleagues described it as: "the propensity of firms to shape the underlying 'rules of the game' including the 'purchase' of legislation and court decisions" through private and opaque payments to public officials and politicians (Hellmann, Kaufmann et al. 2000; 2000a; 2001). Buyer's corruption market experiences primarily intensive growth by a steady increase in demand and constantly diversifying corruption supply. Because corruption demand in buyer's corruption market is still low compared to seller's one, a feasible regulation of the buyer's corruption market is limiting supply of corruption contracts. Other words, strengthening corporate culture in the public service, promoting intolerance towards corrupt practices and unethical behavior, and fostering honesty and openness of the public service are effective anti-corruption measures for buyer's markets. In its turn, clear and detailed employment and evaluation procedures support a strong corporate culture in the public

⁵ Also known as the *Economic Theory of Regulation (ET)*, is Professor Peltzman's attempt to extend and improve upon Stigler's "capture theory" of regulation (see Peltzman 1976)

service. These measures are a feature of integrity-based model of the conflict of interest regulation. In other words, integrity-based models promote transparency and combat corruption, although only in buyer's corruption markets.

Modelling corruption markets

Examining corruption markets in the nation states, we argue that the type of corruption market determines the efficiency of anticorruption measures. The issue is to identify the type of particular corruption market and its' developmental factors.

We base our model of corruption markets on two theoretical premises: neo-institutional methodology and theory of "good enough governance" (Grindle 2007). The first focuses on how "the rules of the game" in public administration are established and maintained. The latter focuses on political and economic development issues of certain countries, emphasizing the attention on their national context and is defined in the following way: "Good enough governance means that interventions thought to contribute to the ends of economic and political development need to be questioned, prioritized, and made relevant to the conditions of individual countries. They need to be assessed in light of historical evidence, sequence, and timing, and they should be selected carefully in terms of their contributions to particular ends such as poverty reduction and democracy. Good enough governance directs attention to considerations of the minimal conditions of governance necessary to allow political and economic development to occur" (Grindle 2004: 526). "Good enough governance" treats corruption as a constraint on possible development (Grindle 2004: 527) and, thus, consider combating corruption as a number of multidimensional activities dependent on the tactic goals of public administration. A political system in its turn determines the tactic goals of public administration. For example, effective anticorruption mean in institutionalized non-competitive states would rather be centralized control of patronage network, than citizen engagement. However, corruption would be a back-burner issue in institutionalized competitive states. Introducing ethical standards and increasing the transparency of the public service are among the most effective anti-corruption activities in such countries.

Basing the model on these conceptual premises, we distinguish two groups of factors shaping the corruption market: indirect and direct. Indirect factors influence corruption market through shaping the direct factors. We classify the indirect factors into two groups: internal and external. The internal type includes, primarily, political regime features: the degree of

personalization, pluralism, the institutionalization of political power and constraints on political leadership, the degree of ideologization in public discourse, the level of political violence, the presence of political rights and civil liberties, as well as the level and type of political participation. (Linz 2000; Geddes, Wright, Frantz 2012; Wahman, Teorell, Hadenius 2012, Slater 2003; Cheibub, Gandhi, Vreeland 2010; Kailitz 2013). Other internal factors are values of the ruling elite, public administration systems (its institutional and procedural aspects), the system of interest representation (party system and organized groups), accountability systems, the economic viability of the state (economic and fiscal policy); state capacity, the sustainability of the political system, and, social stability.

Another group within the indirect factors of corruption markets is external. They are international law, global civil society, states' foreign policy and impact of international regimes; internationally promoted standards of governance (WGI), and neo-liberal values dominating global political discourse⁶.

Direct factors influence the size and shape of national corruption markets through number and type of corruption contracts made. We argue that the quality of institutions, scope of government regulation and degree of government regulation directly influence the corruption market's type.

We define quality of institutions (QOI) as the capacity of the state to establish and reinforce universal "rules of the game" in the public sphere. Despite the existing research convention, we do not consider the degree of property rights protection to be the only crucial criteria for institutional quality. According to Robinson, Verdier and Acemoglu (Acemoglu et al. 2001, 2002, 2005, 2012, 2012a), high quality institutions function in different areas of public administration depending on the colonial economic legacy⁷.

We describe the relation between the quality of institutions and the corruption market, using the axis "Minimum quality of institutions – Maximum quality of institutions". High quality (inclusive) institutions promote rule of law in the public administration and in the public service.

⁶ The analysis of the relationship between indirect factors and the dynamics of the corruption markets evolution is outside the scope of this study.

⁷ Colonial economic legacy depends on the type of colonization. Territories with settlement type of colonization have experienced economic growth as the result of high quality institutions established by the settlers. These institutions were replicas of the metropolitan institutes with the strong emphasis on private property and system of checks and balances against government power. Depending on the economic resources, settlers create high quality, inclusive institutions in different areas. Examples of this colonization type are New Zealand, USA, Canada and Australia.

By contrast, territories with high mortality did not experience any sustainable economic growth as they were colonized through extractive institutions. Colonisers here tried to transfere as much resources of the colony to the colonizer as possible, therefore institutions did not guarantee any property rights or protection from government expropriation.

This principle guarantees equal treatment of different social groups. Acting within high quality institutions, citizens and organizations lack rational incentives to behave corruptively. Namely, while the demand for corruption deals will remain low, the insufficient supply of corruption contracts (coming from rent-seeking public officials) can exist in the corruption markets with maximum quality of institutions. Because the opportunistic behavior of public officials is a remote possibility within high quality institutions, corruption market is small. This type of the corruption market is a buyer's one, and the supply here exceeds the demand. Corruption contracts are agreements on single transactions for law enforcement or exemptions from it. In other words, corruption has a selective impact on the "rules of the game" enforcement.

However, patronage networks eclipse government structure within low-quality institutions. North, and Weingast, Wallis (2006) describe these changes as "limited access orders". In their turn, Acemoglu and Verdier (2012) define low-quality institutions of public administration as extractive. Extractive or minimum quality institutions establish rigged rules in order to ensure the loyal groups a privileged access to the public resources. Such politics in the long run reduces public confidence and leads to deterioration of society.

