

## Corruption, Weak States and Economic Rationalism in Central and Eastern Europe

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## Introduction

While its very nature means that nobody can be certain about this, there is a widespread *perception* that corruption has been increasing in virtually all kinds of politico-economic system since the 1980s<sup>1</sup>. The problem often appears to be even more acute in post-communist states than in most other kinds of system, however. Moreover, many see the dramatic rise in corruption – and, often linked with it, organised crime – as impacting upon countries way beyond Central and Eastern Europe (hereafter CEE). The issue is significant.

This paper is divided into three main parts. In the first, an outline of the scale and nature of the problem is provided. Second, I consider just a few of the many reasons for the apparently dramatic increase in corruption in the CEE countries in the 1990s. One controversial proposition made in that section is that a major explicator is the international context into which post-communism was born. It is argued that the neo-liberal (economic rationalist) ideology that has come to dominate so much of the Western world over the past two decades has impacted upon CEE corruption levels, albeit in a complex manner. While neo-liberalism might lead to increased levels of corruption in Western states, it is particularly problematic when combined with the communist legacy in CEE; yet this formula is still better than the combination of communist legacy and partial (incomplete) reform. Following this, the extent to which there appears to be a relationship between the ideology of neo-liberalism and the weakness of the post-communist state is examined. The third section focuses on the methods that can be adopted to combat corruption. In the conclusions that follow the three main sections, there is consideration of the extent to which the problem of corruption in the CEE states is being exaggerated, and is partly a function of Western constructions. Having argued that the problem really *is* serious, it is maintained that

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<sup>1</sup> The literature on corruption is very extensive. Readers wishing to start their search with some of the better and more recent comparative collections should see A. Heidenheimer, M. Johnston and V. LeVine (eds.), *Political Corruption* (New Brunswick: Transaction, 1989); D. Della Porta and Y. Mény (eds.), *Democracy and Corruption in Europe* (London: Pinter, 1997); P. Heywood (ed.), Special Issue of *Political Studies*, 45 (3), 1997; and J. Newell and M. Bull (eds.), Special Issue of *Crime, Law and Social Change*, 27 (3-4), 1997. For collections more specifically on corruption in the post-communist states of CEE and FSU see *East European Constitutional Review*, 6 (4), 1997, pp.69-98; *Transitions*, 5 (3), 1998, pp.16-67; and the various articles in *Demokratisatsiya*, 6 (4), 1998, pp.613-91.

the social and political implications of corruption are of even greater concern in post-communist countries than in, notably, Western states.

### Corruption in CEE

There has been an enormous number of cases of official corruption – both actual (subsequently proven) and alleged (but ultimately unsubstantiated) – in CEE during the 1990s. They have ranged from the top of the state's hierarchy to the most local levels, and across all the state's agencies. In one way or another, corruption has threatened or more negatively affected the careers of post-communist presidents (such as Poland's Aleksander Kwasniewski<sup>2</sup>); several prime ministers (including Albania's Fatos Nano in 1991<sup>3</sup>; Poland's Waldemar Pawlak in 1995; Lithuania's Adolfas Šleževičius in early-1996; Estonia's Tiit Vahi in February 1997; Latvia's Andris Šķele in July 1997; Czechia's Václav Klaus in late-1997; Georgia's Niko Lekishvili in July 1998; Lithuania's Gediminas Vagnorius in April 1999<sup>4</sup>); numerous senior privatisation officials (including Polish privatisation minister Janusz Lewandowski in 1993; the head of the Czech privatisation, Jaroslav Lizner, in 1994<sup>5</sup>; and the entire privatisation board in Hungary in October 1996<sup>6</sup>); police officers (for instance in Poland in the mid-1990s<sup>7</sup>, Yugoslavia in 1998<sup>8</sup>); military officers (as in Estonia in late-1995<sup>9</sup>, Russia in mid-1996<sup>10</sup>, Bulgaria in 1997<sup>11</sup>, Romania in early-1998<sup>12</sup>, Slovakia in mid-1998<sup>13</sup>, and

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<sup>2</sup> See *Warsaw Voice*, 22 February 1998 1997 (available on the Web at <http://www.warsawvoice.com.pl/v453/index.html>).

<sup>3</sup> Despite having eventually been found guilty of corruption in April 1994 and being sentenced to twelve years' imprisonment, Nano made a spectacular comeback, becoming Prime Minister once again in August 1997. Unfortunately for him, he lost this post again in September 1998; one of several reasons for this was almost certainly the strong criticisms made of Nano by the OSCE, just days before his resignation, for his failure to bring corruption in Albania under control.

<sup>4</sup> *Monitor* (The Jamestown Foundation), 3 May 1999 (on-line).

<sup>5</sup> For details see S. Kettle, 'Of Money and Morality', *Transition*, 1 (3), 1995, pp.37-9. For more recent allegations of corruption during the Czech privatisation process see *RFE/RL*, 5-14 January 1999.

<sup>6</sup> On this see Z. Szilagyi, 'Privatization Scandal Threatens Coalition's Future and Public Confidence', *Transition*, 2 (25), 1996, pp.46-7 and 64. Privatisation-related corruption scandals continue in Hungary – see e.g. *RFE-RL Newslines*, 11 August 1998.

<sup>7</sup> For details of the Poznan police scandal see the BBC's *Summary of World Broadcasts* for Central and Eastern Europe between 12 March 1994 and 10 February 1995.

<sup>8</sup> *Transitions*, 5 (5), 1998, p.12.

<sup>9</sup> *Monitor*, 28 December 1995 and 25 January 1996.

<sup>10</sup> See e.g. P. Fel'gengauer, 'V voennom vedomstve gotovitsya bol'shaya chistka', *Segodnya*, 6 July 1996, p.1.

<sup>11</sup> *RFE/RL*, 14 November 1997, 17 November 1997, 19 December 1997.

Latvia in late-1998<sup>14</sup>); and many other state officials. Even after they have ceased to hold office, allegations of corruption can be made against former politicians and other officials; at the time of writing (mid-1999), the most notable example of this was the series of allegations of embezzlement being made against former Ukrainian prime minister (until June 1997), Pavlo Lazarenko<sup>15</sup> and the formal charge of embezzlement against former Belarusian prime minister Mikhail Chyhir<sup>16</sup>.

As alluded to briefly in the opening sentence of this paper, the very nature of corruption means that it is impossible to provide authoritative data on its scale and incidence in any country. Unlike most crimes, corruption often has no obvious 'victim' who would report the crime to the authorities. Where cases of corruption involve at least two agents (e.g. bribe-taker and bribe-giver), there is often a mutual interest in hiding the improper activity from the state. Unfortunately, this typically applies even if one of the parties has been reluctant to engage in corrupt activity. A citizen might well resent the fact that s/he is expected to pay a bribe to an official before the latter will provide goods or a service that the citizen believes should be an entitlement anyway; but once the bribe has been paid, the citizen will in most cases opt not to report the 'meat-eating'<sup>17</sup> activity of the official for fear of being punished by the authorities. In countries that are perceived to be *particularly* corrupt, citizens might even believe that there is a high probability that a police officer to whom they report the crime will him- or herself be corrupt, so that the problem will be exacerbated. It is of concern, for instance, that in a fairly recent poll conducted by the Centre for Democratic Studies in Bulgaria, 57% of respondents claimed it was a 'waste of time' to report cases of corruption, and that an almost identical percentage (56%) believed that police officers readily accepted bribes, while 63% believed judges did<sup>18</sup>.

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<sup>12</sup> *Transitions*, 5 (6), pp.10-11.

<sup>13</sup> *RFE/RL Newslines*, 4 September 1998.

<sup>14</sup> *RFE/RL Daily Report*, 10 December 1998.

<sup>15</sup> See N. Hodge, 'On the Run', *Transitions*, 6 (3), 1999, pp.8-9, and V. Zorya, 'Lazarenko, still under investigation, portrays himself as wronged party', *Ukrainian Weekly*, 3 January 1999 (on-line).

<sup>16</sup> *East European Constitutional Review*, 8 (3), 1999, pp.4-5. Another recent example is of the former prime minister of the Serbian Republic in Bosnia, Gojko Klicovic, for whom an arrest-warrant was issued in May 1998 for embezzlement and abuse of office.

<sup>17</sup> The term 'meat-eating' originates from the Knapp Commission's 1973 Report into police corruption in New York City. It refers to officials who demand bribes or other illegal incentives before they will perform tasks they are supposed to anyway. 'Meat-eaters' are distinguished from 'grass-eaters' in that the latter accept but do not actively solicit bribes and other favours.

<sup>18</sup> *RFE/RL*, 3 February 1998.

Given all this, it becomes clear why statistics on corruption must be treated with extreme caution. The most we can glean from them is that they provide some evidence on the very *minimum* extent of the problem. Beyond that, the most useful information - in terms of assessing the potential social and political implications of corruption - is public perceptions of the problem. While this may be based on a gross *overestimation* of the scale of the problem, it is perceptions rather than 'reality' that matter in terms of the state's legitimation and transition problems. The rest of this section will consider some of the statistics available on corruption in CEE countries, followed by some of the survey and focus group data that have been published. This overview cannot be systematic, for two main reasons. The first is the practical one of space; merely summarising the numerous corruption-related surveys conducted in so many CEE countries during the 1990s would require far more pages than can be allocated here to this issue. Second, in most cases, neither the corruption statistics nor the survey data are standardised across polities, so that direct comparisons are not possible. Hence, what follows is necessarily somewhat random and impressionistic.

While overall crime statistics on almost all post-communist states are far more readily available now than they were during the communist era, those on corruption are still very patchy<sup>19</sup>. Russia is one post-communist country that does provide fairly detailed statistics on corruption. The statistics are usually presented in three categories of corruption among state and public officials – embezzlement, bribery and abuse of office. Although the number of recorded offences has been increasing in each of the latter two categories since the end of 1991, the number of recorded embezzlement cases (which is by far the largest category) has actually declined. Nevertheless, the recorded number of embezzlement cases involving officials stood at 35,460 in 1995 (compared with 40,364 in 1991); the 1995 figures for bribery and abuse of office were respectively 4889 and 3240 (compared with 2534 and 2451 in 1991, or 93% and 32% increases in just four years)<sup>20</sup>.

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<sup>19</sup> For a tabular summary of crime rates in 15 post-communist states see L. Holmes, 'Crime, Corruption and Politics: International and Transnational Factors' in A. Pravda and J. Zielonka (eds.), *Democratic Consolidation in Eastern Europe: International and Transnational Factors* (provisionally Oxford University Press, forthcoming), table 1.

<sup>20</sup> V. Luneev, 'Korrupsiya, uchennaya i fakticheskaya', *Gosudarstvo i Pravo*, No.8, 1996, p.87. For a very recent example of a senior judicial figure (Deputy General Procurator of the Russian Federation and Chief Military Prosecutor, Colonel-General Yuri Demin) arguing that many of the allegations of corruption being made by politicians are more mischief-making and demagoguery than evidence-based see V. Ermolin, interviewing Demin, *Izvestiya*, 31 July 1999.

