



# Income inequality and level of corruption in post-communist European countries between 1995 and 2014



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## ABSTRACT

This paper analyses the relationships between income inequality and corruption in Europe and looks specifically at post-communist European countries. The scientific community agrees that there is important relationship between income inequality and corruption and many authors believe that low income inequality is connected to low corruption. According to empirical papers, this is true not only on the European scale, but also on a global scale. In this paper, I test this claim by conducting a multilevel analysis on 39 European countries in the period of 1995–2014. This model ascertains that there are immense differences between post-communist countries and the rest of European countries. The effects of income inequality on the level of corruption are discussed.

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## 1. Introduction

Corruption is a threat to society and to good governance (Scott, 1972) that decreases the quality of the public sector in many areas and may trigger civil unrest (Brown et al., 2011; Pellegata, 2012). Moreover, as Karklins adds (2005: 4), it involves “the loss of equal access to public power and position”, which leads to “the loss of public trust and belief in the political system” and also has a negative impact on people’s life satisfaction (Helliwell, 2006). Corruption is also dangerous from an economic point of view. It can be a barrier to economic growth (World Bank, 1997b), negatively affecting the ratio of investment to GDP (Mauro, 1995; World Bank, 1997a) and the level of foreign investment (Wei, Wu, 2001). Finally, it can also contribute to an uncertain business climate, hold back state reform and nourish organized crime (Rose-Ackerman, 1999: 17).

Due to the negative effects of corruption, many social scientists have tried to discover and describe the causes of corruption. This task is complicated by the fact that corruption is a clandestine activity, which makes it very difficult to measure and to detect its true effects, as well as its underlying causes. Moreover, corruption is a very complicated phenomenon, which may work and be understood differently in different cultural contexts (Charron et al., 2013). As most authors have conducted their research on a global level or have done case studies, a cross-country analysis including only European countries, which share a common culture, could show the validity of previous research. This article therefore looks at whether income inequality, which was identified as one of the important variables affecting the level of corruption on a global level, also influences corruption when tested exclusively on a European level. The situation in Europe is unique, because Central and Eastern European countries underwent transition to democracy around 30 years ago. This allows us to test also the effect of

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democratisation on corruption and focus on the differences between post-communist European countries and countries without the history of communist rule.

## 2. Inequality and corruption: literature review

Many authors focused on relations between different economic and cultural indicators and corruption. One of the best overview of the different conclusions based on empirical testing of these connections is provided in Treisman's (2007) article which presents indicators that have been found to be predictors of the level of corruption in a country. One of the important indicators is GDP (Kaufmann et al., 1999; Gupta et al., 2002; Lambsdorff, 2003; Treisman, 2000). Most of the authors found that higher GDP per capita decreases corruption (Gupta et al., 2002; Lambsdorff, 2003; Treisman, 2000). However, as Drury et al. (2006) found out, GDP and corruption are related rather in undemocratic regimes. Another important variable is the level of democracy (Blake, Martin, 2006; Pellegata, 2012; Brown et al., 2011; Treisman, 2000), although it seems that the level of democracy influences corruption ambiguously: countries transitioning from authoritarian regime to democracy seem to have higher levels of corruption than democratic or authoritarian countries.

Moreover, according to the number of authors, religious beliefs and specifically the share of practicing Protestants in a country are important in determining the level of corruption in a country. In fact, several authors found that countries with a predominant Protestant population have lower corruption levels than countries, which are predominantly Muslim, Orthodox, or Catholic (Treisman, 2000; La Porta et al., 1999). Moreover, La Porta et al. (1999) also provide evidence that Catholicism, Orthodox Christianity, and Islam are more "hierarchical" and less individualistic, and exhibit inferior government performance that might explain higher levels of perceived corruption.

Finally, a substantial body of literature focuses on the relationship between corruption and inequality. Most researchers agree that there is indeed a very important relationship; the results of quantitative analyses suggest that countries which have higher corruption also exhibit higher inequality (Treisman, 2007). Some authors also suggest that containing inequality might be a plausible method for lowering corruption (Rose-Ackerman, Soreide, 2006). However, the relationship is probably not that simple: corruption is likely to be the cause and also the consequence of inequality (Rose-Ackerman, Soreide, 2006: 23; Husted, 1999). For example, Gupta et al. (2002) found a significant correlation between income inequality and corruption on a selection of 37 countries. The authors argue that corruption increases inequality; in fact, an increase of one standard deviation in corruption increases the Gini Coefficient of Income Inequality by 11 points.

On the other hand, You and Khagram (2005: 70) argue that inequality increases corruption as well. As they say: "Income inequality increases the level of corruption through material and normative mechanisms. The wealthy have both greater motivation and more opportunity to engage in corruption, whereas the poor are more vulnerable to extortion and less able to monitor and hold the rich and powerful accountable as inequality increases" (2005). You and Khagram suggest that inequality increases corruption more strongly in democratic countries where the powerful are forced to hide their dishonest corrupt activities, whereas the powerful in autocratic regimes can oppress the poor without having to hide it (2005). This implies that the effect of income inequality might be less strong in post-communist countries compared to European countries that have never experienced the communist rule. But on the other hand, Li et al. (2000) found that the higher the level of corruption, the stronger is the correlation between corruption and inequality. This might suggest that post-communist countries, which have high levels of corruption, might have also higher levels of inequality. However, as Charron et al. (2013) show in their model, although corruption and inequality are indeed strongly correlated, a few European countries (including Bulgaria, Slovenia and Slovakia) have low inequality and high corruption – which calls into doubt the relationship between inequality and control of corruption in the specific case of post-communist countries. Uslaner is another author closely focusing on the relation between corruption and inequality, presenting the concept of income inequality trap. Uslaner claims that the roots of corruption lie in unequal distribution of resources in society (2009: 127). He argues that there is an indirect link between economic inequality and corruption through trust: inequality lowers trust, which increases corruption (Uslaner, 2008). However, Uslaner does not include post-communist countries in his model. One can see that there is no agreement on the strength and direction of the relationship between corruption and inequality. Finally, the inequality case of post-communist countries might also be specific due to the fact that communist ideology increased equality in certain countries. After the fall of communism, the majority of citizens were educated and income was distributed relatively equally, which meant that the population was capable of participating in a modern state and economy (Kornai, Rose-Ackerman, 2004).

## 3. Corruption in European countries

The level of corruption in European countries is much lower compared to most of the world; in particular, Scandinavian and Western European countries consistently occupy the top positions as countries with the lowest levels of corruption. On the other hand, countries with a communist history generally have higher levels of corruption (Shleifer, 1997) and political corruption is certainly a serious problem there (Karklins, 2005). Communist regimes provide incentives to bribe either due to scarcity of goods or due to the low regime legitimacy connected to the general belief that it is not entirely wrong to steal from government. As the famous Czech saying illustrates: "He who does not steal from the state, steals from his own family". It has been suggested (Rose, 2001: 105; Rose-Ackerman, 1999) that corruption is the greatest obstacle to progress and democratization in post-communist societies.

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