Within low-quality institutions individuals and organizations can pursue their interests only through multiple patronage networks. Therefore, minimum quality institutions create an extremely high and constant demand for access to patronage networks and, therefore, permanently high demand for corruption contracts. Different levels of the patronage network meet this high demand. In other words, minimum quality of institutions promotes seller's corruption markets with high growth potential.

Scope of government regulation (SGR) refers to the number of public areas, in which the state redistributes resources (Buehn, Schneider 2009). Dependence between the scope of regulation and the corruption is depicted by the axis: maximum scope – minimum scope.

Maximum scope of regulation generates more corruption suppliers. Corruption markets with the maximum scope of regulation expand under two conditions. The first is bureaucracy outgrowth, which increases the supply of corruption contracts. The second is an escalation of the contract price. Average contract price rises because the state compensates growing expenditures on bureaucracy by an increase in service fees and charges (Acemoglu, Verdier 2000). Maximum scope of regulation results in a proportional interdependency between the number of bureaucrats with discretionary powers and the number of public life areas subjected to government regulations. In other words, huge numbers of public servants potentially involved in rent-seeking create corruption markets. Depending on the degree of regulation, the rent-seeking could be either administrative or political.

The supply of corruption contracts here exceeds the demand and, therefore, the corruption market develops as a buyer's one.

Minimum scope of regulation results in a decrease in citizens' demand and an increase in organizational and interest groups' demand for corruption contracts. The latter is a result of organized interest groups restricting market competition through state regulations (Peltzman 1976). The minimum scope of regulation encourages strong demand for the administrative corruption contracts and weak for street-level corruption. Consequently, a seller's market of administrative corruption emerges under the minimum scope of regulation.

The degree of government regulation (DGR) is defined as the specification of the state's regulations, in particular, the "rules of the game" (Banerjee 1997). The dependence line between the degree of regulation and the corruption market lies along the axis: maximum degree – minimum degree.

Maximum degree of regulation fuels red tape. The supply of corruption contracts remains stable, but citizens and organizations are forced to overcome excessive government regulations by corrupting public officials. However, rent-seeking bureaucrats could intentionally provide an extensive degree of regulation to ensure their own benefit (Banerjee 1997). The maximum degree of regulation promotes a seller's corruption market. Depending on the scope of regulation, it could be either a market of purely administrative corruption or incorporate both administrative and street-level corruption.

The minimum degree of regulations stokes corruption behavior among public servants enjoying wide discretionary powers without precise administrative procedure and detailed duty regulations. Wide discretionary powers promote the rent-seeking behavior of bureaucrats and, hence, generate a strong supply of corruption contracts. The minimal degree of regulation results in a buyer's corruption market.

Specifying the type of corruption market

Combining two dimensions (maximum-minimum dichotomy) of three factors (quality of institutions, scope and degree of regulation), we introduce a concept of corruption markets which includes eight basic models described below.

Model A: minimum quality of institutions, maximum scope of regulation, maximum degree of regulation.

This model represents a seller's corruption market in what North called a natural state or a mature limited access social order and Acemoglu characterized as a state with extractive institutions (Acemoglu, Robinson 2012). Corruption market in model A develops primarily due to the patronage systems of public administration. Maximum scope and degree of regulation in patronage systems encourage mass demand for corruption. Corruption contract in this model is the only solution for citizens and organizations seeking to promote own goals, fix problems or satisfy interests under ambiguous and vague "rules of the game". Model A is characterized by systemic or endemic corruption. It covers all types and levels of corruption behavior ranging from street-level to political corruption. Brezhnev's USSR with its' institutionalized "nomenklatura" system is a telling example of the Model A's corruption market (Pipes, Bracken 1974; Voslensky 1984; Shlapentokh 2013).

Model B: Minimum quality of institutions, minimal scope and degree of regulation. Model B typically is a typical result of an incomplete or failed democratic transition, dissolution of state and new form of statehood (Melville, Stukal 2012; Melville et al. 2013). This model is shaped by high uncertainty of procedures and vague "rules of the game", minimum degree of centralization and weak state power. Generally speaking, model B characterizes corruption markets in so called "fragile states" (Rotberg 2003; Marshall 2008). Corruption market of B-type develops under two constraints. The first constraints are the wide discretion powers of comparatively small civil service and the overall lack of the "rules of the game" which fuels rent-seeking behavior of bureaucrats. The second constraint is interest groups and organizations requesting a creation or change in the rules of the game. Given the weakness of the state powers, public officials engage in rent seeking solely in the profit-promising regulation areas, i.e. areas with an existing demand for the corruption contracts. Due to the uncertain "rules of the game" and overall lack of regulation, a heavy demand exists in political and administrative corruption areas. Model B illustrations are Liberia and Zambia.

Model C: minimum quality of institutions, minimum scope of regulation, maximum degree of regulation. This model describes corruption markets in the countries with thin stateness (Melville et al. 2013). These countries exercise a "cherry picking" approach to the regulatory activities. They provide maximum degree of regulation only in the areas that are profit-promising for interest groups. Other areas that have no benefits for the interest groups and, correspondingly, no opportunities for the rent-seeking public officials, are left either unregulated or with minimum degree of regulation. Corruption markets in model C develops through both the illegal practices of a state capture in economic sense (Hellmann, Kaufmann, Jones 2000), and unregulated "revolving doors" for civil servants, who are trading their public posts for new business jobs. Model's C corruption market is a seller's one in the regulated areas and a buyer's one – in the unregulated

areas. However, in the regulated areas buyers cooperate with sellers of political corruption contracts. Buyers cooperate willingly in order to establish the rules of the game that would guarantee minimal risks of corruption behavior (Vasileva 2011). Examples of model C corruption markets are first terms Putin's Russia or Romania in 2004 (Matei, Popa 1999)

Model D: minimum quality of institutions, maximum scope of regulation, minimum degree of regulation. This model appears in countries with strong welfare state traditions during incomplete democratic transitions. When these previously flourishing, strong institutionalized non-competitive states fail, new state formations fall into a double trap. An inherited patronage system of public administration increases demand for corruption. On the other hand, maximum scope of regulation combined with its' minimum degree generates unique opportunities for the rent-seeking bureaucrats with almost unlimited discretionary powers. D-type corruption market has both high demand and generous supply of corruption. The latter slightly dominates due to the traditions of paternalistic state. An illustrative case of the model D corruption market was Georgia during Shevardnadze presidency (Jakopovich 2007).