Bulgaria is more typical than Russia, in that it provides very few specific statistics on corruption. But we do know that between 1991 and 1995, only some 370 acts of bribery (i.e. an average of 74 p.a.) were recorded<sup>21</sup>; anyone with some knowledge of post-communist Bulgaria will appreciate that such figures appear ludicrously low. The figures may have increased a little under the present government, with approximately 100 state employees (mostly customs officers and officials from the Interior Ministry) being investigated for possible corruption as of November 1997<sup>22</sup>.

Even where a relatively high number of officials are accused of corruption, the rates of prosecution and conviction, as in the West, are often remarkably modest<sup>23</sup>. Hence, despite numerous corruption scandals and allegations in Poland<sup>24</sup>, only *four* public officials were convicted of corruption in the seven-year period 1990-6, according to the Polish Ministry of Justice<sup>25</sup>. Similarly, only 17 officials were found guilty of being involved in bribery in Bulgaria in 1995<sup>26</sup>, despite the fact that, less than eighteen months later, a new governing coalition was elected that had made the fight against the widespread problem of corruption one of its leading campaign planks (i.e. which strongly suggests that corruption was a major problem, whatever the statistics). Only two judges were convicted for accepting bribes in Lithuania in the period 1991-7, in spite of a popular perception of widespread corruption in the judicial and law-

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<sup>21</sup> B. Panev, 'Economic Reforms and Corruption' in N. Genov (ed.), *Human Development Report: Bulgaria 1997* (Sofia: United Nations Development Program, 1997), p.24.

<sup>22</sup> *RFE/RL*, 24 November 1997.

<sup>23</sup> For figures on the relatively low numbers of corruption prosecutions and convictions in the USA 1993-6 see S. Glinkina, 'The Ominous Landscape of Russian Corruption', *Transitions*, 5 (3), 1998, p.22. It should be noted that the definition of corruption used for compiling these statistics, as cited by Glinkina, suggests strongly that the data, though modest, still exaggerate the number of prosecutions and convictions for corruption as most analysts would understand this term.

<sup>24</sup> For instance, there were 250 registered cases of bribery alone in Poland in 1992, which represented an 80% increase over 1991 – see A. Sabbat-Swidlicka, 'The Legacy of Poland's "Solidarity" Governments', *RFE-RL Daily Report*, 27 October 1993. In addition to corruption in the Poznan police force referred to in fn. 7, the biggest scandal related to FOZZ, the Foreign Debt Service Fund established towards the end of the communist era (in February 1989). Although this was abolished at the end of 1991, the corruption investigation lasted well into the early-1990s.

<sup>25</sup> Personal communication to the author from the Ministry, Warsaw, 24 February 1997. This extraordinarily low figure conflicts with the data provided in 'Fair to Middling', *Warsaw Voice*, 25 May 1997. According to that source, 36 corruption cases against police officers alone were tried in Polish courts in 1996, three quarters of which (i.e. c. 27) resulted in convictions. More generally, according to the same source, 326 cases of public officials accepting bribes were tried during the same year in Polish courts, resulting in 70 guilty verdicts (i.e. c. 21%). Pure intuition suggests to this author that these higher figures are either more accurate than the ones provided to him by the Ministry or that the latter refer only to cases resulting in imprisonment (it is hoped to be able to clarify this during my next visit to Warsaw). Even so, the higher figures are *also* very low, relative to public perceptions of the levels of corruption.

<sup>26</sup> Panev, *loc. cit.*, p.24.

enforcement agencies<sup>27</sup>. And only twelve officials (ten of them police officers) were charged with bribe-taking in Czechia in 1994<sup>28</sup>.

Most of these figures (*possibly* unlike the Russian ones) are grossly out of kilter with public perceptions. There is by now abundant survey and focus group evidence to demonstrate that corruption (as well as organised crime) is a major concern of citizens in most post-communist states. A poll conducted in Russia in May 1992 indicated that almost 75% of interviewees either ‘fully agreed’ (53.4%) or else ‘tended to agree’ (20.8%) with the statement that ‘corruption represents a serious threat to our society’. Time-series data conducted in Russia between 1994 and 1998 reveal that although only approximately one quarter of respondents (rising to almost 30% in January 1997 and 32% in July 1998) considered corruption to be one of the most serious threats to them personally, crime more generally was consistently perceived as either the second, third or fourth greatest threat, after inflation and, sometimes, unemployment and non-payment of wages and pensions<sup>29</sup>. Another over-time survey, of what Russians feared most, revealed that ‘complete lawlessness’, ‘criminalisation of society’ and ‘corruption of the power structures’ (*vlastnykh struktur*) did not rank *quite* as highly as in the first survey cited; they nevertheless ranked, respectively, 3<sup>rd</sup>, 4<sup>th</sup> and 7<sup>th</sup> out of 43 possible variables in 1996 and 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> in 1998. Moreover, the percentages opting for these three variables in their listings were, again respectively, 67%, 65% and 53% in 1996, compared with 61%, 61% and 54% in 1998<sup>30</sup>.

Results similar to these Russian findings can be found elsewhere; in many countries, the figures are even higher than the Russian ones. A July 1991 Polish survey revealed that 71% of respondents considered corruption a major problem, while a 1995 one suggested that almost 94% of Poles considered corruption to be either an important or a very important issue, for example<sup>31</sup>. A more recent (April 1997) CBOS

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<sup>27</sup> Oxford Analytica, *East Europe Daily Report*, 27 September 1997.

<sup>28</sup> S. Kettle, *loc. cit.*, p.39.

<sup>29</sup> Russian data (except the last figure) kindly provided to the author by Yurii Levada, Director of VTsIOM, in Moscow, 25 April 1997. The July 1998 figure is from VTsIOM, *Monitoring Obshchestvennogo Mneniya*, No. 5 (September-October), 1998, p.57.

<sup>30</sup> V. Shubkin and V. Ivanova, ‘Strakhi na postsovetском prostranstve: Rossiya, Ukraina i Litva’, *Monitoring Obshchestvennogo Mneniya*, No. 3 (May-June), 1999, pp.30-3

<sup>31</sup> The 1991 survey, conducted by CBOS, is reported in *RFE/RL Daily Report*, 8 August 1991. The 1995 data were kindly provided to me by Prof. András Sajó during an interview in Budapest, 24 September 1996.

survey revealed that the percentage of Poles who believed that the highest authorities – inc. the parliament, government and ministries – were corrupt had increased approximately 50% ‘within the last few years’<sup>32</sup>. Polls conducted in Slovakia during the 1990s have repeatedly indicated that corruption is one of the three most serious concerns for citizens<sup>33</sup>. When asked in a November 1997 survey to name just one problem as ‘the most serious’ in their country, some 41% of Bulgarians identified ‘corruption among state officials’; trailing in second place, as the first choice of 24% of respondents, was ‘encroachments upon personal property’<sup>34</sup>. A July 1995 World Bank survey of 200 Lithuanian businesspersons revealed that 54% of those operating in Vilnius and Kaunas had paid bribes to officials<sup>35</sup>. A 1997 survey of 1017 Lithuanians revealed that ‘criminalisation of society’, ‘corruption of the power structures’ and ‘complete lawlessness’ ranked 4<sup>th</sup>, 5<sup>th</sup> and 7<sup>th</sup> respectively out of 45 possible factors respondents could cite as those they most feared in their country, while a comparable survey of 450 Ukrainians in 1998 ranked these variables (out of 43 rather than 45) in, respectively, 6<sup>th</sup>, 7<sup>th</sup> and 3<sup>rd</sup> places<sup>36</sup>. Finally, a 1998 World Bank survey in Latvia revealed that some 60% of companies and households interviewed believed that corruption had increased in their country over the previous four years, and that most people believed this was because of a lack of commitment to combat corruption on the part of cabinet ministers<sup>37</sup>.

Unfortunately, it is not possible on the basis of existing survey results or methodologies to prove that the widespread concern about corruption in post-

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<sup>32</sup> J. Mac, A. Niewrzędowski and Z. Stachura, *Wprost*, 22 June 1997, as reported in ‘The Right to Corruption’, *Warsaw Voice*, 29 June 1997.

<sup>33</sup> Transparency International, *Report of the Mission of Transparency International to the Slovak Republic and Romania 20-29 May 1996* (Berlin: Transparency International, 1996), p.9.

<sup>34</sup> Panev, *loc. cit.*, p.24. It should in fairness be noted that the list of options was mostly related to property, not all aspects of social, political and economic problems – though one of the options was ‘use of narcotics’. For a recent overview of longitudinal research into Bulgarian attitudes towards corruption, which more clearly endorses the point I am making here, see the Center for the Study of Democracy’s *Monitor* (Sofia), Issue 3, 1998, pp.10-12.

<sup>35</sup> S. Girnius in *OMRI Daily Digest*, 3 October 1995.

<sup>36</sup> Shubkin and Ivanova, *loc. cit.*, pp. 32-6. Unsurprisingly to those familiar with the crime situation in the Baltic post-soviet states and the Slavic post-soviet states, the actual percentages opting for these categories of ‘fear’ were much higher in Ukraine than in Lithuania.

<sup>37</sup> P. Zvagulis and J. Cleave, ‘Corruption Remains Widespread in Latvia’, *RFE-RL Daily Report*, 15 December 1998. For evidence that, in the mid-1990s, 75% of Lithuanians considered ‘crime’ (i.e. not merely corruption) the second biggest problem in their country after the state of the economy see R. Krickus, ‘Democratization in Lithuania’ in K. Dawisha and B. Parrott (eds.), *The consolidation of democracy in East-Central Europe* (Cambridge: Cambridge University Press, 1997), p.312; unfortunately, Krickus does not provide any details on his source.

communist countries is undermining the legitimisation attempts of the governments in these countries. However, it does not seem fanciful to suggest that the limited evidence available from Kazakhstan and Uzbekistan, which indicates that many citizens are ambivalent about democratisation and economic reform precisely because they associate these processes with the perceived increase in corruption and organised crime<sup>38</sup>, would probably be replicated in other post-communist states were similar surveys to be conducted. Two further pieces of evidence can be adduced here to support this proposition.

First, there is the fact that so many leading politicians in the post-communist world have focused on the issue of fighting corruption when they are attempting to increase their popularity (especially during election campaigns). Examples include Presidents Constantinescu in Romania, Lukashenka in Belarus and Yeltsin in Russia, and Prime Minister Kostov in Bulgaria. They do this because *they* perceive the issue to be one of major popular concern.

Second, recent large-scale focus group and interview-based research into attitudes towards corruption, conducted by a team based at Glasgow University, demonstrates that there is widespread and ultimately rather similar concern about the phenomenon in several CEE countries. Since the four countries investigated (Bulgaria, Czechia, Slovakia and Ukraine) represent a broad 'spread' in terms of levels of economic development, political culture and religious traditions, proximity to the West, etc., the fact that so many findings were basically similar strongly suggests that public attitudes towards corruption are more or less duplicated across much of CEE. While a detailed analysis of these findings lies beyond the scope of this article, a few general observations are pertinent.

Although the relative rankings of *which* types of state officials were perceived to be the most corrupt, and which the least, varied somewhat from country to country, the most salient point is that *all* groups of officials were considered corrupt by at least 40% of citizens in all four countries, and by *more than half* of the citizens in all countries except Czechia (with the highest average percentages occurring in Ukraine).

