

WORKING PAPER SERIES

Corruption and the Paradox of Transparency

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Working Paper 03-2018

Stanford Law School
Rule of Law Program

Abstract

Corruption is widely defined as the abuse of public office for private gain. This definition has several terminological shortcomings and encourages anti-corruption reformers to design strategies in line with principal-agent solutions that usually target government officials and not others. Despite the widespread prevalence of this framework—and the massive transparency and accountability anti-corruption campaigns that have followed—corruption continues to afflict governments and societies globally. This is because corruption presents something more complex than a principal-agent problem. Unlike many other kinds of illegal or immoral acts, it carries steep collective political costs that have the ability to derail typical principal-agent reform efforts. Corruption should therefore be redefined as an event that *occurs when an actor seeks an unauthorized benefit from an organization in a manner that could compromise the public's trust in that organization*. By focusing on the effects of the corrupt act on trust in organizations, this new definition encourages anti-corruption strategies that take account of broader considerations beyond simply punishing the ‘agent.’

Acknowledgements

The authors gratefully acknowledge helpful feedback from Erik Jensen, Ezra Suleiman, Niraja Gopal Jayal, Janet Allen. Dinsha Mistree thanks the Rule of Non-Law Project and Freedom English Academy for support.

Stanford Law School: The Rule of Law Program

The Rule of Law Program at Stanford Law School brings together a diverse set of scholars who are interested in the theory and practice of international development and state-building. Our work is supported by grants from Stanford-SEED, the US State Department, and anonymous donors. The faculty director of the Rule of Law Program is Erik Jensen.

What is Corruption?

In 2014, Western Africa faced a threatening Ebola epidemic. The International Federation of the Red Cross and Red Crescent Societies (IFRC) deployed personnel to the regions and started an aggressive fundraising campaign. IFRC officials carried out heroic work, but in responding to the crisis, several officials also sought to make personal profit. In Sierra Leone, IFRC officials worked with a local bank to deceive the organization through exchange rate manipulation. In Liberia and Guinea, fraudulent billing practices during the Ebola Crisis was widespread, hindering relief efforts, and President Ellen Johnson Sirleaf ultimately dissolved the Liberia National Red Cross Board pending an investigation. Altogether, more than \$6 million USD of the \$124 million that the organization managed was diverted from Ebola relief efforts.

Many newspapers covered the Red Cross story as a sad case of corruption, and the IFRC committed itself to preventing future acts of bribery, fraud, and embezzlement, which they identify as corruption. If they are ever caught, the officials involved in these crimes are likely to be charged under various corruption statutes and various anti-corruption commissions are currently involved in the investigations. However, despite the seeming agreement that corruption took place, these acts would not technically be considered corruption by the prevailing definition of corruption, as *the abuse of public office for private gain* (World Bank, 1997a).¹

While the Red Cross Scandal clearly constituted an abuse, the Red Cross is not a ‘public’ organization. Instead, it is a private Swiss organization, constituted and governed by the terms of its own private charter. Because the IFRC is not a public authority, government department or agency, its employees are not doing so from a ‘public office’ as construed by the prevalent definition of corruption. Although these employees are tasked with carrying out socially-beneficial objectives, they are nonetheless individuals who work in a private organization. Thus, the Red Cross Scandal—although widely regarded as corruption by the media, the organization itself, and the law—would not count as corruption according to the prevalent scholarly and policy definition.²

As this vignette reveals, the way that scholars and policy practitioners have come to define the complex phenomenon of corruption is disturbingly over-simplified and discordant

with the reality of how corruption manifests itself. The prevalent definition of corruption fails to capture the diverse group of actors that are often involved, the complex nature of the acts that are associated with corruption, and the various motivations as to why actors carry out such acts. Furthermore, by construing corruption as an act that gives rise to consequences between a principal (either the government or the public) and an agent (the public office holder), the definition has led to a narrow set of anti-corruption responses. Since this convergence on this definition by scholars in the late 1970s, most anti-corruption approaches by policymakers have followed the principal-agent mold. Not surprisingly, this principal-agent focus has compromised many anti-corruption programs as previous scholars have observed, and for reasons that we will present in this article (Persson, Rothstein, & Teorell, 2013). The costs of these failed anti-corruption reforms are considerable, as is the cost of the problem. In 2017 businesses and individuals still pay an estimated \$1.5 trillion in bribes each year, which is about 2% of global GDP (World Bank, 2017a).³ In this context, we seek to not only critique the prevalent definition of corruption (a task which other scholars have done), but to also provide an alternative definition that we hope will shape future policy responses to this enduring problem.

This paper begins by considering how scholars have understood corruption over time, both in order to illuminate how we have arrived at the current definition of corruption as an *abuse of public office for private gain* and to examine whether there are any qualities in older definitions that should be included as we construct a new definition of corruption. The paper highlights the terminological shortcomings that are inherent in the prevalent definition, and how this framing of corruption limits anti-corruption strategies to a narrow set of principal-agent solutions. Such an artificially narrow set of solutions weaken anti-corruption efforts, particularly because these solutions usually fail to take into account the collective costs associated with anti-corruption.

The paper also considers what makes corruption unique from other undesirable acts and crimes. Put simply, we emphasize that vigorous anti-corruption responses frequently harms actors who are not involved in corruption, sometimes including the public at large. An honest reform-minded policymaker would quickly adopt protections against typical crimes like murder

or robbery or speeding, but might have good reasons to oppose anti-corruption initiatives. For instance, the mere introduction of anti-corruption reforms can weaken the public's trust in the concerned organizations, a serious threat that a policymaker must weigh before agreeing to such reforms. This paradox is the defining characteristic of corruption that differentiates it from other undesirable acts. Government officials are often reluctant to address corruption simply because admitting that corruption exists might undermine their own political standing or it might even threaten the broader public trust that state institutions require to function. Corruption essentially generates a collective political cost that goes beyond a bilateral economic transactional cost.