Model E: maximum quality of institutions, minimal scope and degree of regulation. This model conceptualizes on the post-colonial experience of Great Britain's ex-colonies. Colonization of a settlement type guaranteed these territories high quality of institutions (Acemoglu, Johnson, Robinson 2002). Corruption behavior within maximum quality of institutions and framework regulation manifests itself predominantly in an administrative segment of the corruption market. Such administrative corruption emerges from contracts on regulation specification to ensure interest groups benefits. Corruption behavior also exists on the street level, although to a lesser extent as compared to the administrative segment. Street level corruption takes the form of single payments for an exemption (or non-use) of existing regulations. Model E is a seller's corruption market. South Korea after Korean War, Hong-Kong and Singapore are good examples of E-type corruption market. The compliance-based model of the conflict of interest regulations shows best results in this particular type of corruption market (Maesschalck 2004; Fox 2001).

Model F: maximum quality of institutions, maximum scope of regulation, minimum degree of regulation. A maximum scope of regulation combined with a minimum degree of regulation guarantees mass access to corruption contracts on low prices. However, the demand for corruption contracts in model F remains low. Many public officials enjoy discretionary powers in a number of regulatory areas; on the other hand, high quality institutions grant citizens equal access to the resources without additional payments. F-type corruption market is a buyer's market, for example, Italy (Della Porta, Vanucci 2007) or Brazil.

Model G: maximum quality of institutions, minimum scope of regulation, maximum degree of regulation. This model requires “plump stateness” (Melville et al. 2013) and puts into effect the liberal ideal of the minimal state. G-type corruption market is insufficient and limited to single payments for the exemptions from regulatory policies in the administrative segment. Although small buyer’s market can exist in model G. Organizations might use corruption opportunities to gain illegal advantages while entering high competitive markets. (Ziabluyk 2002). We argue that USA (before Obama), Australia and Canada are examples of G-type corruption markets (Political systems... 2012: 146-161, 288-320). Particularly G-type corruption markets yield to the pressure of the integrity-based model of the conflict of interest regulations.

Model H: maximum quality of institutions, maximum scope and degree of regulation. Such markets appear in Weber’s rational bureaucracy states (Swedberg, Agevall 2005: 18-21), which usually belong to the continental model of the public service. H-type corruption market is a small-sized buyer’s market. Corruption contracts are concluded primarily in political segment and are extremely expensive (Doing more with less... 2005). The criminalization of active corruption that seriously limits buyer’s activity and tough measures imposed on sellers (including life-long prohibition of public service employment) provide rigid constraints for H-type corruption markets. In other words, when the rules of the game are clear and unambiguous for everyone, the risks of corruption behavior for both sellers and buyers are too high. The corruption behavior in administrative and street level market segments becomes an irrational choice for the agents – they could get more for less by simply following the rules. Examples of H-type corruption markets are modern Germany and France.

Transforming the corruption markets

Implementing good governance practices and combating corruption with ratification of UNCAC and Anti-Bribery OECD convention have recently become political mainstream. Criminalization of active and passive corruption in domestic regulation also transforms corruption markets. Corruption actors rationally estimate possible threats and change their corruption behavior forming low-risk patterns. Therefore, countries can simultaneously or consequently implement anticorruption measures along all or any of three axis of the model described. Changes in any of the three axis are substantive to other. Government can expand or narrow the scope of regulation without influencing quality of institutions; the same is true for the evolution or degradation of institutions.

We outline 7 directions of corruption markets transformation.

The ideal public administration reform can dramatically reduce the size of the corruption market by simultaneously improving the quality of institutions and increasing the degree of regulation. Following the ideal pattern, model B transforms into model G as the United States have transformed from George Washington to Franklin Delano Roosevelt (Pechatnov 2008; Langston 2012). Model D evolves into model H, which follows the evolution of the post-Communist Czech Republic and the former GDR (Political systems... 2009: 151-170, 571-583).

Another ideal reform is the one resulting in booming expansion of the quality of institutions, the degree and the scope of regulation. This ideal type transforms model B to model H. This transformation is possible only in a historical period and only through transitional models – like the statehood of the United States has developed from the first settlers of Jamestown to the period of Obama’s presidency.

Corruption markets can experience transformation due to a number of factors. However, each of these factors taken alone is ineffective. The only exception is an increase in the quality of institutions, which always has an unambiguously positive effect on anti-corruption policy. Within this trend model B transforms into model E. Changes in the Lech Walesa’s Poland in the late 1980s illustrate this transformational pattern. Model A takes on a new form of model H — this is the case of the United Kingdom in the period of the Restoration (Acemoglu, Robinson 2012). Model C evolves in model G (Melville, Stukal, Mironyuk 2013); and model D changes into model F. Examples of the latter are Latin America’s and Eastern Europe’s regime transformations sponsored by IMF loans under “The Washington Consensus” (Kornai 1993; Gore 2000; Meltzer 1999).

The personalization of political power deteriorates the quality of institutions and always expands the country’s corruption market as the common rules of the game are replaced by the patronage networks in order to maintain the regime’s legitimacy.

We argue that other factors determining the dynamics of corruption markets are:

1. “The Welfare state” (which increases the scope of government regulation)
2. The personalization of political power (which deteriorates the quality of institutions)
3. New Public Management (NPM) reform (which cuts the scope of government regulation and increases the degree of government regulation)
4. Populism and the rentier state (which increases the scope of government regulation and cuts the degree of government regulation)
5. Maximization or minimization of the degree of regulation. (The state’s economic capacity affects whether the state apparatus would be expanded or conserved)

6. Increase in the quality of institutions and the scope of government regulation (that is, the evolution from the Rule of Law state to The Welfare state)

7. Increase in the scope and the degree of government regulation (that is, the evolution to the Weber-type Welfare state).

Transformational dynamics of corruption markets depends also on individual variables, such as type of regime (personalization of power, etc.). Each factor can refigure one or more of the model's dimensions. These factors affect all three dimensions of corruption market, but mostly indirectly by changing the political system, the system of representation, public administration and ideology.