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<sup>38</sup> N. Lubin, *Central Asians Take Stock* (Washington DC: United States Institute of Peace, 1995), as abstracted in *Trends in Organised Crime*, 1 (4), 1996, p.84. I am currently conducting surveys in four post-communist states (Bulgaria, Hungary, Poland and Russia) designed to provide more concrete evidence on the extent to which citizens link corruption with the democratisation and marketisation projects.

Another finding is that, although rather more Czechs and Slovaks expressed a preference for a 'clean' (i.e. corruption free) state than did Ukrainians and Bulgarians - often, it appears, because the latter states were seen as being so dysfunctional that corruption was considered by some to be a necessary evil to ensure the realisation of desired outcomes! - there was still a majority in both Bulgaria and Ukraine who would prefer a system free of corruption. Finally, it is clear that citizens in all these states are less tolerant of high-level corruption than of improprieties among local officials; and that the vast majority of citizens in all four countries found improper behaviour among state officials more annoying than such behaviour among businesspeople<sup>39</sup>.

In addition to surveys of citizens within the post-communist countries themselves, there are numerous polls of foreigners' perceptions. The July 1995 World Bank survey in Lithuania referred to earlier, for example, also targetted 200 foreign businesspeople who had invested in the country. Of these, 80% claimed they had been asked to pay bribes, while 90% indicated that corruption was preventing them from investing further in Lithuania<sup>40</sup>.

But unquestionably the most frequently cited index of perceived corruption since the mid-1990s has been the 'corruption perception index' (hereafter CPI) produced and published by Transparency International (TI), in conjunction with Dr. Johann Graf Lambsdorff of Göttingen University, annually since 1995. The 1998 index is more comprehensive than any of the earlier ones, ranking 85 countries worldwide. Of these, 12 are post-communist CEE states. According to the index, Estonia is perceived to be the least corrupt of the CEE states (at position 26), while Russia is the most (at position 76); in ascending order of perceived corruptness, the intervening countries are Hungary (position 33), Czechia (37), Poland (39), Belarus and Slovakia (joint 47<sup>th</sup>), Romania and Yugoslavia (joint 61<sup>st</sup>), Bulgaria (66), Ukraine (69) and Latvia (71). Unsurprisingly, the post-communist states are perceived to be in aggregate more corrupt than Western states, though less corrupt than Latin American or sub-Saharan African states<sup>41</sup>.

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<sup>39</sup> W. Miller, Å. Grødeland and T. Koshechkina, 'Are the people victims or accomplices? The use of presents and bribes to influence officials in Eastern Europe', *Crime, Law and Social Change*, 29 (4), 1998, pp. 273-310.

<sup>40</sup> S. Girnius, *loc. cit.*

<sup>41</sup> The CPIs can be found on Transparency's website – [www.transparency.de](http://www.transparency.de). Unfortunately, the 1999 CPI was not yet available at the time of writing.

One final survey worth citing is Freedom House's 'Nations in Transit – 1998'. Among the several ways in which the post-communist states are ranked in this analysis is in terms of their levels of corruption. Freedom House suggests four categories – A (lowest levels) to D (highest levels). In the D category are Albania, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Hence, with the exception of Albania, all the countries in this 'highest corruption levels' are FSU states. The next worst group includes several Central and South East European states (in addition to three FSU states), the list comprising Belarus, Bulgaria, Croatia, Georgia, Macedonia, Moldova, Romania and Slovakia. In the B group are the three post-communist Baltic states (i.e. Estonia, Latvia, Lithuania) plus Czechia, while the least corrupt group (A) consists of Hungary, Poland and Slovenia. For those reasonably familiar with the perceptions of corruption in the various post-communist countries, this list holds few surprises. However, it is worth noting that Freedom House ranks Latvia very differently from the position attributed to it by TI<sup>42</sup>. At this point in my research, pure intuition suggests Latvia is closer to the Freedom House ranking than to its TI one, especially since TI has Latvia as more corrupt than Ukraine.

### Reasons for Corruption

There is a vast number of reasons for corruption in the post-communist world. Rather than seek to elaborate them all here - which would, given space limitations, necessitate doing little more than provide a superficial listing – the focus here is on just three factors that are either entirely or largely peculiar to post-communism.

The first is the legacy of communism. Various analysts have referred to 'path dependence' - here meaning that a given country has both a limited range of options to choose from during its transition phase and a proclivity to choose some rather than

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<sup>42</sup> At the time of writing, I had been unable to obtain the c. 700-page Freedom House book to which this point refers, and had consequently been unable to study the methodology used for producing this rank-ordering. I hope to be able to analyse the Freedom House methodology, and to compare it with the TI one, before this paper is published. The source of the information included here is *Turknews*, 15 December 1998.

others, which is determined by the context from which it is emerging<sup>43</sup> - for explaining a wide range of aspects of post-communist behaviour. Contrary to what some comparative analysts appear to have believed<sup>44</sup>, there was a considerable amount of corruption in the communist world<sup>45</sup>. Certainly, some post-communist politicians have argued that it is precisely the legacy of communism that has led to so much corruption in CEE in the 1990s; the then President of Albania, Sali Berisha, made this observation in December 1994, for instance<sup>46</sup>. Numerous aspects of this legacy could be cited to explain such 'path dependent' corruption. But one to be singled out, since so many citizens refer to it when asked to suggest explanations for post-communist corruption, is the decline of coercion. Many citizens apparently believe that, as a direct reaction to the 'totalitarian' coercive methods applied during the communist era, the sanctions against corrupt officials are now too mild. In any case, the perception is that even these weak sanctions are so rarely applied (which the Polish data cited above appear to endorse<sup>47</sup>), that officials are barely discouraged from engaging in corruption.

Second, one of the features that distinguishes post-communist states from transitional societies elsewhere (such as in Latin America, Southern Europe from the mid-1970s, or South Africa) is that they have been undergoing *multiple and simultaneous transitions* since the collapse of communist power in 1989-91. Whereas the other transitional states had to undergo political revolutions, the post-communist ones had, in addition, to introduce fundamental economic, legal, ideological, and social change. Many also had to redefine their boundaries and identities, and realign

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<sup>43</sup> The usage of path-dependence here is primarily from a structural-institutional and resource limitation perspective; it should *not* be read as virtually synonymous with cultural determinism. In this, my position is in line with what I understand David Stark's to be – see D. Stark, 'Path Dependence and Privatization Strategies in East Central Europe' in R. Schönfeld (ed.), *Transformation der Wirtschaftssysteme in Ostmitteleuropa* (Munich: Südosteuropa-Gesellschaft, 1993), pp. 11-39. For a very succinct but useful introduction to conceptions of path-dependence in the context of post-communism see K. Henderson and N. Robinson, *Post-Communist Politics* (London: Prentice Hall, 1997), pp.30-1 and 39.

<sup>44</sup> See e.g. J. C. Scott, *Comparative Political Corruption* (Englewood Cliffs: Prentice Hall, 1972), pp.16, 77 and 87. In fairness to Scott, there was very little evidence on corruption in the communist states at the time he was writing.

<sup>45</sup> For a comparative analysis see L. Holmes, *The End of Communist Power* (New York: Oxford University Press, 1993).

<sup>46</sup> Cited in L. Zanga, 'Corruption Takes its Toll on the Berisha Government', *Transition*, 1 (7), 1995, p.13.

<sup>47</sup> Even in Russia, where a rather higher proportion of officials are formally accused of corruption than in many post-communist states, the number of cases of official corruption *registered* between the mid-1980s and the mid-1990s was eleven times greater than the number of actual *convictions* – see Luneev, *loc. cit.*, p.86.

themselves in international military and trading blocs. The sheer scope of attempted change is one significant reason why most post-communist states have suffered a severe *legislative lag* in the past decade. This lag has meant that laws have often been either in essence non-existent or else vague and contradictory. This situation is ripe for both corruption and organised crime<sup>48</sup>.

The final point in this section relates to the international context in which post-communism was born. It is widely accepted that the emergence of post-communism coincided with a recession in the West, and that the sheer number of states in which communist power was rapidly overthrown, more or less simultaneously, only added to the more general pressure on foreign capital. This meant that there was less investment available for individual post-communist countries than would probably have been the case had just two or three countries transited at a time. But this was not the only aspect of the international economic situation that helps to explain corruption in the post-communist world during the 1990s. Another factor, which is typically overlooked, is that the birth of post-communism coincided with the increasing dominance of neo-liberal (economic rationalist) ideology in the West. This requires elaboration.

The rise of economic rationalism in the West is generally associated with the coming to power of Margaret Thatcher in the UK (1979) and Ronald Reagan in the USA (elected 1980); its leading economist theoreticians are the members of the so-called Chicago School, of whom Milton Friedman is the best known. This version of capitalism is a purer but also more socially stratifying form than Keynesianism or the economic approach of social democracy. It advocates minimising the role of the state in the economy, and encouraging society - in theory, civil society - to assume many of the responsibilities that had in many West European countries been accepted by the state in recent decades. One way in which this occurs is through the privatisation of services and industries that had once been run by the state. Even where the state continues to accept responsibility for services, its method of supplying them typically

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<sup>48</sup> Unfortunately, the issue of organised crime lies beyond the scope of the present article, as does the more directly relevant question of the connections between organised crime and corruption. Readers interested in these two topics could start their search of more scholarly sources with T. Frisby, 'The Rise of Organised Crime in Russia: Its Roots and Social Significance', *Europe-Asia Studies*, 50 (1), 1998, pp. 27-49 and the issues of *East European Constitutional Review* and *Transitions* cited in fn.1. For more popular analyses, see e.g. C. Sterling, *Crime Without Frontiers* (London: Warner, 1995) and B. Freemantle, *The Octopus* (London: Orion, 1995).

differs substantially from previous practices. There is a move away from state-run monopolies towards competition, marketing, outsourcing and contractual relationships, the notion of 'user-pays', and the maximisation of cost-effectiveness.

Some analysts have argued that this changing role of the state necessarily leads to a reduction in corruption, for the simple reason that, since the new state is smaller (i.e. it has less officers), there are fewer opportunities for corruption<sup>49</sup>. In short, so the argument runs, *ceteris paribus* the fewer officers the state has, the less corruption there will be. At first sight, this argument appears to be persuasive in its simplicity.

But simple arguments are not invariably the most convincing when analysing the complexities of human society, and there are powerful counter-arguments to this one. For example, the very process of privatisation - which is ultimately implemented by the state - provides new opportunities to state officials. They can (and empirical research reveals they often do) demand or request bribes and kickbacks from private agents interested in purchasing a hitherto state-owned business, in a way they cannot when there is no privatisation process. It must be acknowledged that, in the particular case of privatisation, there is a dynamism to the process that means that once the process is complete, the opportunities also disappear. In the real world, the situation might not be as neat as this, since the state might subsequently opt for re-nationalisation, which in turn opens up the possibility of subsequent re-privatisation. But let us not muddy the waters with such largely hypothetical scenarios. Instead, it is worth focusing on the other dimensions of economic rationalism that can have implications for corruption.