Working from these limitations in the prevailing definition of corruption, the paper offers an alternate understanding of corruption as an event that *occurs when an actor seeks an unauthorized benefit from an organization in a manner that could compromise the public's trust in that organization*. This new definition encourages scholars and reformers to consider the collective action dimensions of corruption while still accommodating the principal-agent framework. Such a hybrid framing should yield a larger set of anti-corruption approaches that are also more likely to be politically supported, and thus more effective.

A Short History of Corruption Studies

Corruption has traditionally been associated with a number of different concepts. Aristotle, for instance, refers to corruption as any deviation of moral and political order from an ideal state of purity (Dobel, 1978). As he assesses the virtues and vices of various regime types, Aristotle recognizes that all regime types could become corrupted. Although Aristotle comes to the conclusion that the Republic is the best regime type, even a Republic can be an imperfect institution of rule, depending upon the degree of public spiritedness with which the polity is ruled (Skinner, 1978). And like Aristotle, many Republican theorists would go on to classify corruption as a condition instead of as a set of actions. For example, throughout his works Machiavelli treats corruption as a condition that arises when ordinary citizens turn to elites for security and advancement instead of relying upon their own public institutions. Following in this tradition, Maher writes that, “corruption—like virtue—is a potentiality and is in large part

determined by the power dynamics and social relations operating within a republic” (2016, 1014).

The first systematic studies of corruption began to emerge in the late 1800s and early 1900s as scholars sought to treat governance and public administration as a science. Corruption would come to be seen as an action or a series of actions instead of a condition. Writing during this time period, Brooks provides one of the earliest and most influential definitions of corruption:

“Corruption in its widest sense of the term would then include both bribery and auto-corruption [i.e., embezzlement], and may be defined as *the intentional misperformance or neglect of a recognized duty, or the unwarranted exercise of power, with the motive of gaining some advantage more or less directly personal*” (1909, 4, emphasis original).

Although he does not use these words, Brooks’ definition of corruption refers to an act of intentionally abusing public office for some kind of private gain, much in line with the contemporary definition of corruption. For Brooks, as well as for those who follow him, this definition only allows corruption to take place within a modern state where duties are prescribed to government officials. Also, Brooks requires a distinction between that which is personal and that which is owned by society. Prior to the creation of the modern state there was no delineation between what belonged to a king and what belonged to a state: these possessions were one in the same. Therefore a king in a pre-modern state could not commit corruption (Fukuyama, 2014).

Subsequent scholars would alternately problematize or simplify various aspects of this definition, although they would largely accept the definition’s foundations. One of the first to add a wrinkle to Brooks’ definition was the Nobel Prize winner Gunnar Myrdal, who saw corruption as a chief cause of poverty in Asia. Myrdal defines corruption as follows: “The term “corruption” will be used in its widest sense, to include not only all forms of ‘improper or selfish exercise of power and influence attached to a public office or to the special position one occupies in public life,’ but also the activity of the bribers” (1968, 937).⁴

Unlike Brooks, Myrdal places a special focus on the non-governmental actors who enable abuses of public offices. Myrdal goes on to recognize that corruption comes in many forms.

Government officials may engage in embezzlement—where non-government actors might or might not be involved—but other forms of corruption, such as bribery, typically also involve non-government actors. Bribery not only requires a government official willing to “supply” the act, but also requires another actor who provides the “demand” for the act. According to this concept of corruption, the private actor who offers a bribe is just as culpable and just as worthy of study as the government official who accepts it.

Similar definitions of corruption could also be found during this time period, suggesting consensus on the concept of corruption. Myrdal’s contemporary, Joseph Nye, offers a definition that includes actors who do not hold public office: “Corruption is behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence” (1967, 459).

As scholarly interest in corruption picked up, academics began to question whether corruption was an absolute vice or whether corruption under certain circumstances could actually be good for society. Taking this latter position, Nye was joined by Huntington (1968) and others in maintaining that corruption could be a key ingredient for political and economic development in weak democracies. Abuses of cumbersome rules would ultimately enable reforms that would trigger economic development. The money collected through corruption would then be used by parties to form the initial political bases of power. But money collected from corruption could not sustain a party on its own. Eventually, parties would have to compete over ideologies and performance records as well. Increased competition, partly enabled by ill-gotten resources, would ultimately lead to political development, wherein stronger institutions would make corruption more costly as enforcement and monitoring mechanisms improved. Firms seeking to affect legislation would choose to conduct legal lobbying instead of bribing, while patronage postings would be rejected by the party machine’s opponents. Huntington did not see this path to institutional maturity as an inevitability, but instead considered corruption as a necessary precursor for economic and political development.

The scholarly understanding of corruption would be affected by major events in the 1970s, as Richard Nixon's presidency filled the news. Regarding Nixon, the president frequently broke rules that he believed furthered American interests. The Watergate Scandal may be the most infamous example, but he also ordered secret bombing raids of Viet Cong in Cambodia. These actions were not for pecuniary gain, but they were nevertheless widely viewed as corrupt actions by the public. Just as much, some of Nixon's subordinates were legally required to carry out his commands. Were they also guilty of corruption?

In a parallel academic discourse, Walzer presents the problem of dirty hands, whereby "a particular act of government (in a political party or in the state) may be exactly the right thing to do in utilitarian terms and yet leave the man who does it guilty of a moral wrong" (1973, 161). Debates over this kind of behavior are rife throughout history: Zoroastrian theologians from the Persian Empire considered whether a soldier caught in battle should intentionally mislead the enemy by giving false information while Max Weber instructed future government officials to accept that their jobs will require them to follow morally objectionable commands that they will nevertheless have to carry out (1958).