The creation of "The Welfare state" increases the scope of government regulation and models change according to the following tracks:

Transformation	Example
Model B to model D	<p>SGR increases, while DGR and QOI remain low. The centralization of political power in fragile states results in state apparatus, which successfully extracts rents of all kinds.</p> <p>These changes appear in decolonized sub-Saharan states with strong communitarian (primarily ethnic) identities of political elites. The political power of these elites is based on state coercion, and is perfectly maintained in the patrimonial states (Erdmann 2013).</p>
Model C to model A	<p>SGR increases, while DGR remains high and QOI – low. Corruption market nourished by the increase in scope of regulation evolves in the model A. Rent-seeking bureaucrats gain access to previously unregulated areas within low quality institutions. Therefore, corruption market booms due to increase in both demand (citizens and organizations trying to overcome newly created administrative barriers) and supply of corruption. Russia has experienced this transformation under Putin's presidency (Marin-Ostrovsky 2008).</p>
Model E to model F	<p>SGR increases, while DGR remains low and QOI – high. In South Korea after the Korean War, which saw a gradual expansion in</p>

scope of government regulation within a low degree of regulation. This expansion strengthens mainly political and administrative corruption by creating nepotism networks comprised of the government and chaebols. (Kang 2002).

Model G to model H SGR increases, while DGR and QOI remain high. Fluctuations of the US corruption market due to the turn from neoconservative to Obama’s socially oriented policy.

Personalization of political power negatively affects the quality of institutions, replacing the formal institutions by informal patronage networks or “tin-pot dictatorships” (Wintrobe 1990).

Transformation	Example
Model E to model B	QOI deteriorates, while SGR and DGR remains low. In this case, erasing state capacity finally creates a failed state. Booming corruption within the ever-decreasing quality of institutions destroys the colonial institutional legacy. An example is the presidency-than-emperorship of Bocassa in the Central African Republic. (Ndulu, O'Connell 1999)
Model G to model C	Corruption market experiences a sharp decline in QOI, while SGR and DGR remain the same. Examples of this institutional deterioration are occupied states with collaborationist governments, like the Vichy regime in France. The Vichy government declared itself neutral, but de facto supported Reich policy (Paxton 2001)
Model F to model D	In this case, QOI deteriorates, while SGR remains high, and DGR – low. Examples are post-communist states sliding towards autocracies or transforming within “problematic trajectories”, such as modern Armenia or Azerbaijan (Political systems ... 2009: 22-35, 53-69; Melville et al. 2013).
Model H to model A	QOI deteriorates, while SGR and DGR remain high. This transformation limits equal access to public resources and creates

patronage networks. Examples are democratic rollbacks after the first and second waves of democratization. In Greece, for example, decreased quality of institutions restored regulatory system to pre-war level and created limited access order (Political systems ... 2009: 171-181).

Degree of government regulation changes in both directions. An increase of DGR reduces the size of corruption market as detailed regulation closes the public servants' opportunity to extract rents while exercising own discretionary powers. A decrease of DGR have the opposite effect on corruption market's size. Lessening the degree of regulation is broadening the scope of discretionary powers for any given public servant. Wide administrative discretion fuels the supply of corruption, and increases the size of corruption market.

Transformation	Example
Model F to Model H	DGR increases, while QOI and SGR remain high. This transformation appear in the post-war reconstructions of democratic states. Speeding their recovery, these states expand SGR within high quality of institutions. An example is Great Britain after WWII (Creveld 1999).
Model B to model C	DGR increases, while SGR and QOI remains low. The “New nations” emerging through the support of economic interest groups experience this transformation. Interest groups shape the state to fit their own goals, and the state, which is too weak to resist, provides beneficial regulation only in profit-promising areas. An example is independent Southern Sudan, whose government regulates primarily the oil industry (Pedersen, Bazilian 2014).
Model E to model G	DGR increases, while SGR remains low and QOI – high. An example is post-apartheid democratization of the South African Republic. Increased transparency of public administration resulted in decreased demand for street-level corruption, but selectively increased DGR and fueled the supply of administrative and political corruption in the regulated areas. (Lodge 1998; Habib,

Padayachee 2000).

Model D to model A	DGR increases, while QOI remains low and SGR – wide. This transformation occurs in the “big states” (i.e. states with wide scope of regulation) during economic slowdowns or other factors limiting patronage network access to public resources. Patronage network being the only source of political regime legitimation must be maintained at any costs. Therefore, already big states increase degree of regulation to maximize extracted administrative rent. This transformation was experienced, for example, in Lukashenko’s Belarus during the recession [Duvanova 2014; Zaloznaya 2014].
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Decrease in DGR usually creates fragile forms of public administration and unstable governments (Thornhill 2013) causing the growth of uncertainty and the expansion of corruption markets.

Transformation	Example
Model A to model D	DGR decreases, while SGR remains wide and QOI – low. This transformation appears during the balkanization of patronage states (mainly, of federative type), i.e. its disintegration along the ethnic lines. Newly created states inherit low quality of institutions and wide scope of regulation. These states usually are not democratic as the populations opt for the stable public administration and same scope of public services, not for the consolidation of electoral democracy (Džihic, Segert 2012). The new state creating and adapting its regulation temporarily decreases degree of regulation. Examples are breakup of Yugoslavia and transitional regimes in Serbia, Montenegro and Bosnia and Herzegovina (Wadsworth, Wheat, Swartz 2012).
Model G to model E	DGR decreases, while SGR remains low and QOI – high. This transformation is rare in the modern history. It occurs in liberal states with minimum scope of regulation as temporal disruption in functioning of high quality institutions. An example (with certain reservations) is the American occupation of Japan (Aldous 1997).
Model H to model F	DGR decreases, while wide SGR and high QOI are maintained. The example (with certain reservations) is Iran's corruption market before the Islamic revolution in 1979. Fragmented political elite maintained comparatively high quality of institutions, which distributed growing oil rents (Farzanegan, Bjorvatn, Schneider 2011).
Model C to model B	DGR decreases, while SGR and QOI remain low. Comparatively stable states with low quality institutions extracting administrative rents by regulating profit-promising areas for the benefit of organized groups (high degree of regulation and low scope of regulation) transform into fragile or failed states. The example is Ukraine, in particular its eastern part, during 2013-2014.

