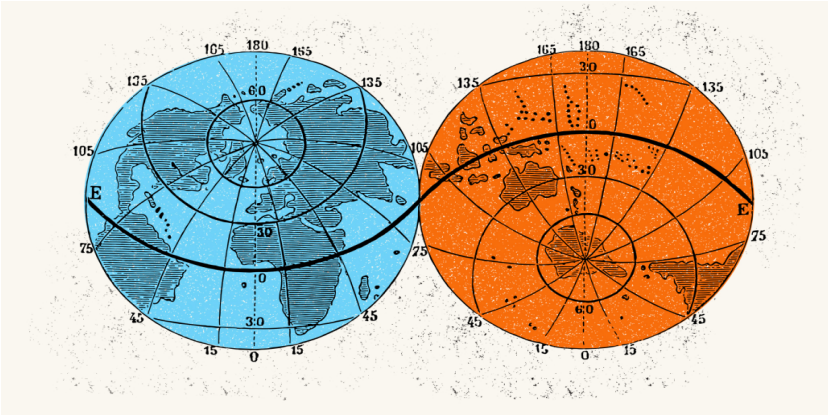


Are Capitalist Countries More Corrupt?

Encyclopedia:[Rule of Law](#), [Open Markets](#), [Elections](#), [Democracy](#), [Capitalism](#)



“Corruption is a cancer: a cancer that eats away at a citizen’s faith in democracy and diminishes the instinct for innovation and creativity.”

-Joe Biden, US Vice President

Transparency International defines corruption as “the abuse of entrusted power for private gain.”^[1] While government institutions and the officials that populate them are meant to promote the public good, some self-interested government employees use their position to advance their own goals, often at the public’s expense. This can take many forms, from public servants demanding money in exchange for services to corporations bribing officials to secure lucrative contracts. Aside from the ethical concerns about corrupt practices, corruption can erode confidence in democratic institutions and contribute to resource misallocation that damages economies. So, what can countries do to discourage corruption and promote good governance?

A country’s economic system creates incentives for certain kinds of behavior while discouraging others. Some scholars, such as the Australian National University’s John Girling, argue that capitalist economies implicitly reinforce the values of the marketplace, namely that “everything can be bought and sold,” in all facets of life, which encourages self-interested and transactional behavior by political employees.^[2] Others contend that capitalist economies give the government less power over economic affairs (i.e. fewer taxes and less regulation), which makes it more difficult for public officials to attract bribes. In this case study you will evaluate data from the DemCap Analytics tool to see whether capitalist economies are more prone to corruption. You will also examine the relationship between political corruption and civic participation to see whether high corruption decreases political involvement.

Government Size, Economic Systems and Corruption

Studies on the relationship between government size and corruption incidence are largely inconclusive. Some show that larger governments can increase the rents on illegal behavior, while others suggest that larger governments “are more effective in fighting corruption because of a bigger budget for law enforcement.”^[3] Kotera and colleagues (2010) find that the relationship between

government size and political corruption is conditional on the stability of a country's democracy.^[4] Because politicians are monitored by a free press and fair elections in liberal democracies, they cannot behave unethically without jeopardizing their power. In a country with weak or no democracy, there is no such check on political power, so a larger government affords public officials more opportunities to solicit bribes.

Economic regulation and taxation are also related to corruption. Gatti (1999) finds that in countries without uniform tariffs on foreign goods, customs officials often solicit bribes to reclassify goods into a lower taxed category.^[5] Complicated tax systems might therefore give public officials more opportunities to behave corruptly. Similarly, complicated regulatory environments are associated with higher perceived corruption.^[6] This makes intuitive sense, since onerous regulatory barriers to market entry may encourage would-be business owners to bribe bureaucrats to avoid the costs of compliance.

Corruption control is one area where capitalism and democracy seem to jointly promote societal good. Saha and colleagues (2009) examine panel data from 100 countries and find that economic freedom and democracy interact with each other to discourage corrupt practices.^[7] Countries like Singapore with low levels of democracy but high levels of economic freedom are rife with corruption, as are countries like India with high levels of democracy and low levels of economic freedom. Only the combination of democratic political institutions and relatively free markets can effectively limit the opportunities for rent seeking behavior.