Answering these difficult kinds of questions would prove elusive, but instead of focusing on the moral issues of corruption, corruption scholars instead borrowed from economics an increasingly popular framework used to explain organizational behavior: the principal-agent framework. In one of the first examples of this kind of language being adopted, Banfield differentiates between personal and official corruption (1975). He writes, "an agent is *personally corrupt* if he knowingly sacrifices his principal's interest to his own, that is, if he betrays his trust. He is *officially corrupt* if, in serving his principal's interest, he knowingly violates a rule, that is, acts illegally or unethically albeit in his principal's interest" (ibid, 593).

For Banfield, personal corruption is similar to Myrdal's and Nye's treatment of corruption; official corruption, on the other hand, allows scholars to sidestep the dirty hands problem altogether. This is because the specification of the principal can be left ambiguous. For instance, consider Nixon's subordinates who ordered illegal actions in Cambodia or misled Congress. Some might argue that these actions are *personally corrupt*, as their principals could

be construed as the American public. Others would suggest that these actions are *officially corrupt* as Nixon could be considered the principal and the subordinates were merely serving his interests.

Also around this time, scholars began to identify and theorize about the principal-agent framework. This framework would come to shape how scholars and policymakers conceptualize corruption and anti-corruption solutions. Jensen and Meckling (1976) were among the first (if not the first) to specifically identify the importance of principal-agent relationships. This principal-agent framework—and its attendant moral ambiguities—would quickly catch on among corruption scholars. Rose-Ackerman’s landmark study defined corruption as follows: “Corruption arises when some third person, who can benefit by the agent’s actions, seeks to influence the agent’s decision by offering him a monetary payment which is not passed on to the principal” (1978, 6).

Rose-Ackerman’s definition perhaps better describes bribery than corruption, as several activities that are commonly considered corruption would not be covered. For instance, most people would classify embezzlement and clientelism as forms of corruption, but a third person is not required for embezzlement nor does money need to change hands for clientelism to take place. Over time, Rose-Ackerman would continue to conflate bribery and corruption, streamlining her definition into the following: “an illegal payment to a public agent to obtain a benefit that may or may not be deserved in the absence of payoffs” (1996, 1).

Corruption studies would come to be dominated by this principal-agent framing, but scholars sought a definition that was not limited to bribery. Along came Sherman’s understanding of corruption: “*the illegal misuse of public authority by social control agents resulting in private gain for the agents or others participating in the agency’s dominant coalition*” (1980, 480, emphasis in original).

For Sherman, corruption did not have to involve a monetary exchange: it could include any kind of illegal misuse of public authority. Sherman was transparent about the limitations of his definition, explaining that misuse and public gain were ambiguous terms. Nevertheless, this idea that corruption entails misusing public authority for private gain would demonstrate

remarkable staying power in scholars' understanding of corruption, with the principal-agent framework being the modal approach to analyzing the problem. Shleifer and Vishny (1993) followed in this same line, defining corruption as, "the sale by government officials of government property for personal gain" as they explored how weak governments (the principals) were unable to control their ministries (the agents).

By the mid-1990s, corruption was recognized as a serious problem, but policymakers also started to believe that corruption was a problem that could be addressed. In 1996 the newly-appointed President of the World Bank, James Wolfensohn, suggested that the "cancer of corruption" was a major threat to economic development of poor countries. Although World Bank officials had by that point mostly accepted that corruption stymies economic development, it was not until Wolfensohn that the Bank seriously came to address the problem directly (Fukuyama, 2014). In the next year's *World Development Report*, corruption would take center-stage, where it would also be defined in its simplest form, as "the abuse of public office for private gain" (World Bank, 1997b). This definition is widely accepted today by almost all scholars and anti-corruption organizations, despite its shortcomings described earlier.⁵ The few scholars who do not use this definition verbatim usually accept its underlying premise. For instance, Banerjee, Rema and Mullainathan (2012) define corruption as, "the breaking of a rule by a bureaucrat (or an elected official) for private gain," whereas Johnston defines corruption as the, "abuse of public roles or resources for private benefit" (2010, 3).⁶ Whether a word or two is changed here or there, the underlying concept usually remains just as flawed.⁷

The Rationale for Redefining Corruption

Defining corruption as an abuse of public office for private gain creates three terminological shortcomings and also suggests a narrow approach to anti-corruption. First, it is unclear what an "abuse" entails. Does an action need to be illegal to be corrupt or should there be some broader moral conception involved? In some authoritarian countries, country leaders can sometimes change laws so that their actions do not break laws. Such states are often called kleptocracies. Can there be corruption in a kleptocratic state? Or is there an underlying set of

morals that better capture what is or is not corruption? Is bribery always corruption? What about embezzlement? What about lobbying? The prevalent definition leaves open many possibilities for what might or might not be classified as an abuse, and by extension what might or might not be considered as corruption.

Second, the definition focuses on those who hold “public office,” which diverts the focus from those who do not hold public office. This is a problem for two reasons. First, as the Red Cross Scandal makes apparent, people who do not hold public office can also engage in corruption. Second, one of the main forms of corruption is bribery, which frequently involves a transaction between a private bribe-giver and someone who holds public office. By making corruption and bribery the responsibility of those who hold public office, many anti-corruption efforts focus on stronger monitoring and punishment of government officials without addressing the private actors who could be involved. Anti-bribery approaches should seek to discourage private actors who are seeking to give bribes as well as government officials who might receive them. However, emphasizing the actions of the government official produces a limited policy design. Various anti-corruption initiatives—such as Indonesia’s Corruption Eradication Commission and India’s proposed Lokpal—are designed to better monitor and punish government officials without addressing the role of other actors such as the bribe-giver or the middleman or the party leader who does not hold public office. Arguably the strongest anti-corruption law in the world today is the U.S. Foreign Corrupt Practices Act, which targets potential bribe-givers. Not coincidentally, this law was developed before the prevalent definition of corruption was mainstreamed.

