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Old and new factors affecting corruption in Europe:**Evidence from panel data**

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Abstract

Assuming cross-sectional dependence across data, this study employs a version of Pesaran's Common Correlated Effects (CCE) model to explore old and new hypotheses on the determinants of perceived corruption in the public and political sectors in 31 European countries. In particular, this study analyzes the relationship between risk of poverty and corruption and shows that social distress increases corruption at any level of per capita income and significantly interacts with economic, political, and cultural variables. Public expenditure has an adverse effect on corruption but the perception of a high level of effectiveness and efficiency of public policy counterbalances the negative *volume* effect of public expenditure and reduces the undesirable influence of poverty on corruption. The strength of cross-sectional dependence across countries that emerged from CCE estimates is interpreted as an effect (*inter alia*) of the uneven adoption and implementation by European countries of EU anticorruption measures. Policy implications of the results are also discussed.

JEL Classification: C14, C23, C29, D73

Keywords: poverty risk, corruption in Europe, public sector size, European anti-corruption regulation, cross-sectional dependence

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