Corruption and Political Efficacy

Participation in civil society requires some level of institutional trust, and widespread corruption can sour citizens' attitude towards the political system and discourage political involvement. Democratic representation is a classic principal-agent arrangement: voters express their public policy preferences through elections, and elected representatives are expected to promote their constituents' policy preferences through their legislative behavior.^[8] The voters (principal) cannot observe the behavior of the elected representative (agent) at all times, and while they can punish misbehavior through elections this arrangement partly depends on the belief that the agent will act in good faith. However, when an elected representative takes advantage of this information asymmetry to act in their own interest at the public's expense, it undermines confidence in the entire democratic system. Widespread corruption may convince voters that the political system is not responsive to their needs, and discourage them from expending time and energy on political participation.

There is considerable evidence that corruption creates a less politically active citizenry that is more critical of democracy. Christopher Anderson and Yuliya Tverdova demonstrate that individuals in countries with high levels of corruption "evaluate the performance of their political system more negatively," and that especially in young democracies this can contribute to democratic backsliding.^[9] Similarly, in his study of Italian voters' response to media coverage of corruption, Tommaso Giromoni finds that a one standard deviation increase in corruption coverage decreases voter turnout by .28% after one year and reduces the number of candidates who choose to run for municipal political offices.^[10] States must actively work to decrease corruption or they may imperil the health of their democracies.

Assignment

1. To what extent does the belief that citizens can influence government policy affect perceptions of corruption? Examine [Figure 2 from Enste and Heldman's \(2017\) essay](#) on predictors of

- corruption. What trends stick out to you? Why might citizens in a corrupt country feel that their political voice matters less?
2. Using the [Data Analysis](#) tool, compare Chile, Lebanon, and Kenya in terms of Integrity of the Legal System and any of the Corruption datasets. Do these measures of corruption suggest your countries are as corrupt as they appeared in question 1?
 3. Discuss which aspects of these economies make them more or less capitalist. Investigate these using the tool. Thinking about your answer to Question 2, do capitalist economies appear more or less corrupt?
 4. Does the relationship you observed in question 3 make sense? Why might capitalist economic systems affect the frequency of political corruption?
 5. Do corruption's potential economic or political consequences concern you more? What kinds of policies could limit corruption among public officials?

Notes

[1] "What Is Corruption?" Transparency.org. Accessed February 9, 2023.
<https://www.transparency.org/en/what-is-corruption>.

[2] Girling, John. Essay. In *Corruption, Capitalism and Democracy*, p. 167. London: Routledge, 2014.

[3] Olsson, Sofia Arkhede. "Corruption and political participation." (2014): 7

[4] Anderson, Christopher J., and Yuliya V. Tverdova. "Corruption, political allegiances, and attitudes toward government in contemporary democracies." *American journal of political science* 47, no. 1 (2003): 99

[5] Giommoni, Tommaso. "Exposure to corruption and political participation: Evidence from Italian municipalities." *European Journal of Political Economy* 68 (2021).

[6] Enste, Dominik, and Christina Heldman. "Causes and consequences of corruption: An overview of empirical results." (2017): 9

[7] Kotera, Go, Keisuke Okada, and Sovannroeun Samreth. "A study on the relationship between corruption and government size: the role of democracy." (2010).

[8] Gatti, Roberta. *Corruption and trade tariffs, or a case for uniform tariffs*. Vol. 2216. World Bank Publications, 1999.

[9] Enste, Dominik, and Christina Heldman. "Causes and consequences of corruption: An overview of empirical results." (2017).

[10] Saha, Shrabani, Rukmani Gounder, and Jen-Je Su. "The interaction effect of economic freedom and democracy on corruption: A panel cross-country analysis." *Economics Letters* 105, no. 2 (2009): 173-176.