The New Public Management (NPM) reforms cuts red tape and, consequently, public service. The NPM reforms decrease scope and increase degree of government regulation. Generally, NPM reforms have a positive effect, reducing the corruption market.

Transformation	Example
Model D to model C (or model B)	<p>Effective NPM reform decreases SGR and increases DGR, while QOI remains low. Effective NPM reforms transform model B to model C.</p> <p>Ineffective NPM reform fails to increase DGR and, therefore decreased SGR, low DGR and QOI appear. Weakening centralized control over the public service, the ineffective NPM reform changes model D into model B. This transformation appeared in Mozambique. National elites, running short of rents, lacked control over the state and public administration. (Lewitsky, Way 2012).</p>
Model H to model G	SGR decreases, while DGR and QOI remain high. Civil servants layoff decreases the corruption supply and reduces scope of government regulation. High QOI provides modest citizens' demand for corruption. This transformation is the hallmark of the NPM reform, for example, Thatcherism in the UK (Pyper, Burnham 2011; Dahlström et al. 2012; Politt, Bouckaer 2011).
Model A to model C	SGR decreases, while DGR remains high and QOI – low. Reducing scope of government regulation, a rentier state experiences this transformation. Examples are the privatization in Mexico and the economic development of Chile (Sonin, Guriev, 2008).

Populism and creation of a rentier state increases scope of regulation (to maximize rent extraction) and decreases degree of regulation (to minimize regulatory costs) (Wintrobe 1990). This

type of transformation expands corruption markets and, therefore, has negative effect on the public administration.

Transformation	Example
Model C to Model D	DGR decreases and SGR increases, while QOI remains low. Examples of this transformation are changes of the Democratic Republic of Congo corruption market. Cutting red tape reforms did not promote the expected democracy, but resulted in the competitive authoritarianism (Matti 2010).
Model G to Model F	DGR decreases and SGR increases, while QOI remains high. Imbalances in the separation of powers and other ‘weak spots’ of the presidential systems decreases state’s sustainability (Shugart and Carey 1992).

Conclusions and ideas for future research

In this paper, we have sought to explain the ‘missing factor’ in corruption studies, which could explain the absence of universally effective model of conflict of interest regulation in the public service. Whereas recent literature focuses primarily on case study revealing best practices, we argue that import of best conflict of interest regulation practices is ineffective. This ineffectiveness roots in the underestimation of initial factors, determining dominant corruption channels in the state. We consider ‘the missing factor’ to be the corruption market, its type and size.

Although this paper is best viewed as a hypothesis-generating exercise, an initial look at the comparative evidence suggests that our model of corruption markets may be generalizable as a new framework for corruption studies.

We conclude with six points. First, the corruption market is a sequence of corruption contracts over a given period. These contracts are agreements on price (bribe amount) between a buyer (citizen or interest group) and a seller (bureaucrat or politician). Implying that number and conditions of corruption deals can vary from state to state, we predict that different state would have differently shaped and sized types of corruption markets. The distinctive feature of corruption contracts as compared with market contracts is absence of an equilibrium price. Corruption markets

exist as either buyer's or seller's markets. Buyer's markets develop when supply of corruption contracts exceeds demand and buyers establish the price. Seller's markets appear under the opposite conditions: demand for corruption contracts exceeds supply and sellers set the price.

Buyer's corruption markets yield to the pressure of integrity-based models of conflict of interest regulation. However, feasible regulations of the seller's corruption market are integrity-based models of conflict of interest regulation in the public service.

Second, the type and size of the corruption market are determined by indirect and direct factors. Key indirect factors are political regime features and public administration peculiarities, along with the values of ruling elite, system of interest representation (party system and organized groups), accountability systems, and state capacity. External factors of indirect type are international law, global civil society, states' foreign policy and impact of international regimes; internationally promoted standards of governance (WGI), and neo-liberal values dominating global political discourse. Although detailed analysis of the relationship between the indirect factors and corruption market is not conducted in this study, we argue that indirect factors influence the size and shape of national corruption market by shaping direct factors. Direct factors, in their turn, determine the number and type of corruption contracts made in the given market. We argue that the quality of institutions, scope of government regulation and degree of government regulation directly influence the corruption market's type.

Third, quality of institutions, scope and degree of regulation depicted along the axis "maximum – minimum" create three-dimensional model of corruption market's types. Using the model, we distinguish between eight types of corruption markets named with first eight letters of English alphabet and ranging from model A (minimum quality of institutions, maximum degree and scope of regulation) and model B (all dimensions are minimum) to model H (all dimensions are maximum).

Fourth, corruption markets transform under certain external conditions. We outline seven directions of corruption markets transformation. Key determining factors are: "The Welfare state" (which increases the scope of government regulation); the personalization of political power (which deteriorates the quality of institutions); the New Public Management (NPM) reform (which cuts the scope of government regulation and increases the degree of government regulation); populism and the rentier state (which increases the scope of government regulation and cuts the degree of government regulation); maximization or minimization of the degree of regulation (The state's economic capacity affects whether the state apparatus would be expanded or conserved); increase in the quality of institutions and scope of government regulation (that is, the evolution from the Rule

of Law state to The Welfare state) and increase in the scope and degree of government regulation (that is, the evolution to the Weber-type Welfare state).

Fifth, three factors of transformation expand corruption markets: the personalization of political power, the politics of populism and rentier state, the welfare state. By contrast, an increase of the quality of institutions, and to a lesser extent, the New Public Management (NPM) reforms and maximizing the degree of government regulation reduces the size of corruption market.

Finally, the most effective models for combating corruption are those associated with the high quality of institutions – models E, F, G and H. Both integrity-based and compliance-based models of conflict of interest regulation are effective only within this group of corruption markets, particularly, for model G and model E. Thus, importing successful experience of combating corruption from E, G, F, H models to A, B, C, D corruption markets results in distorted and ineffective anti-corruption measures. Based on patronage governance, these models oppose systemic anti-corruption policy. This set of anti-corruption measures if successfully implemented results in the termination of patronage governance networks and, consequently, in state failure. Therefore, effective anti-corruption measures for the models with low quality of institutions (models A, B, C, D) should comply with the objectives of political regimes. These measures vary greatly among four types of corruption markets with low quality institutions. Although, such measures as enforcing the rule of law (which contributes to the quality of institutions), establishing centralized financial audit for the public service (which maximizes the degree of regulation), promoting ethical standards among senior executive servants (SES) are effective for tackling corruption in low quality of institutions markets. These measures are effective in medium term; they replace corrupt practices of patronage networks with inclusive and meritocratic public service and, thus, break the institutional path dependency and “vicious circle” of corruption. An example is Cardoso reform in Brazil (Ingraining Honesty ... 2012).