Most neo-liberals favour outsourcing, but often do not acknowledge the potential negative implications of this for corruption. Other things being equal, there are fewer opportunities for officials to request or demand bribes or kickbacks where a municipality manages its own (monopolistic) garbage removal service than where private agents bid competitively for the contract to perform these tasks. Since a major

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<sup>49</sup> For an explicit argument to the effect that the way to reduce corruption is to reduce the role of the state in the economy see V. Tanzi, 'Corruption, Governmental Activities, and Markets', *Finance and Development*, 32 (4), 1995, pp.24-6. In contrast to Tanzi's position, it is argued here that it is not merely the level but also the *nature* of state involvement that matters. Tanzi's argument holds only if the state vacates the economy altogether, rather than engages in outsourcing and continuing to supervise functions it formerly performed itself. If the 'pure' form of state disengagement identified by Tanzi were to be implemented, it might well result in a number of collective goods not being provided at all.

plank of the neo-liberal argument is that outsourcing is more cost-effective precisely because it involves competition, the tendering process must be regularly *iterated* if it is to achieve the desired effect. This means that there are *ongoing* opportunities for corruption among those state officials involved in awarding contracts.

Unfortunately, the state's moves towards the outsourcing and commercialisation of functions that it once performed often leads to greater secrecy (less transparency). Commercial-in-confidence laws usually apply in cases where, had the state still been performing tasks it has now transferred to the private sector, freedom of information acts would have permitted citizens to investigate questionable actions and transactions. This reduced transparency is highly conducive to corruption.

Another aspect of economic rationalism that can help to explain the apparent rise in corruption in Western states in recent years is the *reduced loyalty* it engenders. In the past, a person could opt for a career in either the private or the public sector on the assumption that the conditions would be different. In crude terms, a position in the latter would be less risky (i.e. there would be greater job security, a more reliable career path, a better pension scheme), but also less potentially lucrative, than a position in the former. But with the adoption of many aspects of the private corporate sector's *modus operandi*, including much less job security, by the state's agencies, many state employees feel that their employer is not showing them the loyalty it once did - which in turn reduces their own loyalty to the employer. This problem is frequently compounded by the fact that salaries and perks in the state sector typically still do not match those in the private corporate sector. Hence, there can be a sense among state employees that they are losing twice over; although being subjected to the insecurities, stresses and competitiveness of the private sector, they do not usually have access to the highly lucrative reward packages that successful performers in the private sector do. The problem is further compounded if state officials see criminal elements playing a significant role in and profiteering from the private sector and getting away with this. All this can lead to resentment, and increases the probability that officials will engage in corruption.

Finally, and intimately related to the last point, the increased interaction between the state and the private sector of the economy, typical of Western neo-

liberalism, tends to blur the boundaries between both<sup>50</sup>. How do these points relate to the post-communist states of CEE?

Like many Latin American countries in the 1980s, several post-communist states have explicitly been influenced by neo-liberal ideas. In the early-1990s, the most obvious examples were Poland and Russia, in which Leszek Balcerowicz and Egor Gaidar respectively acknowledged the influence of Western advocates of radical economic rationalism such as Harvard economist Jeffrey Sachs. In Czechia, Václav Klaus frequently cited Margaret Thatcher as his role-model and hero in terms of economic management. Estonia, with its low flat-rate income tax policy, is often cited by neo-liberals as a model of good (efficient) post-communist government. More recently, the governments that came to power in Romania in November 1996 and Bulgaria in April 1997 made clear their commitment to basically neo-liberal principles. While other CEE states have in most cases been less open about their commitment to economic rationalism, there can be little doubt that they are affected by the pervasive ideology of the West; this becomes even more obvious when they compare their own economic performances with that of several of the CEE countries that overtly espoused economic rationalist principles early on<sup>51</sup>.

Unfortunately, while neo-liberal economic policies may have helped some post-communist countries to recover economically faster than might otherwise have been the case, they have also contributed to the problem of corruption. Ironically perhaps, some aspects of neo-liberalism in practice even overlap with and endorse communist legacies. Thus the 'blurred boundaries' point made above finds strong resonances in the communist experience; not only was the demarcation line between the state and the economy difficult to determine, but the confused relationship between 'the party' and the state increased the general fuzziness of boundaries in the system as a whole.

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<sup>50</sup> This point helps to explain political problems relating to conflict of interest laws, which are touched upon in the third section of this paper.

<sup>51</sup> It might be objected that Russia's sorry economic performance in recent times should deter other post-communist countries from neo-liberalism. But this would be a misconceived argument. One of the major reasons for Russia's problems is that the country has not followed through with its reforms. It has come to a grinding halt somewhere between command economics and radical market economics, largely because of domestic political squabbles over the best way forward (or back!) and the eccentricities of a sick president. It is suffering from a serious case of *coitus 'reformus economicus' reservatus* (apologies to Latin scholars)! This confused situation has exacerbated the corruption problem.

If the *general* effect of economic rationalist policies is to increase corruption, the likely effect specifically in the CEE countries is more complicated. On one level, it certainly adds new dimensions to the problem. The Western problem of ‘kickback’ corruption during the privatisation phase, for example, is compounded in the CEE countries – not merely because of the scale and pace of privatisation, but also because state officials have sometimes sold off state assets to *themselves*, at prices considerably below what the market would have determined. This both discredits the privatisation process and deprives impoverished and struggling states of revenue.

Another major reason why neo-liberalism exerts a negative influence is because the *ideological gap* between the old system and the new is much wider than would have been the case had the post-communist states attempted to transfer to what used to be known as the Nordic or Rhineland model (i.e. a more social democratic model). State officials would have felt less dislocated, confused, insecure and basically alienated in the latter case, which in turn should have made them less prone to anti-social and anti-systemic behaviour.

To argue this last point is *not* to suggest that the CEE states *should* have adopted a version of the Nordic/Rhineland model. Regrettably, this was not a realistic possibility, even had CEE politicians wanted to pursue it. This social democratic model has only ever been successful in highly developed and affluent countries - and none of the CEE states could have been so described at the beginning of the 1990s (or, indeed, at the end of the 1990s<sup>52</sup>). Moreover, even the Scandinavian and Germanic countries that once had it have, to varying degrees, been moving away from it in recent years and towards the more ruthless and individualistic ‘Transatlantic’ model. The coming to power of left-of-centre parties in almost all of the EU states in the mid-to-late-1990s, plus the references by various Western leaders to ‘the Third Way’ or the ‘New Centre’, *might* suggest a return at the start of the next millennium to something akin to the former Nordic model in at least some of these countries (although one of the leading theorists of the new version of the Third Way has explicitly ruled out the possibility of this in the competitive context of the globalised economy<sup>53</sup>). Even if this

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<sup>52</sup> According to the European Bank for Reconstruction and Development, by 1999 only three post-communist countries (Poland, Slovakia and Slovenia) had surpassed their own 1989 GDP levels, while Hungary had just reached it – see *The Economist*, 351 (8116), 1999, p.112.

<sup>53</sup> A. Giddens, *The Third Way* (Cambridge: Polity, 1998).

were to happen, it will be a long time yet before any of the CEE states have sufficiently strong economies to make this a feasible option<sup>54</sup>.

Thus, while the international context of a dominant neo-liberal ideology might help to explain the higher levels of corruption in the post-communist states, it is ultimately pointless to suggest that these countries should have attempted to pursue some other - more 'caring' - form of capitalist development. This was simply not an option. Equally, just because the 'larger gap' thesis (i.e. between two ideologies and systems) is used here to provide part of the explanation for increased corruption in the post-communist world, it should not be taken to imply that there was a better alternative; in fact, it is argued here that the legacy of communism meant that there was going to be corruption in these societies anyway, and that it is better to have corruption in a society and economy that is progressing than in one that is stagnating. This point leads nicely to the enigmas of Estonia and Poland, two of the most successful post-communist states – and two which might appear to undermine the hypothesis being made here. Observant readers might have noticed the apparent contradiction that Estonia has been cited as both a prime example of a country adopting radical economic rationalist policies, and as the least corrupt of the post-communist CEE states in the 1998 TI rankings. While this *is* something of an enigma, the following points need to be borne in mind.

First, the Baltic republics were usually considered to be among the least corrupt of the former Soviet federal units. If it is borne in mind that the Northern European states (Denmark, Finland, Sweden and Norway) are perceived to be the least corrupt in the world, then Estonia's position in the table looks far less impressive; it only looks good in comparison with other post-communist states.

Second, there is some evidence that the Estonian media have not been reporting corruption as much as they might have done, allegedly because the Estonian public does not react to reports of corruption as much as citizens do in other countries<sup>55</sup>. Since the TI index is based primarily on the perceptions of *foreign* businesspeople, and assuming that few of these read the Estonian media, this

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<sup>54</sup> According to a paper produced for the IMF in 1998 by Jeffrey Sachs, even relatively optimistic growth projections for the Central European states suggest that it will take these countries almost two decades to catch up with the poorer EU member-states such as Greece. For a very brief summary and a histogram see *Business Central Europe*, 5 (56), 1998, p.64.

explanation might initially appear misguided or irrelevant. However, foreigners' perceptions of the level of corruption in a given country are often at least partly formed through conversations and other forms of interaction with people living in that country. Thus, if Estonians themselves do not believe corruption is a major problem, to some extent as a function of comparatively low levels of media reporting of the phenomenon, then it is less surprising that foreigners do not either.

Third, it was mentioned earlier that corruption might increase as a result of resentment that criminal elements are benefitting from the new economic arrangements. It hardly seems necessary to point out that this is a very pertinent point in many of the CEE countries. The influence of external Russian criminal elements appears to be weaker in Estonia than in its Baltic neighbours; but it is still a factor. This, plus the legacy-related comparative state of the economy and welfare provisions, helps to explain why corruption in Estonia is still far worse than in the neighbouring Nordic countries.

Finally, the Estonian enigma suggests that the ramifications of the communist legacy constitute a more powerful explicator of corruption than the influence of neo-liberal economic policy. This interpretation would also be compatible with the fact that Latvia, which has had much less radical economic reform than Estonia but is also a post-Soviet (not merely a post-communist) state, fares so poorly in the TI index<sup>56</sup>.

Poland is not quite as much of an apparent enigma as Estonia, but has adopted radical neo-liberal policies in some areas. While not performing as well as Estonia in the TI tables, it nevertheless fares better than most post-communist states, and is one of the three countries in Freedom House's list of 'least corrupt' post-communist states. Again, particular features of Polish development in recent times might help to explain this.

Perhaps most important is precisely the fact that the economy has overall outperformed every other in the region. Poland's rapid turnaround after the collapse

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<sup>55</sup> M. Tarm, (unnamed article), *City Paper – The Baltic States*, reproduced in *Eastern Europe Business Network* (on-line), 19 August 1996.