A third shortcoming arises when we consider whether corruption actually requires an abuse for “private gain.” What would an abuse look like that does not involve private gain? Is it an abuse that is taken to serve a larger organizational goal? If that is the case, then in many parts of the developing world, we know that political parties play an active role in facilitating bribery (Mistree, 2015). For party functionaries who collect and transfer bribes, they often seek to further the group’s political aims at the expense of their own potential private gain. If we argue that furthering the group’s political aims advances private gain, then it is unclear what private

gain excludes. This clause potentially excludes an important class of organizational corruption and is otherwise redundant at best.

Aside from these three terminological issues, understanding corruption as *the abuse of public office for private gain* simplifies corruption into a form of economic rent-seeking whereby a government official attempts to increase her share of existing wealth without creating new wealth. Therefore reducing—or even eliminating—corruption should always make a government system more efficient, assuming that the economic costs of reform can be kept low. If this is the framework, then the challenge of corruption reduces to a simple principal-agent problem, where a principal (usually the state or the population) has delegated decision-making authority to an agent (a government official) who chooses to act in her own best interest rather than in the principal's interest. Following this framework, Kliitgard (1997) simplifies both the problem of and the solution for corruption:

$$C \text{ (corruption)} = M \text{ (monopoly)} + D \text{ (discretion)} - A \text{ (accountability)}$$

Corruption comes about when a principal has to rely upon an agent to perform an action, when that agent has high discretion, and when the agent faces low accountability. If the principal can turn to other agents—or better yet, if the principal does not have to rely upon an agent at all—then there is no monopoly and corruption is less likely. This might come about when a citizen seeks a license from a government official. If the official is required to give the license and cannot use discretion to determine whether or not to issue the license, then corruption is also less likely. Alternatively, if there are strong accountability mechanisms to keep the official in check, there is likely to be less corruption. Accordingly, when corruption is treated as a principal-agent problem, there are only three possible anti-corruption strategies. Reforms can focus on:

- (I) removing power from government officials, perhaps by increasing access points to receive services, by privatizing services, or by computerizing a licensing procedure,
- (II) improving the monitoring of government officials, usually through enhanced transparency initiatives, and/or

(III) creating tighter accountability mechanisms over government officials, such as lowering the evidentiary standard for corruption or by increasing the punishments for those who are caught.

Indeed, these are the main anti-corruption recommendations of the World Bank, the International Monetary Fund, and various international NGOs. Not only does the current—and flawed—definition underpin approaches to preventing corruption, it also has underpinned scholarly and policy thinking on the problem. As discussed earlier in this article, many scholars start from the proposition that corruption is a principal-agent problem, which leads to a narrow set of responses that are unlikely to receive political support. Even for the reforms that are adopted, without genuine political support such implementations will fail to address the underlying corrupt behavior.

Alternative Corruption Frameworks

Treating corruption as a principal-agent problem can be useful, but such an approach has its limits as well. For this reason, an emerging line of scholarship has started to consider other models for treating corruption. Dixit (2016) frames corruption in terms of supply and demand, suggesting that anti-corruption efforts should target both the supply and the demand for corruption. Others argue that corruption might be better framed as a collective action problem (Bauhr & Nasiritousi, 2012; Mungiu-Pippidi, 2013; Persson, Rothstein, & Teorell, 2013). A collective action problem emerges when a set of stakeholders would all benefit from a certain action, but the action comes with a high associated cost that discourages any individual stakeholder from addressing the problem alone. Corruption presents many different kinds of collective action problems. For instance, citizens would be better off if nobody paid bribes to police officers, but the individual who refuses to bribe will sometimes face higher costs than those who simply pay bribes. This cost can take different forms: the fine itself might be higher than the bribe, the individual might have to travel to the station to pay the fine, and the police might subsequently harrass the individual.

Corruption can also generate internal collective action problems for the organizations affected by corruption. Consider the account of a former World Bank official who had also served in the Indian government. According to him, the highest echelon of the Indian bureaucracy—the Indian Administrative Service (IAS)—was relatively free of corruption at the time of Independence. Corruption at the lower levels of the bureaucracy was heavily controlled as well, as the original British colonial state was built to extract, and errant officers would reduce the colonialists’ profit. The retired official continued by describing how corruption would come to permeate the Indian state. He claimed that World Bank officials were venal, and when the World Bank first started to do projects in India, these officials concurrently sought to ensure that their IAS counterparts would also “dip their hands in the same till.” The logic for the World Bank officials was straightforward: they did not want to be reported by the Indian bureaucrats, and this was much less likely to happen if the Indian bureaucrats were also involved in the same graft. Once corruption had entered the upper echelons of the Indian government, top officials ensured that their underlings also dipped their hands in the till, lest these top officials get reported.

This account of cascading corruption amongst the Indian bureaucracy is highly stylized and there were undoubtedly other factors that led to the prevalence of corruption that India exhibits today. Nevertheless, government officials have strong incentives to include other officials in their crimes so as to discourage being implicated. An internal reformer operating in such a setting would face serious individual costs if she were to fight corruption. A meaningful anti-corruption reform in such an environment would require coordination such that the costs of reform are distributed collectively.

To be clear, unlike other scholars we are not arguing that corruption as a principal-agent framework should be wholly abandoned. Instead, the real difficulty of fighting corruption is that it presents both principal-agent challenges as well as collective action challenges (Naidoo, 2013; Marquette & Peiffer, 2015). Sometimes certain forms of corruption might be best addressed through the lens of the principal-agent model; at other times, corruption is better framed in collective action language. Perhaps other frameworks can also usefully address corruption. A

strong definition of corruption should encourage reformers to think about myriad anti-corruption approaches while also differentiating corruption from other undesirable activities. After all, not all forms of evil are corruption.⁸

A Revised Definition of Corruption

Treating corruption as an *abuse of public office for private gain* is terminologically fraught and also improperly suggests that corruption is exclusively a principal-agent problem. In fact, corruption has many manifestations with many different types of actors involved. This section of the paper proposes a new definition that aims to rectify the theoretical shortcomings discussed earlier. Corruption occurs when *an actor seeks an unauthorized benefit from an organization in a manner that could compromise the public's trust in that organization.*⁹ We consider in turn both the actions that comprise corruption in this new definition as well as the elements of intention that underpin it.