Applying corruption market analytical framework to case study of corruption in the nation-states, along with quantifying the corruption markets transformations and their dependence on the indirect factors, and revising methodological assumptions of corruption studies constitute important areas for future research.

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Appendix 1. Types of corruption markets

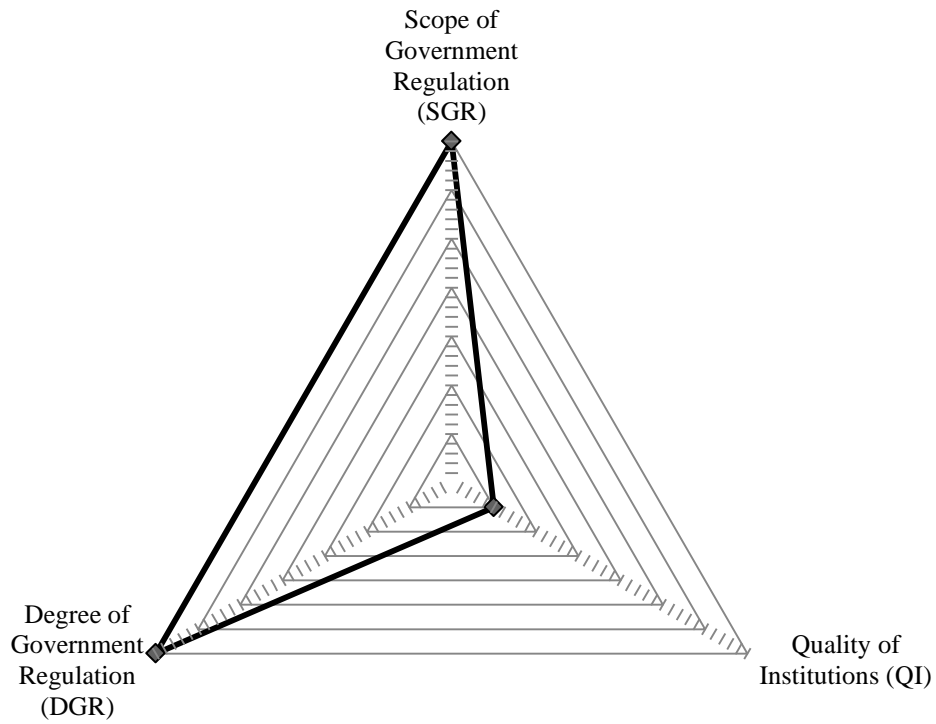


Fig. 1. Model A

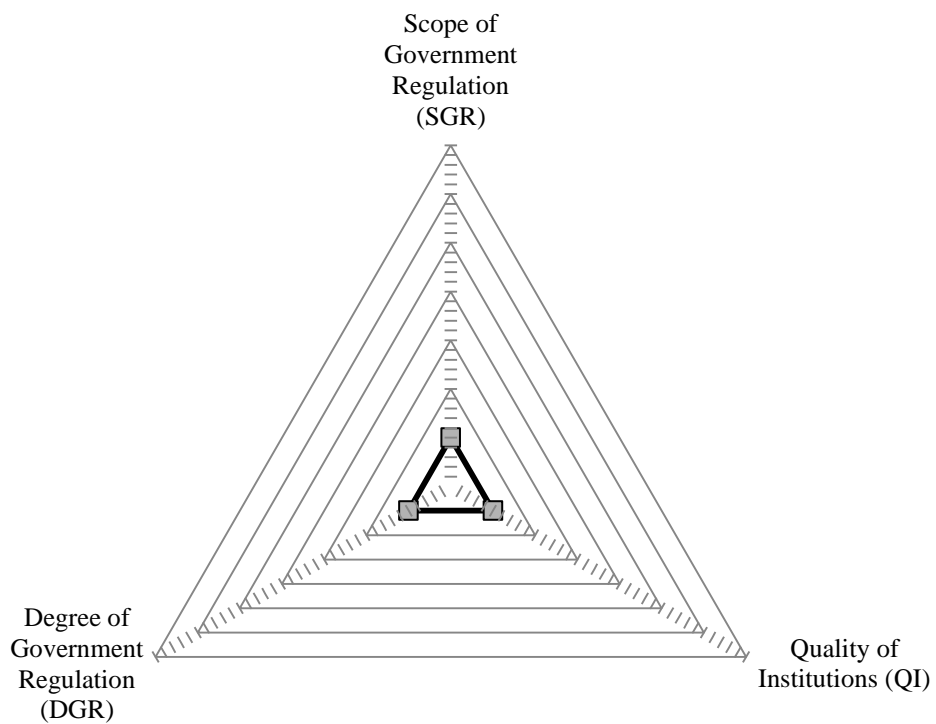


Fig. 2. Model B.