<sup>56</sup> The Latvian case also raises questions about the hypothesis that *size* is a good predictor of corruption levels. According to this argument, smaller countries tend to be less corrupt than larger ones. In fact, there *does* appear to be a reasonably close relationship between size of population and ranking on the TI CPI. However, type of political system and level of economic development also appear to be parts of the equation, so that we must be wary of overly-simplified and reductionist bivariate correlations (and hence explanations).

of communist power should not be attributed solely to Balcerowicz's radical policies, even if these probably were the most important factor. Poland was also helped by the fact that it was seen by many in the West as having played the most significant role in CEE in bringing about the end of communist power in the region, largely via Solidarity; when the former leader of the latter and then President of Poland, Lech Walesa, sought a write-off of Polish debt to Western institutions, he was listened to more sympathetically than almost anyone else in the region would have been<sup>57</sup>. This got Poland off to a good start in its economic transformation, which had at least two implications for corruption. First, Polish officials did not become as desperate as some of their peers in other parts of the region where the economy did not appear to be improving much, if at all. Second, Poles could take more pride in their country than most other peoples in CEE, and were less alienated than many of these other groups. Unfortunately, both of these explanations are and can only be speculative. Moreover, neither of them should be pushed too far. Poland has had its fair share of both corruption and public disappointment in the 1990s; all I am seeking to do here is to suggest reasons why Poland's levels appear to be somewhat lower than other countries', and why this does not *per se* disprove the neo-liberalism argument being made here. We have reached the point at which the relationship between economic rationalism and weak states can be explored.

It has often been observed that transition states are typically weak. There are many reasons for this weakness. One is the sheer scale of what they have been expected to do – the multiple simultaneous transition referred to above - which has meant that *all* have been overloaded, and hence less effective than they might have been in more settled circumstances.

But the overload implications of the multiple transition in CEE are not the only legacy-related aspect of the apparent weakness of post-communist states. Another has already been mentioned in another context. This is that many politicians (as well as citizens) wanted to distance themselves as much as possible from the authoritarianism of the communist era. Related to this was the fact that they often wanted to minimise the use of bureaucrats from that period; while they typically found they would have to

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<sup>57</sup> Hence, Poland's foreign debt was dramatically reduced overnight at the beginning of the 1990s. There is surely an irony in the fact that so many right-wing Western politicians and bankers treated a

rely, more than they would have preferred, on people who had been officials in the communist era, the latter usually appreciated that they were to change their attitudes and style if they were to survive, let alone prosper, in the new arrangements. Old dogs attempting to teach themselves – or being taught – new tricks can result in confusion which, in turn, can make an organisation function less efficiently. In a case where there are lots of *new* bureaucrats, it can take time before such people develop confidence and expertise in their new positions, while experience is necessarily a function, to some extent, of time. All this helps to explain the weakness of the state.

One other but significant explanation for the weakness of post-communist states relates to their *socio-economic* structures. Among the many reasons for the relatively peaceful move from communist to post-communist power in most CEE states is that the old political elites had seen the writing on the wall for their economic – and ultimately political – systems, and had done little to resist pressure for change. Indeed, far from resist it, many sought to secure themselves a front row seat in the new arrangements, and in some cases even encouraged the transformation. Many anticipated that, in the new systems, economic power would ultimately be more important than political power, in marked contrast to the previous configuration. These are the people who have both driven and benefitted from the so-called ‘*nomenklatura* privatisation’. In the near absence of an indigenous bourgeoisie, this group has in some ways become a major component of a new substitute bourgeoisie. Yet it has typically not been in the group’s interest to develop a strong, rule-of-law state. This requires explanation.

In one of the best articles to date on post-communism, Harvard political scientist Joel Hellman has argued persuasively that the *winners* of early post-communism, including those who have benefitted from privatisation, have only sought *limited* economic reform. Basically, they have wanted sufficient reform to enable them to take advantage of rapid and often poorly-monitored privatisation; once this has occurred, they have sought to block further reform, since they can see the dangers to their own privileged positions of continued moves towards regularity, transparency, and the rule-of-law. According to Hellman, they have therefore sought what he calls ‘partial reform equilibrium’ –

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trade union leader with such respect, even awe. However, it is also ironic that Walesa often sided

As a result, while the winners have acquired an early stake in the reform process, they have also developed a stake in the very distortions that impede the realization of the efficiency gains of a fully functioning market.<sup>58</sup> Assuming this argument is correct, our analysis of the impact of neo-liberalism on the post-communist states has to be refined, indeed substantially modified. While most of the criticisms of the economic rationalist approach still hold, it becomes clear in the light of Hellman's point that the problems of post-communist transition have been exacerbated by the *incompleteness* of the adoption of the neo-liberal model. Expressed bluntly, citizens of the CEE countries have been getting the worst of both worlds. On the one hand, the multi-faceted legacy of the communist era is still affecting the functioning of the state, even if this legacy is more tangible in some countries than in others. On the other hand, the negative aspects of neo-liberalism are manifesting themselves, while the potential advantages of this ideology – notably greater efficiency, lower prices, greater choice, more competition, and less power to the state – are often barely discernible (again, the extent to which they are varies from country to country).

It is maintained here that the above analysis, with its focus on the gap between the theory and practice of neo-liberalism and the unusual social structure of post-communist societies, helps to explain both the apparent increase in corruption in the West since the 1980s – *and* why the situation is even *worse* in the post-communist states, at the same time as there is some connection between the corruption in CEE and Western Europe<sup>59</sup>. Many Western economic advisers not only did not understand the institutional and cultural specificities and limitations of the CEE countries they were seeking to influence, but they also missed this all-important point about the class nature of the social structures.

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with neo-liberals such as Balcerowicz and Suchocka against his former Solidarity colleagues.

<sup>58</sup> J. Hellman, 'Winners Take All: The Politics of Partial Reform in Postcommunist Transitions', *World Politics*, 50 (2), 1998, pp.203-34, here esp. pp.204 and 233.

<sup>59</sup> I have argued elsewhere that the apparent increase in Western corruption in recent years is *also* partly a function of the *incomplete* application of neo-liberal principles to real world economies and politics; see L. Holmes, 'Corruption in Europe', *Dialogue*, 18 (2), 1999, pp.19-25. However, it would be quite incorrect to infer from this that I am an advocate of 'pure' or radical neo-liberalism. Rather, my argument is that implementation of a *pure* form of the ideology would almost certainly result in fewer problems than are manifesting themselves in the *actual* implementation of policies based on neo-liberalism – but that it is dangerous to advocate radical ideologies that can never be adequately put into practice. Criticising humans for being imperfect and irrational, and believing that these

## Control and Prognosis

There are numerous ways of dealing with corruption. Many of the most appropriate and best-known methods are not peculiar to post-communist states, and will therefore be listed and elaborated only briefly here<sup>60</sup>. Following this is a sub-section focusing on the dynamism of both post-communism and corruption, which will in turn permit some hypothesising on likely future scenarios in CEE.

Perhaps the most obvious method of dealing with corruption is to use the weight of the law. To do so, particularly against *senior* officials charged with corruption, would be one concrete indication of the consolidation of the rule of law in the CEE states<sup>61</sup>. At present, the very low number of convictions for corruption, compared with the number of allegations, suggests that there is still a long way to go. Moreover, even on the relatively rare occasions when officials are found guilty of corruption, their punishments are typically light<sup>62</sup>. Thus, of the 70 sentences passed in 1996 on Polish officials found guilty of accepting bribes, the most severe was two years' imprisonment<sup>63</sup>. Indeed, it could be argued that if officials perform a crude

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imperfections can be overcome, is the root of totalitarianism; one has only to think of the concepts of the *Übermensch* or the 'new socialist person' for this to become obvious.

<sup>60</sup> This sub-section is heavily dependent on an analysis of methods for combating post-communist corruption I published in 1997, though the present version is both updated and truncated in comparison with the original - see L. Holmes, 'Corruption in Post-Communist Countries, with Particular Reference to Poland' in L. Holmes and W. Roszkowski (eds.), *Changing Rules* (Warsaw: ISP PAN, 1997), esp. pp. 157-65.

<sup>61</sup> It is worth noting here that a senior Czech political actor has recently argued of his own country that '... politicians now realize that the buzzword no longer is "market economy", but the "rule of law".' - see J. Pehe, 'The Disappointments of Democracy', *Transitions*, 5 (5), 1998, p.42. If Pehe's observation is correct, this is an encouraging sign for the fight against corruption, which in turn should assist both the democratisation and marketisation projects.

<sup>62</sup> This is not invariably the case, however. Thus former Armenian Minister for Light Industry Rudolf Teymurazian was sentenced to eight years' imprisonment and ordered to pay approximately US\$500,000 in fines in September 1998 for embezzlement. In terms of the sums of money involved, a relatively even stiffer sentence was meted out to Lithuanian parliamentarian and former Defence Minister Andrius Butkevicius in 1998, who was sentenced to five and a half years' imprisonment for accepting a US\$15,000 bribe.

<sup>63</sup> 'Fair to Middling', *Warsaw Voice*, 25 May 1997; presumably, prisoners who behaved themselves would be eligible to apply for parole within months. The reader is reminded here of the problems of the Polish corruption data elaborated in fn.25. This problem of soft sentencing is not peculiar to post-communist states, of course; it is a familiar enough issue in the West (the reader is referred once again to the US data cited in Glinkina, *loc. cit.*, p.22). One recent high-profile case exemplifies this well. In December 1998, the man who had headed NATO until his dismissal in 1995, Willi Claes, was found guilty by a Belgian court of corruption during the 1980s, when he had been Belgian Economic Affairs Minister. Despite (or because of?) his high position, he was treated very leniently, receiving a *suspended* three-year prison sentence, a fine of approximately US\$1600, and a ban on holding any public office for five years. This hardly sends an appropriate message if governments and judicial

cost-benefit analysis, for many of them it is economically rational to engage in corruption *even if they get caught and are found guilty*. This is highly problematic if governments are serious about dealing with corruption.

A second, related method is to strengthen existing bodies responsible for combating corruption and related crimes and/or to establish new ones. An example of the former was the July 1996 announcement that the number of troops attached to the Russian interior ministry was to be augmented by 10,000, specifically in order to make the force more effective in dealing with organised crime and the black economy. Among the numerous instances of the latter that could be cited are the July 1991 establishment in Poland of a special police force to combat economic crime and corruption, and the founding of a special task force on crime announced by new Polish Prime Minister Oleksy in March 1995; the 1996 establishment of a task force attached to the Hungarian parliament and whose brief was to tackle corruption; and the establishment in September 1997 of a Council for the Prevention of Corruption in Latvia. In addition to more general agencies, specialised bodies targetting corruption in particular state organs can be established. Examples include the November 1995 Russian announcement of a new department in the interior ministry specifically established to investigate corruption within that ministry; and the General Customs Inspectorate that was initiated in Poland in 1997 as part of a drive to clean up the Polish customs services<sup>64</sup>.

Third, legislation can be improved. Loopholes can be removed (or at least made smaller!), and new laws introduced to address problems that either did not exist or else were not officially perceived as such during the communist era. One of the most obvious kinds of legislation that can be - and in several post-communist countries has been - introduced in the 1990s is conflict of interest laws; examples include Latvia in 1996 and Poland in June 1997. During the communist era, it was not usually possible for state officials to be company directors or own shares in private companies; with the moves towards privatisation and marketisation in the post-communist world, it is not merely possible but also frequently happens that both elected and appointed

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systems are serious about clamping down on corruption. If the West is serious about reducing corruption globally, it could and should send less ambiguous messages to other parts of the world about its own attitudes towards corruption, as reflected in its own (in-)actions.