Action: seeking an unauthorized benefit and compromising public trust

The revised definition of corruption focuses on the act of seeking an unauthorized benefit. This emphasis on an act follows contemporary thinking on corruption. Apart from Aristotle and Machiavelli who saw corruption as institutional perversions, most contemporary scholars (as well as most non-academics) seem to agree that corruption involves an act. Institutional perversions may indeed enable acts of corruption, but at its base, corruption involves an act, regardless of whether an institutional perversion exists or not. But what type of ‘acts’ should comprise corruption, and which acts fall outside its scope? .

The prevalent definition of corruption focuses on acts of “abuse,” a vague and open-ended concept. By contrast, our proposed definition is at once both more sharply defined and encompasses a wider set of potentially corrupt behaviors. By “benefit,” we refer to a broad array of advantages including, for instance, financial benefits, a favorable evaluation of a tender bid or job application or the exercise of power against another person. Meanwhile the concept of “unauthorized” benefits refers to acts that are undeserved or inappropriate. These might include

acts that are formally illegal in a country or those which infringe popular standards of behavior. For instance, an unauthorized act would include most typical forms of corruption, such as a bribe in exchange for a service or an embezzlement, both of which are likely to be outlawed in many countries. It may also include behavior such as nepotism, which may not constitute an independent crime in a particular country, but which might be inappropriate within a particular context.

Even though seeking an unauthorized benefit is a necessary part of our revised definition, it is not sufficient to constitute corruption. Our revised definition has two elements. The act of seeking the unauthorized benefit must also compromise the public trust in an organization. In most cases seeking an unauthorized benefit will compromise public trust. For instance, consider the 2015 case of executives of the auto-manufacturer, Volkswagen, who sought a favorable clean air emissions rating from the Environmental Protection Agency for its diesel engines in 2015 (the ‘benefit’). They sought such benefit by installing a device to cheat regulatory compliance checks (the ‘unauthorized’ behavior). In so doing, these executives threatened public trust in their company, and in the EPA. By contrast, a mid-level executive of Volkswagen that uses her company car for personal use is unlikely to impact public trust in the company, even if this benefit might be formally ‘unauthorized’ within internal company policy.

This link between corrupt behavior and threats to public trust in an organization is not without precedent among scholars and policymakers. Lessig (2013), for instance, argues that institutional corruption should be defined by reference to the extent to which it inhibits the ability of an organization to carry out its function, including by way of a diminution of trust. Also, the Preamble to the United Nations Charter against Corruption, the only binding and widely acceded international law on anti-corruption, provides that one of the “threats posed by corruption [is] to the stability and security of societies, *undermining the institutions* and values of democracy, ethical values and justice and jeopardizing sustainable development and the rule of law” (emphasis ours).

Insofar as states are concerned, seeking an unauthorized benefit has the potential to undermine state institutions, and specifically threatens public trust in these institutions. Public

trust has been identified as an important component for state institutions at least since the time of Weber: without this kind of trust, state institutions have to rely upon much more expensive or oppressive means of control to gain compliance (Weber 1958; Hart, 1961). Contemporary studies have shown that a reduction in public trust in government makes it more challenging for public institutions to deliver services and to make policy decisions. This is because if the public does not trust the state, it is often unwilling to allow its institutions to make decisions on the public's behalf.¹⁰ The same holds true for state institutions in non-democratic societies, which also are at their strongest and most effective when they maintain high levels of public trust.¹¹ Corruption thus threatens public trust because it has the potential to undermine the legitimacy of government authority.

There are, of course, some states as well as other organizations for which public trust is already so low that it may be hard for any act to further compromise the public's trust. Once Bernard Madoff was arrested in 2008 for massive securities fraud after the largest ponzi scheme in the world, it is likely that the public had close to no trust left in the investment firm which he managed, Bernard L. Madoff Investment Securities LLC. In this case, it may be hard to see how any subsequent action of people within the company might have further compromised its already extremely low levels of public trust. Even though some organizations have extremely low levels of public trust, the revised definition does not require an actual diminution of trust. Instead, the standard in the definition suggests that corruption occurs where there are acts which 'could compromise' public trust in the organization. As trust is not an absolute, it is always possible to further diminish trust, however incremental such diminution may be. Public trust in even the most corrupt government agency *could* be further damaged if there were further corruption within its ranks.

The revised definition of corruption not only clarifies the broader public costs of corrupt behavior, but it also captures a broader set of activities than the prevalent definition. The prevalent definition of corruption focuses on a narrow set of public actors. As the story about the Red Cross Scandal at the opening of this article demonstrates, the actors involved in corrupt acts are not always public office holders. The prevalent definition is inadequate even when public

office holders are involved. For instance, most people would consider as corrupt a private actor's attempts to bribe a government official, whether the government official accepts the bribe or not. A failed attempt to bribe a public officer may not constitute an abuse of 'public office' under the traditional definition of corruption, but it still ought to be considered an act of corruption because of the actions of the private actor.¹² Under our revised definition, an attempted bribe would be captured by the notion of 'seeking' an unauthorized benefit, whether the briber was successful or not.

There might also be private forms of corruption that do not involve government officials at all. Consider the popular coverage surrounding the onset of the Great Recession in the 2000s. As we now know, privately-owned agencies issued ratings on subprime debts held by several major private financial institutions; these ratings did not adequately reflect the true underlying risk profiles of those organizations, contributing to a collapse of several major investment banks and almost sinking the entire global economy. Many news outlets at the time called these private relationships for what they were: corrupt. This example highlights that corruption can occur between private actors just as much as between and among public and private actors.