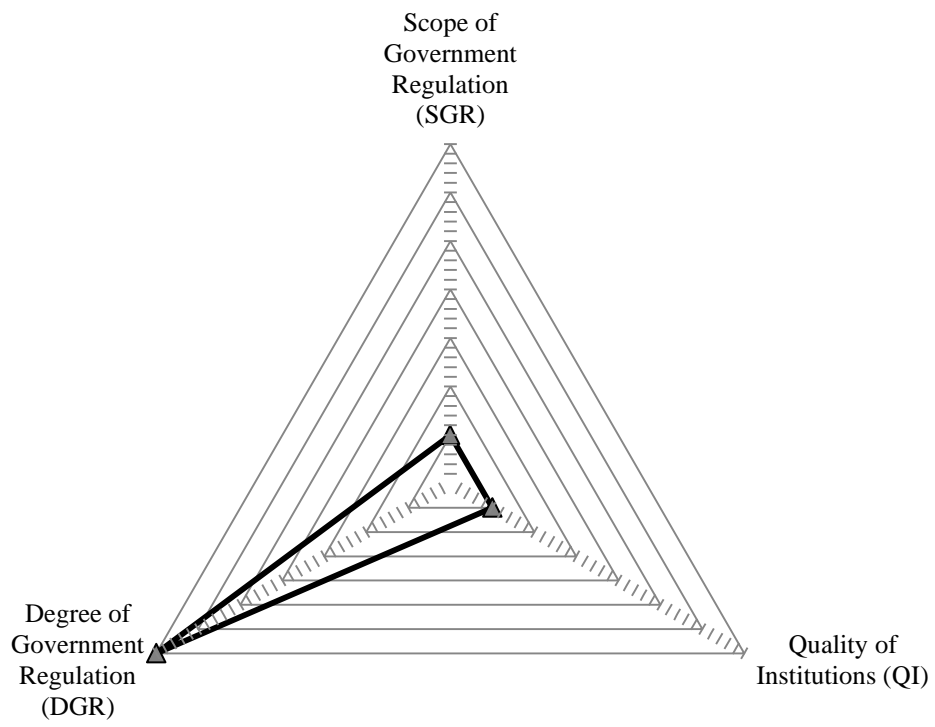


Fig. 3. Model C.

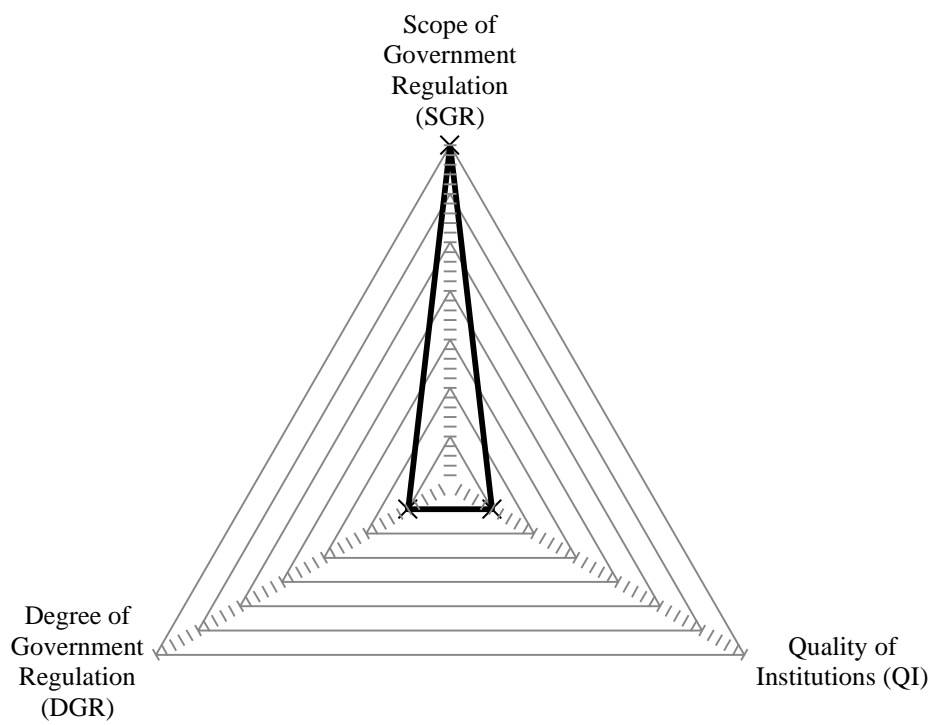


Fig. 4. Model D.

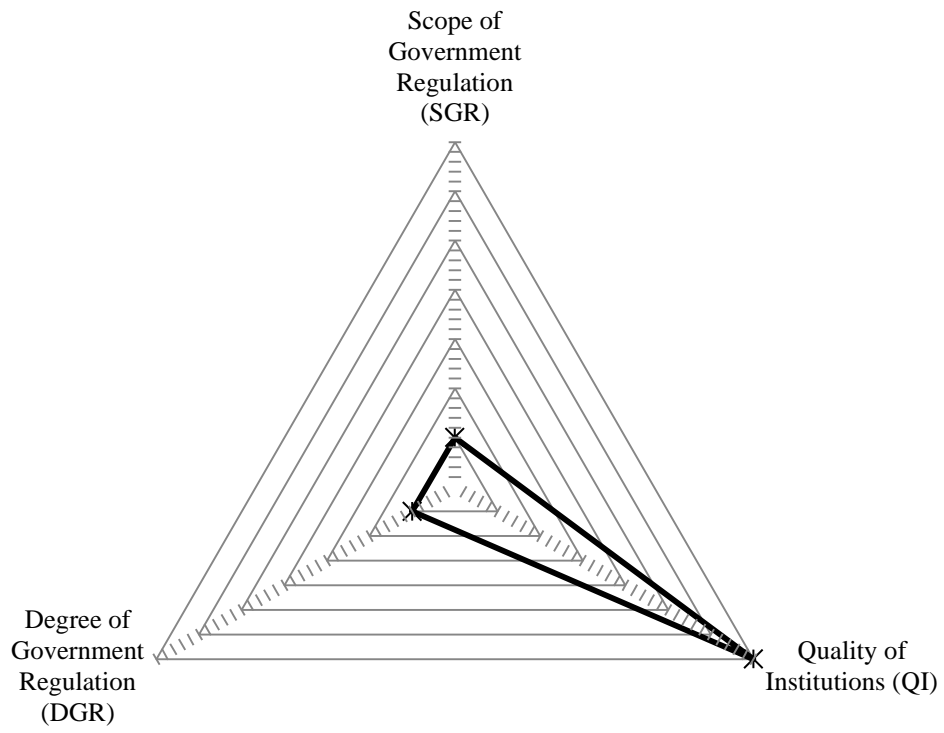


Fig. 5. Model E.