<sup>64</sup> K. Niklewicz, interviewing L. Kacperski, 'Staring Down the Economic Mafia', *Warsaw Voice*, 5 October 1997.

officers of the state have become shareholders and members of company boards. As in the West, quite what is legal and what is not in such circumstances is often hazy until legislation is adopted that can draw reasonably clear-cut lines<sup>65</sup>.

Unfortunately, there have been several cases in the 1990s of CEE politicians rejecting attempts to have their privileges, actual or potential, limited by conflict of interest laws. In 1992, for instance, following a major banking crisis that had revealed that many parliamentarians were members of company boards, there was an attempt to introduce such a law in Hungary; but this was defeated in parliament in April of that year<sup>66</sup>. Moreover, attempts to increase transparency concerning officials' incomes continue to fail in some CEE states. In March 1999, the Latvian parliament voted against a proposal to grant citizens the right to access more detailed information about the income of officials at both the central and local levels<sup>67</sup>.

Another area ripe for legislative refinement is (political) party financing. The more familiar and obvious way of addressing this issue is by specifying the conditions for funding. These conditions may include details on who may fund parties (e.g. should funding be exclusively from the government, and, if so, according to what criteria? Should businesses be permitted to fund parties, and, if so, to what level?); on whether or not donations to parties should be publicly declared; and, if they are to be declared, should this be for *all* donations or only for contributions in excess of some specified amount?<sup>68</sup> But, particularly in the context of the limited funds available in

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<sup>65</sup> While the EU is apparently likely to introduce tougher rules to ensure Euro parliamentarians declare all their outside financial interests (see *European Voice*, 7-13 January 1999, p.7), the Australian Liberal (conservative) government is currently (1999) attempting to address the conflict of interest problem by fully legalising the situation in which ministers own shares in companies that are bidding for government contracts. Previously, this would have constituted a clear-cut case in most Western democracies of 'conflict of interest'. This approach, which the Howard government is hailing as a victory for 'common sense', is simultaneously a reflection of the sharp increase in tendering that results from neo-liberal policies, and of the marked decline in public sector ethics in Australia. Rather than attempt to confront the problem of conflict of interest, the Australian government is attempting to make it disappear by decriminalising improper behaviour. The message this sends to the public can only be surmised. On corruption and public sector ethics in Australia see e.g. G. Clark, E. Prior Jonson and W. Caldow (eds.), *Accountability and Corruption* (St. Leonards, NSW: Allen and Unwin, 1997); R. Tiffen. *Scandals: Media, Politics and Corruption in Contemporary Australia* (Sydney: UNSW Press, 1999).

<sup>66</sup> K. Okolicsanyi, 'Hungarian Bank Closures: Regulators Miss the Mark', *RFE-RL Daily Report*, 8 September 1992.

<sup>67</sup> *RFE/RL*, 5 March 1999.

<sup>68</sup> Mac *et al*, *loc. cit.* have argued in the Polish context that, 'Many opposition politicians, however, believe that the true "corruption act" was the act on political parties passed this [1997 – LTH] spring. According to this act, parties can be financed both by the national budget and by business – meaning that on the one hand they can represent public interests, and on the other they can be reliable

post-communist countries (though I would argue this approach is advisable even in the relatively affluent Western countries too), it might make more sense to think laterally, and to seek to limit the possible spending of parties rather than attempt to supervise their sources of income. In this connection, it is encouraging that Czechia reduced the opportunities for political advertising in the 1998 pre-election campaign, for instance by banning the use of billboards. Other things being equal, where the opportunities for spending are reduced, so too is the demand for extra (and often extra-legal) resources.

There are potential drawbacks in tightening up legislation in states that are at the same time attempting to move closer to a rule-of-law basis, however. The most obvious one is that some proposals potentially infringe citizens' privacy, and have therefore been criticised by citizens and politicians concerned about civil rights. A good example is the attempt in 1993-4 to grant the Polish police the right to tap telephones and mount 'sting' operations in cases of suspected economic crime and corruption<sup>69</sup>. But this case also demonstrates that at least some of the concerns of civil rights defenders can be addressed in a way that represents a reasonable compromise between citizens' rights and the need to combat corruption; the law that permitted the police to engage in these two activities required officers wanting to eavesdrop on or attempt to 'trap' suspects to seek permission from the chief prosecutor (i.e. the justice minister)<sup>70</sup>, thus providing some supervisory control over the process.

Fourth, the state can launch anti-corruption campaigns. Several post-communist states - including Bulgaria, Czechia, Poland (1994), Russia and Slovakia - have launched so-called 'Clean Hands' campaigns, in emulation of the *mane pulite* campaign of the early-1990s that accompanied the *Tangentopoli* corruption scandals in Italy<sup>71</sup>. Another major campaign was that officially launched by the Albanian government in June 1998. Such campaigns are often publicised not only in the printed but also the electronic media. In July 1992, for example, President Walesa proposed

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guardians of the business interests of those who finance them'. This problem of political parties having potential conflicts of interests is hardly unknown in the West, of course!

<sup>69</sup> Both Czechia and Hungary have also been considering sting or entrapment proposals for dealing with corruption and organised crime.

<sup>70</sup> *RFE/RL Daily Report*, 11 February 1993 and 8 June 1994.

<sup>71</sup> For a sophisticated analysis of the Italian corruption situation and its political implications see D. della Porta and A. Vannucci, 'The "Perverse Effects" of Political Corruption', *Political Studies*, 45 (3), 1997, pp.516-38.

televising major corruption trials as one way of making the public more aware of the problems and how the state was dealing with it.

Anti-corruption campaigns can have a legitimising effect, in that they usually suggest that the state is serious about fighting corruption. But if they are poorly managed, they can have either little or a negative impact. Their impact fades over time if they are too prolonged, since citizens become almost immune to them, and the campaign begins to sound like mere rhetoric. They can even exert a negative influence if they stay merely at the level of declarations and are not accompanied by meaningful action. This is because the state can raise public awareness of the problem of corruption, but then frustrates expectations that measures are actually being implemented to combat it. Finally, the public can become cynical if some senior political actors appear to be downplaying the significance of corruption while others are campaigning against it. The then prime minister of Poland, Waldemar Pawlak, was in early-1995 widely accused by of being ‘soft’ on police corruption when he initially appeared reluctant to accept the resignation of national police chief, Zenon Smolarek<sup>72</sup>. Even worse is the situation in which leaders who have campaigned against corruption and established bodies to investigate it then shut down those bodies and/or dismiss their heads because they are embarrassed by these agencies’ or individuals’ findings. A classic example of this is when President Yeltsin sacked his chief anti-corruption fighter, Yurii Boldyrev, when the latter started making allegations about corruption among close allies of the President<sup>73</sup>.

A fifth method that has been used in some parts of the world is the rotation (or transfer) principle. According to this, officials are regularly moved from office to office, on the assumption that they will therefore be less able to develop clientelistic networks and other corrupt practices that are typically related to long-term tenure in a given position. Research conducted into the Indian public service by Frank de Zwart reveals that this method is not without problems, and that it can itself generate new

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<sup>72</sup> L. Vinton, ‘Polish Government under Siege’, *OMRI Daily Digest*, 31 January 1995.

<sup>73</sup> This was referred to again recently in the US media – see S. Schmemmann, ‘What Makes Nations Turn Corrupt?’, *New York Times*, 28 August 1999 (on-line). For an analysis of Boldyrev’s fight against corruption see B. Whitmore, ‘Russia’s Top Crime Fighter’, *Transitions*, 5 (3), 1998, pp.35-9.

forms of corruption and clientelism<sup>74</sup>. Nevertheless, post-communist states could learn lessons vicariously from the experiences of others<sup>75</sup>.

Sixth, post-communist states can collaborate with foreign agencies that are particularly experienced in fighting corruption and organised crime, and which have the world's most sophisticated techniques and equipment for use in this struggle. Several post-communist states have joined Interpol in the 1990s, for instance. Moreover, both Russia and Poland now have FBI offices in their capitals; these exist primarily to fight organised crime, but their presence necessarily has a spin-off impact on corruption. The FBI also established an International Law Enforcement Academy in Budapest in 1996, at which police officers from many CEE states are being trained *inter alia* in fighting organised crime and corruption. The principal reason for US interest in this project appears to have been growing American concern about CEE's involvement in the international drug-smuggling trade; this type of crime often involves state officials, most obviously corrupt police and customs officers.

Related to the last point is that post-communist states can enhance the exchange of information on criminality between themselves. This has already started. One recent example is that the interior ministers of the Moslem-Croat Federation and the Serbian Republic in Bosnia signed an agreement in June 1998 to cooperate much more closely in fighting organised crime; given the often close ties between organised crime and corruption in the CEE countries, this should impact upon corruption. While steps have already been taken in this direction, far more needs to be done.

According to Arnold Heidenheimer, one of the most effective methods for reducing corruption is to improve officials' conditions, especially their salaries. He cites Singapore as a prime example of a country that has dramatically reduced corruption by increasing salaries. In this connection, it is interesting to note that Singapore is the only Asian country to appear in the 'top ten' least corrupt countries in

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<sup>74</sup> F. de Zwart, 'Personnel Transfer in Indian State Bureaucracy: Corruption and Anti-corruption' in H. Bakker and N. Schulte-Nordholt (eds.), *Corruption and Legitimacy* (Amsterdam: SISWO, 1996), pp.53-64.

<sup>75</sup> One of the more unusual approaches used in another part of the world – and on which no comment will be made here! – is that adopted by the Mexico City authorities for dealing with the problem of corruption among their traffic police. Having decided that women are less corruptible than men, they transferred the task of handing out traffic fines from traffic policemen to a corps of policewomen! See *Sunday Age*, 1 August 1999, p.12.

TI's CPI (at position number 7 in the 1998 index)<sup>76</sup>. Unfortunately, Heidenheimer also acknowledges that the short-term economic prospects of the post-communist states mean that this particular method for dealing with corruption is not a realistic option for these countries<sup>77</sup>.

In the longer term, potentially one of the most effective methods for reducing corruption is to educate people, especially young people at an impressionable age, about why corruption and other forms of unethical behaviour constitute a problem in society. While this method probably needs to be upgraded in many established Western societies too, the 'moral' vacuum in post-communist Europe that many observers identified in the early-1990s means that there is a particular need for this in CEE. Although this long-term approach could not be expected to reap rewards for many years even if it were to be introduced tomorrow, educating current officials in ethics via intensive courses is yet another method in the anti-corruption armoury. Some post-communist states have already made a start down this path. Thus Poland introduced ethics classes for its customs officers in the late-1990s in response to apparently high levels of corruption among them<sup>78</sup>.

All of the methods elaborated so far involve primarily initiatives from above (i.e. from the state); given the sorry condition of many aspects of civil society at present in most post-communist countries<sup>79</sup>, it is appropriate to focus on such top-down approaches. Yet the collapse of communist power means that civil society can and should play an increasing role within the CEE countries - and it can do so in the area of combatting corruption. According to Trang, there are three channels through which civil society can fight this form of criminality - the media; private groups that monitor and report (whistleblow); and private groups that initiate or lobby for new legislation<sup>80</sup>. While the latter two channels are still very underdeveloped as self-initiated agencies in the post-communist world (though see below), the media in several countries have been playing a major role during the 1990s in exposing

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<sup>76</sup> Singapore has consistently been in the Top Ten (i.e. among the ten countries perceived to be least corrupt) since TI produced its first annual CPI in 1995.