This example also highlights why corruption threatens the public trust of *organizations* and not just government institutions. Other kinds of organizations—from ratings agencies and business firms to international institutions and non-governmental organizations—are embedded in societies and should thus also benefit from high levels of public trust. By leaving open the nature of actors who might be involved in corruption, the new definition moves away from the narrow tie to public institutions. Our proposed definition more accurately reflects the empirical realities of corruption, and also acknowledges that anti-corruption efforts should focus on both public-private and wholly-private forms.

Intention to carry out an unauthorized act, not damage public trust

There are two forms of intention that ought to be considered in our revised definition of corruption. Intention could either refer to the state of mind of a person seeking an unauthorized benefit or it could refer to the state of mind of a person with respect to their desire to damage

public trust in an organization. Even though the latter form of intention might constitute corruption in certain cases, the former is type of intention is required. Put different, in our revised definition a person need only have intention to carry out an unauthorized act, not to damage public trust in an organization.

The reason why intention is needed to seek an unauthorized benefit is that without such intention the revised definition of corruption would cast a net so wide that it would capture every action which diminishes public trust in an organization. For instance, without some consideration of intention, inadvertent mistakes or incompetence that are technically unauthorized would also be included. These types of acts—that may arise as a consequence of inadequate state capacity or other issues—require different solutions other than anti-corruption responses. On the other hand, if a person has intention to carry out an act, and that act has the effect of weakening public trust in an organization, then whether the person intended for that damage to public trust or not, the person will be culpable under the revised definition. With this structure, the revised definition targets those who intend to carry out an act which is unauthorized, whether they successfully carry out the act, or not), as well as those who cause damage to public institutions as consequences of their acts.

It may be useful to provide examples of different behaviors that fall within and outside the realms of the revised definition. Imagine a government agency responsible for issuing drivers' licenses. Front-line decision makers in this organization are compelled by the law to take account of certain factors in determining whether to issue a license to an applicant, such as the applicant's age, eye-sight, historical driving record, and performance on a written test as well as a driving test. For the sake of this example, let us assume that the law says that an applicant can only be issued a drivers' license if s/he secures at least 80 percent or above in both the driving and written tests. If a group of employees of this agency mistakenly issue drivers 'licenses to an applicant who has a combined average score of 80 percent or above on *both* tests, rather than for each test, they may have carried out an unauthorized act. However, this was an unintentional mistake, and even if that act caused some damage to public trust in the agency, such a mistake would not be included in our revised definition of corruption. If, however, an agency employee

knowingly passes an applicant who has inferior scores, then she would have intention to carry out the unauthorized act and thus would meet the condition for corruption.

Taken together, our revised definition differs from the prevalent definition in three important ways: firstly, by focusing on the type of act rather than the actors involved, the revised definition encourages us to think about the role of all actors—including government officials as well as private actors—who facilitate corrupt acts. Second, the revised definition changes the intention element of corruption. Rather than requiring that corrupt actors have to be driven to carry out corruption for private gain, the revised definition instead only requires some form of intention to carry out an unauthorized act. Third, a core component of the revised definition is the idea that corruption has the potential to threaten the public trust of an organization. This is what makes corruption unique from other undesirable acts. As we shall discuss in the next section, this is also what makes corruption so difficult to address. By bringing attention to the relationship between corruption and public trust, our revised definition emphasizes the political tradeoffs involved in most anti-corruption strategies.

The Anti-Corruption Paradox

Corruption occurs when an actor seeks an unauthorized benefit from an organization in a manner that could compromise the public's trust in that organization. By defining corruption with reference to public trust, we are also forced to ask whether transparency and accountability initiatives are always worthwhile anti-corruption strategies, as many academics and policymakers maintain (Mauro, 1995; Ades & Di Tella, 1999; Sandholtz & Koetzle, 2000; Montinola & Jackman, 2002; Persson, Tabellini, & Trebbi, 2003; Gerring & Thacker, 2004; Bäck & Hadenius, 2008; Silveira, 2016; Transparency International, 2016). Under the principal-agent model, corruption is merely an economic rent that is always harmful to economic development, and its removal is paramount, provided that the economic costs of monitoring and enforcement can be offset. The effectiveness of a given anti-corruption strategy should therefore be measured along two dimensions: (1) whether the actors who engage in the act are likely to be caught and adequately punished and (2) whether the strategy will discourage future acts of

corruption. Transparency and accountability initiatives are generally effective along these dimensions.

But transparency and accountability initiatives can also generate costs that go beyond monitoring and enforcement. Consider an example from 1950s India under Jawaharlal Nehru's Congress Party. Some members of the Congress Party in Bombay (present-day Mumbai) were giving state contracts to cement and insurance companies in return for kickbacks. When Nehru and the Congress leaders found out about these potential scandals, they debated whether to bring them to the public's attention or simply handle these matters behind closed doors. Ultimately Nehru's son-in-law decided in a burst of defiance to bring these matters to the floor of the Indian Parliament, bringing this scandal to the public's attention. But before this happened, Nehru and others argued that such a scandal would not only weaken Congress's hold on power, but might also undermine India's infant democracy. They were also concerned that a culture of corruption could lend itself to greater corruption. During these debates, Nehru remarked: "Merely shouting from the house-tops that everybody is corrupt creates an atmosphere of corruption. People feel they live in a climate of corruption and they get corrupted themselves. The man in the street says to himself: 'well, if everybody seems corrupt, why shouldn't I be corrupt?' That is the climate sought to be created which must be discouraged." (*sic* Nehru, in Myrdal, 1970, 236).

