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Rent seeking or corruption? An analysis of income satisfaction and perceptions of institutions in Greece

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ABSTRACT

The paper analyses the relationship between market allocations of income and individuals' perceptions over certain institutional characteristics in order to shed light on the underlying societal and business attitudes toward rent-seeking and corruption. The theoretical context is used to construct a set of five hypotheses which are empirically tested with the use of subjective micro data provided by the European Social Value survey. Results indicate that the distinction between rent-seeking and corruption as drawn from subjective micro perceptions is indeed a challenging task. In particular, results regarding the society in general indicate that certain institutional characteristics seem to be understood as a search of governmental efficiency rather than as corruption. In the case of the entrepreneurs, evidence is provided over the pursuit of rent-seeking activities. Entrepreneurs are in favor of the existence of social state institutions which however should operate in a free market economy that allows individuals to perform political lobbying and take advantage of opportunities even when these are not along the lines of productive entrepreneurship.

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1. Introduction

Institutional characteristics and their degree of effectiveness are widely acknowledged as critical growth factors (Rodrik, Subramanian, & Trebbi, 2004). In contrast, the pursuit of rent-seeking and corruption practices is linked with ineffective institutions and anticompetitive markets (Ades & Di Tella, 1999). The concept of rent-seeking relates to individuals spending efforts and resources in order to create/maintain monopoly rents either through legal processes such as lobbying, queuing and contributions to political parties, or through illegal processes such as bribes, illegal political contributions, etc. (Khan, 2000; Lambsdorff, 2002). The more the expected benefits associated with

spending resources on rent-seeking activities, the more attractive this practice will be to individuals (Khan, 2000). As a result, however, the market fails to produce maximum welfare for this society. Thus, rent-seeking might not be considered a socially desirable practice as it imposes monetary costs on the society (Arrow, 1972).

Corruption, on the other hand, is usually reported as a particular type of rent-seeking especially when there is a need to broaden the number of actors that might be involved in such actions, i.e., when both public and private agents are intended to analyze (Cartier-Bresson, 1997). As such, there are opposite views on how far corruption differs from alternative forms of rent-seeking (Lambsdorff, 2002). The practice of defining corruption as a special case of rent-seeking has led to a discussion about identifying the 'optimal level of corruption' in the society as when

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both the public and the private spheres of the economy (i.e., both rulers and businesses), are 'allowed' to pursue practices of corruption extremely complex outcomes might occur (Acemoglu & Verdier, 1998). In such a context, the traditional rent-seeking theory assumes that, at times, corruption might even be less harmful compared to other forms of rent-seeking as for example, lobbying (Lambdsdorff, 2002). In addition, when corruption is very costly to prevent then the optimal allocation of resources might involve some degree of corruption (Acemoglu & Verdier, 1998), while it might even have an entrepreneurship enhancing effect when it works as a means that allows entrepreneurs to bypass inefficient regulations (the 'grease the wheels' hypothesis) (Dreher & Gassebner, 2013; Mo, 2001).

The discussion about defining the optimal level of corruption can however be misleading to the extent that corruption is harmful and undermines the society and the economy in many ways (Infante & Smirnova, 2009; Lambdsdorff, 2002). Overall, available knowledge suggests that there exists a variety of national/societal and individual level factors that interact and actually blur the boundaries between rent-seeking and corruption, both as theoretical notions and as real-world phenomena (Ades & Di Tella, 1999; Aidt, Dutta, & Sena, 2008; Infante & Smirnova, 2009; Lambdsdorff, 2002; Li, Moy, Lam, & Chu, 2008; Treisman, 2000). Indeed, diverging economic outcomes of corruption are observed ranging from beneficial to destructive (Blackburn & Forgues-Puccio, 2009; Mo, 2001). A society's formal and informal institutional environment is the actual mechanism that will determine how much effort is actually expended in rent-seeking, which individuals and groups win the rents and the types of rights and rents that are created (Khan, 2000; Lambdsdorff, 2002). Critical discerning factors are the national rule of law, i.e., the rules of the (economic) game that determine the relative payoffs to different entrepreneurial activities (Baumol, 1990), and the causal mechanisms linking the rule of law to economic growth (Haggard & Tiede, 2011; Rodrik et al., 2004).