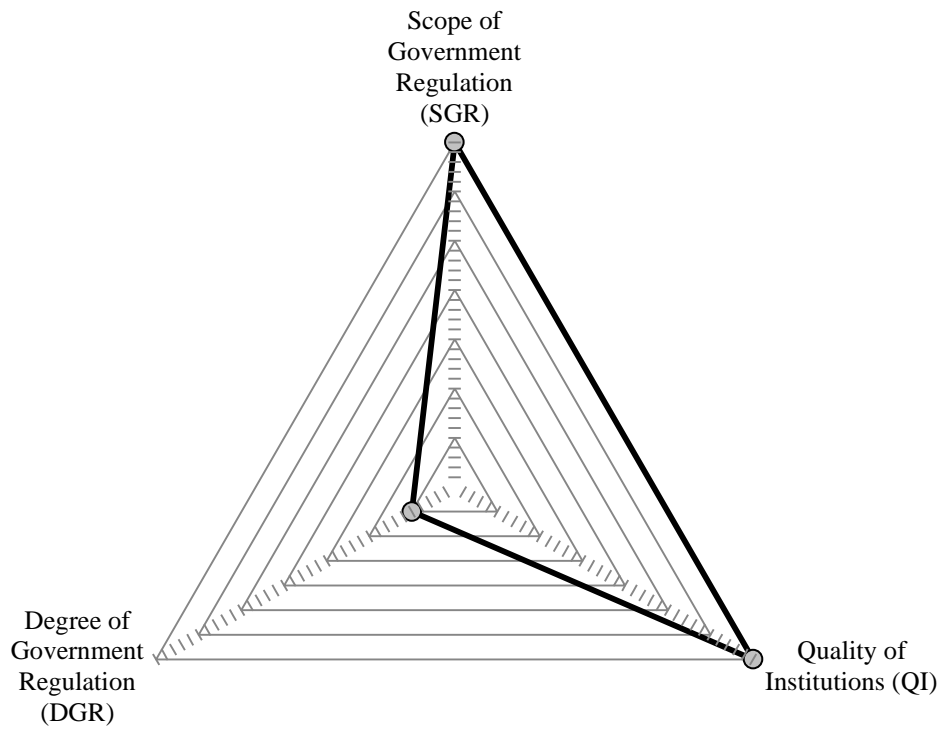


Fig. 6. Model F.

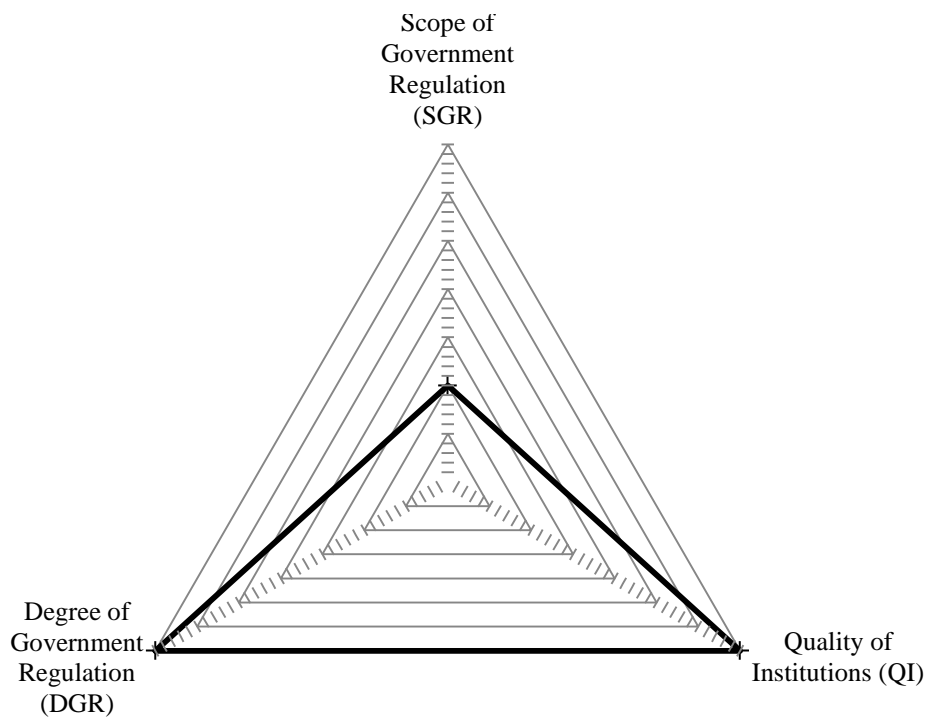


Fig. 7. Model G.

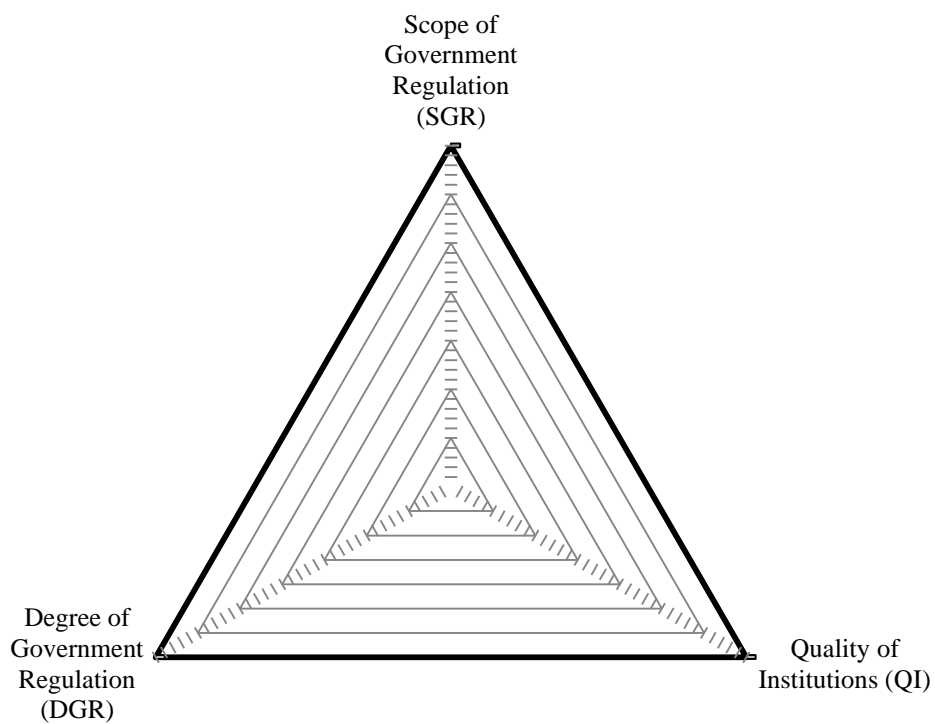


Fig. 8. Model H.

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