This case suggests a third dimension along which anti-corruption measures should be analyzed. Specifically an ideal anti-corruption measure should make the concerned organization stronger. This means that any reform should augment—rather than undermine—the public trust in the concerned organization. Unfortunately, most anti-corruption measures involve tradeoffs between these three dimension. When an anti-corruption strategy involves transparency whereby an act of corruption is publicized to deter other actors from committing the same act. Such a strategy could also make people think that corruption is more prevalent, which would encourage other people to be corrupt. As Nehru highlights, where corruption is widespread such that the social costs of corruption are low, individuals have no disincentive not to be corrupt.

Related to this point, anti-corruption efforts that focus on transparency can also weaken popular trust and might actually lead to an organizational reputation that encourages future acts

of corruption. It follows that strident transparency measures could lead to a heightened perception of corruption in the short term, which could damage public trust in that organization or lead to further corrupt activity within it.¹³

Many anti-corruption reforms that seek to improve accountability often concomitantly reduce discretion. This results in a tension between discouraging and punishing bad actors, on the one hand, versus limiting the power of good actors. For example, Chen and Göbel (2016) argue that the Chinese Communist Party's central government campaign to stamp out corruption has altered local incentive structures encouraging more innovative regulatory responses to corruption among local level officials. Similarly, consider a corrupt government agency in which a group of reformers have been slowly working to try and clean up. If the bad actors within that agency are highlighted through transparency efforts, it may be impossible or difficult for the reformers to continue their work.

These tradeoffs will not be relevant in all situations. But anti-corruption advisors ought to account for these tradeoffs in any given anti-corruption strategy, and not just its potential benefits.¹⁴ The decision to pursue certain anti-corruption measures should be evaluated by the same metric as the definition itself: policymakers and leaders of organizations need to consider what effects such efforts will have on the public trust of an organization. In the India case discussed above, Nehru correctly considers what would happen to his Congress Party and the Indian state if he publicized and pursued a vigorous anti-corruption campaign. In considering what approach to take, it is important for leaders of organizations—public or private—to consider the impact that various campaigns will have on public trust of other important organizations.

Governments and other organizations often have a number of different anti-corruption strategies available to them to prevent corruption, each with different potential outcomes for public trust. A case of corruption in a government department, for instance, may be investigated publicly or privately, it may be prosecuted in an independent court, through an internal institutional disciplinary process, or it may be dealt with through internal admonition. Each of these decisions about investigation and prosecution of a corrupt act carry different levels of

visibility and risk for public trust in that department. Some anti-corruption strategies may be able to correct the loss of trust in the organization that arose as a consequence of the corrupt act, but other strategies will have the effect of further reducing public trust. Organizations need to be cognizant of this risk to public trust in determining which approach they take in dealing with corruption allegations.

While different anti-corruption strategies may carry the same economic costs and benefits, they can threaten public trust in organizations in different ways. Estimating whether one approach is more detrimental or beneficial to organizational trust is largely context dependent. To this end, consider two scenarios of how this model could be practically applied. Firstly, Jane Doe, a private citizen in an advanced democracy, bribes Joe Official, who is a land title officer, to extend the boundary of her property recorded in the land registry. When caught, Joe Official and Jane Doe are both prosecuted for bribery. The act for which they are both prosecuted is one that has the potential to undermine the public trust in the land title office. After all, public prosecution of both Jane and Joe are likely to result in some loss of trust to the land title office because the public, previously ignorant of corruption in that organization, may now become conscious of it. However, another anti-corruption strategy may also create public trust in the organization, showing that corruptors are met with state punishment. This tradeoff is exactly what a reformer should consider in proposing a transparent versus a non-transparent anti-corruption initiative.

Let us now consider a more extreme case of corruption. Imagine the president of a weak democracy who is thought to have accepted a bribe. Prosecutors can choose to conduct a public or a secretive investigation. In this case, the corrupt act, if provable, is one that is likely to cause substantial loss of trust in the presidency. An aggressive public investigation might reduce the public's trust in the office of the presidency, even if the investigators ultimately do not develop enough evidence to prosecute the president. Investigators might be wise to pursue a secretive process until all facts are determined. If investigators discover corruption, then prosecutors should also consider a public versus a private approach. For instance, if the president was approached privately by prosecutors and asked to stand down, rather than brought to public trial,

this may result in less loss of trust from the offense itself, and the anti-corruption strategy itself may not generate the same negative costs for the institution of the presidency.

This less prominent anti-corruption strategy represents a major departure from much anti-corruption thinking engendered by the idea that corruption is the abuse of public office for private gain. Consider what has practically become a mantra of several anti-corruption organizations: sunlight is the best disinfectant. Organizations like the IMF and the World Bank both identify transparency and enhanced monitoring as the primary way to defeat corruption. Suggesting the importance of transparency, the leading anti-corruption NGO in the world is called Transparency International.

Although transparency seems like an obvious approach for countering corruption, transparency brings considerable sociopolitical costs for the organizations involved, which seems to be part of the reason why leaders are often reluctant to adopt such reforms. These costs should make us question the relationship between corruption and development: perhaps it is better, as a previous generation of scholars argued, for states to adopt different tolerances for corruption at certain stages of development.¹⁵ Anti-corruption reformers need to consider the sociopolitical costs of transparency, along with the economic costs of better monitoring and enforcement.

More specifically, we think that in balancing these sociopolitical costs with transparency, anti-corruption reforms should be guided by three principles. Firstly, anti-corruption efforts should discourage future acts of corruption from taking place. Although we have advocated for reformers to take account of some of costs of anti-corruption efforts, governments and other organizations should not ignore corruption. There may also be good reason not take a quiet or private approach in pursuing anti-corruption efforts. For example, a prosecutor might decide that, notwithstanding the high-potential cost to public trust in an organization, it is still worth pursuing a public anti-corruption approach, to create a deterrent effect among high-profile members of government. Secondly, reformers should seek to strengthen organizations wherever possible and avoid undermining them. The purpose of this principle is to take account of the impact on the organization caused by the particular anti-corruption strategy. Finally, anti-corruption activities should focus on punishing bad actors without harming good actors. This will inform anti-

corruption strategy. Is it better to take an internal or external approach? Whom should such a strategy target? By directly addressing the anti-corruption paradox, this revised definition encourages scholars, reformers, and the leaders of organizations to consider the tradeoffs involved in pursuing various anti-corruption approaches.