To that extent, the present study analyses societal and entrepreneurial views of certain important institutional characteristics in Greece in an attempt to link subjective micro-perceptions of institutions to either rent-seeking or corruption practices. In particular, perceptions of institutional characteristics are analyzed as determinants of perceived satisfaction resulting from the income allocations that the Greek market economy generates. We propose a theoretical model according which five hypotheses are constructed and tested. For the empirical analysis subjective data on income satisfaction and perceptions of various institutional characteristics are drawn from the European Social Value Round 4 (2008). Empirical results provide support over the analytical validity of both the theoretical model and the proposed empirical hypotheses. To that extent important implications arise in terms of the need to broaden our theoretical and empirical research—regarding the subjective evaluations of institutional characteristics and the market outcomes that such evaluations support.

2. Market allocations, rent-seeking and corruption: theoretical context and hypotheses

Rent-seeking and corruption are related to rational individuals seeking to best combine the resources they have in their power in order to produce profits, and so, they refer to individuals that might be politicians, lobbyists, bureaucrats, public accountants, brokers, bribers or else entrepreneurs who wish to maximize a production function via particular investments (Infante & Smirnova, 2009; Lambdsdorff, 2002). These investments however, are associated with market deviations and growth costs as they undermine the developmental and productive capacity of an economy (Chang, 2011; Knack & Keefer, 1997; Zak & Knack, 2001). Indeed, it is generally acknowledged that, unless poor institutional quality prevails, economic growth results from higher levels of productive entrepreneurship (Baumol, 1990). Institutional quality relates to the type of institutional structures (legal sanctions, expectations and cultural legitimacy, Li et al., 2008) and the resulting degree of economic freedom characterizing each society (Ades & Di Tella, 1999; Li et al., 2008; Sims, Gong, & Ruppel, 2012; Treisman, 2000). The highest the economic freedom the lower are the returns to unproductive entrepreneurship (Nystrom, 2008).

In that sense, the principle role of institutional arrangements as a resource allocation device is widely acknowledged (Ades & Di Tella, 1999; Aidt et al., 2008; Baumol, 1990; Holcombe & Boudreaux, 2015; Li et al., 2008; Nystrom, 2008; Sims et al., 2012; Treisman, 2000). However, democracy assessments across countries, as approximated by government effectiveness or quality, are at least problematic (Ariely, 2015). According to Goel and Nelson (2014) formal laws and provisions can be a means to lower corruption. Nevertheless, Blackburn and Forgues-Puccio (2009) suggest that the effects of corruption depend upon the extent to which bureaucrats coordinate their rent-seeking behavior while, Goel (2014) reports that the growth of corporate Political Action Committees in the US is positively associated with corruption. Similarly, Li et al. (2008) find that regulatory effectiveness of the national government is the most stable factor in the relationship between institutional pillars and corruption at the societal level. These findings tend to verify Krueger (1974) argument that although rent seeking can be a competitive resource allocation mechanism, it is a political challenge to regulate competition for rents while avoiding group favoritism and thus negative people's perceptions over the way in which the market mechanism actually functions.

Thus, a central element regards to the presence of societal consensus toward rent-seeking behavior, suggesting that the society's attitudes and value judgments (i.e., culture and institutions) might favor a rent-seeking type of equilibrium as opposed to a competitive market equilibrium (Tabellini, 2007). Generalized morality can be indicative of the level of such social consensus or else, of the level of trust characterizing a society and the degree to which individuals are willing to or, reluctant to, free ride on others (Fafchamps, 2006; Tabellini, 2007). The level of generalized trust developed in a society denotes a form of social intelligence characterizing individuals

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