<sup>77</sup> A. Heidenheimer, 'Introduction' in D. Trang (ed.), *Corruption and Democracy* (Budapest: Institute for Constitutional and Legislative Policy, 1994), p.18.

<sup>78</sup> K. Niklewicz, 'Awash in Bribes', *Warsaw Voice*, 21 September 1997.

<sup>79</sup> See C. Pickvance, 'Democratisation and the Decline of Social Movements: The Effects of Regime Change on Collective Action in Eastern Europe, Southern Europe and Latin America', *Sociology*, 33 (2), 1999, pp.353-72.

<sup>80</sup> D. Trang, 'Preface' in Trang, *op. cit.*, p.9.

corruption. In Poland, for example, newspapers and magazines such as *Prawo I Zycie*, *Zycie Warszawy* and the more racy *Nie* have already made a reputation for themselves as specialists in investigative journalism. The major police corruption scandal in Poznan, referred to above, erupted in March 1994 primarily as the result of a front-page article in *Gazeta Wyborcza*. And the late-1996 scandal concerning the Hungarian privatisation board broke with the publication in September of an article in the economic weekly *Figyelo*.

Unfortunately, however, the media in some post-communist states have been muzzled when they have been perceived by the state authorities to have become too critical of politically sensitive corruption. In addition to the well-known situation in Meciar's Slovakia or Lukashenka's Belarus, the Ukrainian newspaper *Politika* was shut down in late-1998, in the view of its chief editor because of its publication of a series of articles on alleged corruption in President Kuchma's administration<sup>81</sup>.

Although self-initiated citizen monitoring of corruption is still at a nascent stage in most countries of the region, the influence of the Berlin-based Transparency International is growing rapidly. Established as recently as 1993 as an international organisation seeking to eliminate or at least reduce serious corruption in major international business transactions (primarily those involving public funds), TI had by late-1998 set up local chapters in six post-communist countries (Bulgaria, Czechia, Hungary, Latvia, Poland and Slovakia). A further four CEE countries (Estonia, Romania, Russia and Ukraine) were in the process of establishing local chapters, while a third group (Albania, Bosnia and Hercegovina, Croatia, Georgia, Lithuania, Slovenia and Yugoslavia) had national contacts. While set up very much under the influence of TI itself, the local chapters comprise nationals of the particular country. Hence, this is one way in which citizens within CEE countries can learn from outsiders how to fight corruption, yet over time develop their own networks, and methods suited particularly to their own needs and conditions.

TI is not a state-run body<sup>82</sup>, and government agencies cannot themselves join it. To conclude this overview of methods that can be used in the fight against corruption, it is worthwhile moving from an agency that operates primarily at the level of civil

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<sup>81</sup> *RFE/RL Daily Report*, 10 December 1998.

<sup>82</sup> For details of TI's own funding (by far the greatest proportion of which comes from project-funding, for which TI competes), see the Financial Statement section on the TI website.

society to consider the roles that officially-sponsored international and supranational agencies can play in combatting post-communist corruption, as well as those that transnational corporations can perform.

The first point to highlight is that it is only very recently that supranational agencies have begun to focus on corruption (in general, not exclusively in CEE). For instance, when the OECD issued its 'Recommendations on Bribery in International Business Transactions' in May 1994, these guidelines were described as 'the first multilateral agreement among governments to combat the bribery of foreign officials'<sup>83</sup>. Since then, most of the major inter- and supranational economic and political organisations have become aware of the problem of corruption and have adopted various declarations and guidelines. Among the more notable are the UN's 'Declaration against Corruption and Bribery in International Commercial Transactions' (December 1996); the World Bank's anti-corruption guidelines of August 1997; the OECD's own more recent 'Convention on Combating Bribery of Foreign Public Officials in International Business Transactions' (signed by all 29 members of the OECD and five non-member countries in December 1997, following recommendations adopted by the OECD's Council in May 1997<sup>84</sup>); and the Council of Europe's 'Criminal Law Convention on Corruption' (adopted by the Council's Committee of Ministers in November 1998, and ratified by 21 European states (inc. ten post-communist ones) in January 1999<sup>85</sup>).

While all the guidelines referred to in the last paragraph can affect but are not specifically targeted at the CEE countries, the Council of Europe has in addition taken measures designed explicitly to address the problems of organised crime and corruption in the European post-communist states. In June 1996, together with the EU's Phare program, it established the 'Octopus' project, in which no less than 16 CEE countries (Albania, Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia,

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<sup>83</sup> Transparency International, *Sharpening the Responses against Global Corruption* (Berlin: Transparency International, 1996), p.15. A revised set of these Recommendations was adopted by the OECD Council in May 1997.

<sup>84</sup> The OECD guidelines have been progressively tightened, so that they had by February 1999 become what *The Economist* (35 [8102], 1999, p.17) called the first international law making the bribery of foreign officials a crime.

<sup>85</sup> The ten were Albania, Bulgaria, Georgia, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, and Ukraine. As of mid-August 1999, a further three post-communist states had ratified the Convention – Hungary (April 1999), Moldova (June 1999) and the Republic of Macedonia (July 1999).

Lithuania, Republic of Macedonia, Moldova, Poland, Romania, Russia, Slovakia, Slovenia and Ukraine) agreed to participate. The project ran for eighteen months, and involved primarily the introduction of measures designed to facilitate greater cooperation between countries in their mutual fight against crime. The measures included harmonisation of legislation, increasing information exchanges, and the establishment of proper monitoring services. A conference was held in Strasbourg in December 1997 by way of concluding the project, at which a number of specific measures were recommended to particular post-communist states<sup>86</sup>.

Another way in which external agencies can exert an influence on post-communist states is by encouraging them to engage in their own norm-setting for tenders. Thus, any CEE government should be able to produce a set of guidelines on building costs, for instance, which should then be freely available to companies calling for tenders on a given project<sup>87</sup>. If a particular building firm suggested it would construct an office block or an airport at a price well outside the official parameters – whether that price be much higher or lower – then the potential investors would be alerted to the abnormality of the tender. If post-communist governments do not themselves engage in norm-setting, foreign agencies can produce such norms by comparing the experiences of foreign investors and publicising these.

The West's involvement in containing corruption in post-communist states should not be, and is not, limited to what could be construed as somewhat patronising (albeit helpful and requested) measures. As already mentioned at various points above, it can and should also play a role in setting an example and adopting measures that will have positive spin-offs for CEE. One of the most significant measures of this kind adopted in recent times is Switzerland's decision to require banks to declare any suspicious deposits and other transactions to the Swiss authorities; the law became effective 1 April 1998. Until then, Switzerland was one of a handful of countries (including Cyprus and Luxembourg) whose opaque banking practices rendered it

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<sup>86</sup> Another example of a Western agency tailoring an anti-corruption policy to the CEE and FSU countries is that adopted by USAID in December 1997 – see K. Henderson, 'Corruption: What Can Be Done About It?', *Demokratisatsiya*, 6 (4), 1998, pp.681-91.

<sup>87</sup> This appears to be similar to a proposal made at a Soros-funded meeting of anti-corruption experts in New York in January 1998, where there was discussion of 'a public procurement project'. Under this proposal, 'data would be collected and disseminated, showing the varying cost of similar goods and services in different jurisdictions' (M. Kaufman, 'Corruption: What Can People of Good Will Do?', *Transitions*, 5 (3), 1998, p.3).

relatively easy for the ill-gotten gains of either criminal gangs or corrupt officials in CEE (and elsewhere, of course) to be hidden or stored.

One final type of international actor that can play a role in reducing corruption in post-communist states (and elsewhere) is the transnational corporation. Thus, in late-1998, the Anglo-Dutch Unilever corporation withdrew from Bulgaria in protest at being continually expected to pay bribes<sup>88</sup>. If more companies did this, and publicised both their decision and the reasons for it, the need for foreign investment would encourage most post-communist governments to adopt a more energetic approach in their attempts at reducing corruption.

The above list of measures that can be taken to counter corruption is far from exhaustive, but it does show that governments, civil society and external agencies all have their role to play in the struggle. The dynamism of post-communism can now be considered, to assess whether the current situation is likely to deteriorate further, stagnate or perhaps improve. While such a discussion must necessarily be speculative, it will be argued that, in many countries, the indications are relatively encouraging.

In discussing likely future scenarios, the corruption situation cannot be detached from the more general economic and political developments in particular countries. Continuing serious economic problems will render it much more difficult to reduce corruption levels, for instance. Moreover, moves towards dictatorship are likely to increase rather than contain or reduce corruption. This requires elaboration.

As indicated above, it is clear that many citizens in the post-communist world believe that a major reason for the perceived rise in corruption in the 1990s is that state officials do not fear the consequences of rule-breaking nearly as much as they did during the 'totalitarian' communist era. This might suggest that moves towards another kind of authoritarianism - or even 'born again' communism, for instance in Russia - would lead to reduced levels of corruption. But this assumption must be challenged, for three reasons.

First, one of the most potentially powerful agencies for fighting corruption becomes emasculated as power is increasingly centralised and monopolised. The role of civil society, especially free media, markedly declines in significance as a country moves towards dictatorship. Second - and not unrelated to the first point - there was

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<sup>88</sup> 'A global war against bribery', *Economist*, 350 (8102), 1999, p.23.

the point made earlier that there was a great deal of corruption in the CEE during the communist (i.e. non-democratic!) era, even though the public may not have been as aware of the scale of this as they would have been with freer media. Finally, even a cursory glance at the TI CPI reveals that the countries which appear to have the lowest levels of corruption are overwhelmingly liberal democratic ones, while those with the highest are mostly dictatorships, quasi-dictatorships, or countries (such as Russia) in which the system is either severely malfunctioning or else in essence not functioning.

Hence, post-communist countries that turn away from the democratisation path are unlikely to experience much, if any, reduction in corruption; the phenomenon might be less openly reported and discussed in the media, but this will not mean that it has disappeared or even declined. At present, the CEE country of which this observation is most pertinent is Belarus. But Slovakia appeared to some to have been heading in this direction until late-1998 (the defeat of Meciar), while continuing if simmering unrest in countries such as Albania and Romania is also cause for concern. Russia is in many ways *sui generis*, but the possibility of the emergence of a new dictatorship or quasi-dictatorship there cannot be dismissed.

At the other end of the spectrum are post-communist countries which really appear by the end of the 1990s to be consolidating democracy. The most obvious countries are the five that have received the EU's seal of approval in having been named as front-runners for admission to the EU early in the next millennium, viz. Czechia, Estonia, Hungary, Poland, and Slovenia<sup>89</sup>. Whether or not they actually are admitted is not the concern here; rather, the point is that outside observers have identified these countries as already having achieved much in the democratisation and marketisation project. In all but the Czech case, economic growth has been positive and relatively strong for several years now, which should mean that Heidenheimer's point mentioned earlier about post-communist states not being able to 'afford' to reduce corruption by paying state officials decent salaries will become redundant within, perhaps, a decade<sup>90</sup>.

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<sup>89</sup> The reader is reminded that all of these countries performed well, in comparison with other post-communist states, in both the TI CPI (although the 1998 table does not refer to Slovenia) and the Freedom House corruption ranking.