Legal formalists might balk at the suggestion of expecting those tasked with anti-corruption within organizations to take into account future assessments of the political impacts of their legal strategies. Indeed, there is a risk that if a government empowered a prosecutorial agency with the discretion to take account of political outcomes, for instance, it may create additional space for corruption. Corrupt prosecutors may simply exercise their discretion to favor those who can pay the highest price. Organizations could design implementation approaches to overcome these concerns, however. In particular, a legal framework or policy enacting our proposed revised definition ought to include a clear process by which anti-corruption decisions are made. Perhaps a scorecard or some other method could be used to assess the potential impact on public trust of the corrupt act at different anti-corruption strategies.

Conclusions

Corruption has widely been treated as the abuse of public office for private gain, leading scholars and policymakers to frame corruption as a principal-agent problem. But as this paper has mapped out, neither corruption's causes nor its attendant effects are confined to principals and agents. Corruption involves private or public actors who may or may not be acting to further personal interest.

Given these shortcomings, an alternate definition of corruption is warranted. Corruption occurs when an actor seeks an unauthorized benefit from an organization that could compromise the public's trust in that organization. By focusing on public trust, the revised definition focuses on what makes corruption unique: other actors who are not involved still may suffer from addressing the crime. The revised definition also seeks to move away from the notion that

corruption's only costs are economic rent-seeking, and instead considers the broader sociopolitical costs it causes, particularly to the public trust of organizations.

If corruption is a cancer, then we need to recognize that the wrong medicine can be worse than the disease, and even the right medicine may hurt the patient. Reformers should consider the tradeoffs in pursuing anti-corruption initiatives, and they should pay special attention to transparency initiatives that might weaken the public's trust in an organization. More precisely, transparency—like the corruption it is seeking to address—has the potential to damage public trust in organizations. In responding to this threat, reformers ought to move away from the idea that transparency is always the right solution. Instead, the tradeoffs of different anti-corruption strategies need to be evaluated, taking into account these strategies' efficacies as well as their effects on public trust.

Notes

¹ The World Bank has recently adopted even more generic definitions of corruption, including “the use of public office for private gain,” and as “a deals-based way to sustain agreements among certain individuals or groups” (World Bank, 2017b, 77). These understandings of corruption are so encompassing that they include any action a government official takes.

² Religious leaders are also capable of corruption, even when they do not hold public office. In a Transparency International poll of corruption across Latin America and the Caribbean, 25% of respondents indicated that they think religious leaders are involved in corruption (Pring, 2017).

³ This figure does not include other forms of corruption such as embezzlement or political corruption.

⁴ Myrdal’s definition is based on the Santhanam Committee Report issued by the Ministry of Home Affairs, Government of India.

⁵ This definition was slightly different from some of the World Bank’s other internal definitions of corruption. For instance, the Bank’s Procurement Guidelines at the time specified that a corrupt practice involves, “the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official in the procurement process or in contract execution.” The General Counsel of the World Bank at the time, Ibrahim Shihata, explains that “corruption occurs when a function, whether official or private, requires the allocation of benefits or the provision of a good or service...In all cases, a position of trust is being exploited to realize private gains beyond what the position holder is entitled to.” See World Bank (1997).

⁶ There is an emerging scholarship that seeks to depart from the prevalent definition. For instance in his study of party-directed corruption in South America, Gingerich defines corruption “as behavior on the part of public officials, elected or non-elected, that advances either an individual’s or group’s financial well-being or a political goal through the misuse of the authority or resources of an official position” (2013, 10). Gingerich also differentiates personal corruption from political corruption, where personal corruption is the misuse of office for personal gain, whereas political corruption is the misuse of office for political gain. His approach is similar to Banfield’s definition.

⁷ *Black’s Law Dictionary* offers something similar to the prevalent definition, treating corruption as an, “illegality; a vicious and fraudulent intention to evade the prohibitions of the law. The act of an official or fiduciary person who unlawfully and wrongfully uses his station or character to procure some benefit for himself or for another person, contrary to duty and the rights of others.”

⁸ Some scholars argue however, that all forms of corruption are evil. Underkuffler argues that corruption represents “the capture of a human being by evil... the purchase, by the devil, of one’s soul” (2013, 72). She argues that it is this moral condition that makes corruption distinguishable from other crimes.

⁹ Our definition is similar to Lessig’s notion of institutional corruption, which emerges “when there is a systemic and strategic influence which is legal, or even currently ethical, that undermines the institution’s effectiveness by diverting it from its purpose or weakening its ability to achieve its purpose, including, to the extent relevant to its purpose, weakening either the public’s trust in that institution or the institution’s inherent trustworthiness” (Lessig, 2013, 553).

¹⁰ For a summary of this literature, see Braithwaite and Levi (1998).

¹¹ For a recent review of the literature on democratic authoritarianism, see Brancati (2013).

¹² Granovetter defines corruption as a situation where a single individual, using a position of trust, appropriates an organization’s goods or services that he does not deserve (2004). This definition is strong, although the focus remains on the person who holds a position of trust and is likely to continue principal-agent dominance.

¹³ There is a substantial empirical literature in social psychology and organizational behavior that shows that individual honesty decreases in institutional settings where dishonesty is visible or pervasive. See Ferrell, Gresham, and Fraedrich (1989) and Mezar, Amir and Arieli (2008).

¹⁴ For a positivist treatment of collective reputations, see Tirole (1996).

¹⁵ Rose-Ackerman (1996) considers when corruption is harmful and Bardhan (1997) neutrally reviews this older argument for efficiency-improving corruption.

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