<sup>90</sup> This argument may appear to conflict with the point made in fns. 52 and 54. However, there are two reasons why it does not. First, the estimates in fn. 54 may prove to be incorrect (too pessimistic). Second, and of greater relevance, the argument here is that some CEE countries may be able to afford better salaries for their officials *relative to other salary-earners within those countries*, not relative to

Both this ‘front-runner’ group, and the group of countries that have not been as successful but that also appear not to be in imminent danger of becoming dictatorships or quasi-dictatorships (such as Bulgaria and, arguably, also Slovakia since 1998), have been making progress not only in the economic sphere but also in the political. By this is meant, above all, that the kind of institutionalisation of democratic processes that Yufan Hao has seen in the Chinese context as both necessary to, and a function of, the fight against corruption applies equally to CEE countries<sup>91</sup>.

### Conclusions

It has been argued in this paper that the relationship between neo-liberalism and corruption in CEE states is more complex than it appears to be in Western states (though the latter also warrants further investigation, but not here). It has been hypothesised that neo-liberalism has *simultaneously* contributed to and limited apparently high levels of corruption in CEE. On the one hand, post-communist countries that have implemented less reform are, in general, perceived to be more corrupt than those that have introduced more reform. On the other hand, the phasing in of neo-liberal policies creates new opportunities for corruption, and it has been argued that, had the international context permitted this, an attempt to transit from communism to social democracy would probably have been accompanied by lower levels of corruption. Since this option was not on the table, neo-liberalism emerges as the lesser of two evils. In a world of relativities, corruption with good economic growth is better than corruption with little or no economic growth, since the latter is even more likely to exacerbate social and political tensions, especially in fragile transition states. Moreover, even while contributing to relatively high corruption levels, economic rationalism can create a dynamic that should enable CEE states to reduce these in the future.

Before finishing this paper, there is perhaps a need for a sting in the tail - a little deconstruction - in analysing post-communist corruption. To this point, there has been

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earnings in other countries. As economic transitions near completion and the state has to pay proportionately less on developing or re-vamping infra-structures, for instance, there should be relatively more to pay officials.

an implicit assumption that it is a good thing to reduce corruption, and even better (if unrealistic) to eradicate it altogether. From an ethical perspective, such an assumption is hardly subject to question. From a cost-benefit perspective, on the other hand, the assumption is less self-evident. At least since Joseph Nye's classic analysis of corruption in terms of costs and benefits, published more than three decades ago<sup>92</sup>, some analysts have argued that corruption can have positive effects on the development of an economy (less so a polity, though a well-functioning economy can subsequently have positive effects on the democratisation process via eudaemonic legitimation)<sup>93</sup>. Perhaps the most common metaphor in this context is of the 'lubrication' or 'oiling' of a machine or door.

Moreover, at least one observer, from and still living within CEE, has recently argued that the 'problem' of corruption in CEE is partly a function of the imposition of Western values. Thus Hungarian Professor of Law András Sajó maintains the following:

That the public's understanding of corruption is warped by Western categories does not mean that no corruption exists in Eastern Europe, only that how it is perceived is not always the result of genuine endogenous factors.

Were it not for the drumbeat of external criticism, corruption would not be construed as an acute social problem, at least not in East Central Europe.<sup>94</sup>

and explains this development largely in terms of the 'globalization of communications and information' that has rendered 'such external labeling virtually inevitable'<sup>95</sup>. One can question whether or not Sajó can or should isolate CEE from the rest of the world

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<sup>91</sup> Yufan Hao, 'Institution-Building: An Unintended Consequence of Corruption in China in the 1990s', unpublished paper presented at the International Congress on Communist and Post-Communist Studies, Melbourne, July 1998.

<sup>92</sup> J. Nye, 'Corruption and Political Development: A Cost-Benefit Analysis', *American Political Science Review*, 61 (2), 1967, pp.417-27. For others arguing already in the 1960s that corruption can be beneficial, especially in the early stages of economic 'lift-off', see e.g. Nathaniel Leff, 'Economic Development Through Bureaucratic Corruption', *The American Behavioral Scientist*, 8 (4), 1964, pp. 8-14 and S. Huntington, 'Modernization and Corruption' in his *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), pp.59-71. All three of these essays, plus others addressing this issue, can be found in Heidenheimer, Johnston and LeVine, *op. cit.*

<sup>93</sup> For a recent 'cost-benefit analysis' of corruption in the post-communist states see L. Holmes, 'Die Vor- und Nachteile der Korruption und dessen Reportage in Zentral- und Osteuropa' in *Jahrbuch für Europa- und Nordamerika-Studien 3: Politische Korruption* (Göttingen: ZENS, forthcoming), 27 pp. in ms. One of the most frequently-cited and persuasive articles empirically demonstrating that corruption has a negative effect on investment and economic growth is P. Mauro, 'Corruption and Growth', *Quarterly Journal of Economics*, 110 (3), 1995, pp.681-712.

<sup>94</sup> A. Sajó, 'Corruption, Clientelism and the Future of the Constitutional State in Eastern Europe', *East European Constitutional Review*, 7 (2), 1998, p.37.

<sup>95</sup> *Ibid.*, p.38.

- especially CEE countries that have themselves chosen to make every effort possible to be admitted to 'Western clubs' - and whether or not it is legitimate to pretend that there is some essential, 'genuine endogenous' dimension to CEE countries (to which he implicitly claims he has privileged access!<sup>96</sup>), any more than that there is to countries and cultures elsewhere. Cultures are living, mutable and complex phenomena, and his kind of argument runs the danger of being construed as reductionist, static and parochial. Moreover, there can be no question that one major reason for internal perceptions of high levels of corruption in CEE states is because of the use domestic politicians, political parties and media make of corruption allegations<sup>97</sup>. Yet there is *some* weight to Sajó's notion of external construction. Perhaps more importantly, he (perhaps unintentionally) reminds us that 'people who live in glass houses shouldn't throw stones'; Western critics of CEE corruption should acknowledge that some of the Western states are setting a poor example. At least the post-communist states can claim the fragility and uncertainty of transition for many of their problems.

A second provocative - and again stimulating - argument from within CEE itself is from the Director of the Centre for Liberal Strategies in Sofia, Ivan Krastev. He argues that corruption might appear to be helpful to post-communist governments that do not want to confront directly the problem of the uncompetitiveness of their economies. In a nutshell, he argues that a certain amount of government tolerance of corruption constitutes a form of protectionism, and in this sense even a form of patriotism. Given this, he suggests that the attempts by Western outside agencies (he cites in particular the IMF and the World Bank) to combat post-communist corruption might be misguided, since, at the same time as they urge CEE governments to be 'sensitive' to the problem of corruption, they themselves are often *insensitive* to the potential benefits of some forms of corruption to post-communist states. Moreover,

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<sup>96</sup> It is worth noting here that a Polish scholar, who now lives in the USA, has written the following, '... working in the United States gave me the distance I needed to study many aspects of Polish reality I had not been aware of while living there.' - see J. Kubik, *The Power of Symbols against the Symbols of Power* (University Park, PA: Pennsylvania State University Press, 1994), p.15. I am fully aware that Prof. Sajó has travelled widely and worked in the West. I also fully respect his right to speak up for his own country, criticise the West, and interpret corruption from a radically different perspective from that of the majority of observers. My only concern is that he be aware that he might be throwing out the baby with the bathwater.

he points to the fact that anti-reform populists such as Lukashenka can use anti-corruption rhetoric to their own anti-modernisation advantage<sup>98</sup>.

On one level, the arguments of both Sajó and Krastev constitute welcome correctives to over-hasty and essentially unquestioned assumptions by many Western observers. Yet they both run the danger of downplaying the *long-term* significance of corruption in their societies. Whether the focus is more on domestic legitimation and its implications, or on external legitimation and its ramifications, perceptions over a reasonably prolonged period that there is too much corruption in a given society, and that governments are being too tolerant of this, have a detrimental effect.

In terms of domestic legitimation, first régimes, later systems (if changing governments from different points on the democratic political spectrum appear to be equally incapable of dealing with problems), suffer if there is a correlation in the public's mind between corruption and the democratisation and marketisation/privatisation projects as a whole. This can open the way to the emergence of anti-democratic politics; as argued above, this will not necessarily help to alleviate the corruption problem, but does introduce many new problems.

The problem of declining external legitimacy in the context of the failure of post-communist governments to bring the corruption problem under control is that the foreign investment that is vital to most CEE countries begins to dry up<sup>99</sup>; the negative implications of this, including on system legitimacy, are self-evident. At an even broader level, it is worth noting that, in the reports on individual applicants for membership of the EU, only one problem area in the 'political criteria' section was identified for every one of the ten CEE applicants – corruption<sup>100</sup>. If the CEE states believe that joining the EU will help to consolidate and develop their democratisation, marketisation and legitimation projects, then – whether or not the problem of corruption has been exaggerated or distorted by Western agencies – they will have to

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<sup>97</sup> It should also not be forgotten by those who might fear otherwise that TI's CPI reveals that Westerners do *not* treat all CEE countries alike, and that they realise many are much less corrupt than Russia!

<sup>98</sup> I. Krastev, 'Dancing with Anticorruption', *East European Constitutional Review*, 7 (3), 1998, pp.56-8.

<sup>99</sup> For comparative survey evidence that this occurs see (Unsigned), 'Reducing Corruption', *World Bank Policy and Research Bulletin*, 8 (3), 1997, esp. p.2.

<sup>100</sup> See e.g. European Commission, 'Commission Opinion on Hungary's Application for Membership of the European Union', *Bulletin of the European Union - Supplement 6* (Luxembourg: 1997), p.20;

be seen to be taking the fight against corruption seriously. Many clearly already are. Having been strongly criticised for its corruption by both the World Bank and the EU in recent years<sup>101</sup>, Latvia, for instance, has recently been praised by both for having taken serious steps to deal with the problem<sup>102</sup>. Bulgaria is another country that is taking the struggle against corruption seriously; its Coalition 2000, for example, is playing a very active role in attempting to reduce official malfeasance. However, for reasons elaborated earlier, too many members of the CEE elites have a vested interest in continuing state toleration of relatively high levels of corruption, in line with Hellman's concept of 'partial reform equilibrium'. They must be made to realise that their self-interested actions not only harm others within their own societies, but will eventually backfire on themselves as foreigners refuse both to invest in their countries (which, ultimately, constitute the primary source of much of their wealth) *and* to accept their suspiciously large deposits in foreign banks.

In addition to the last point is the fact that, as time passes, more and more members of the post-communist elites are likely to advocate legislation designed to legitimise their questionably-acquired wealth (for instance, so that it can be legally inherited). This, plus the fact that most post-communist states, albeit at different rates, are gradually catching up on their legislative backlogs, suggests that, while the corruption picture is depressing, it is not completely without hope. After all, with 13 out of 15 EU governments currently being left-of-centre, there is some hope that the rougher edges of neo-liberalism will be smoothed off in the coming years, with knock-on effects way beyond even a 'widened' EU that includes some of the CEE states. This said, there is no room for complacency. Even allowing for differences among them, the basically still fragile nature of the transition states of CEE means that corruption constitutes even more of a problem in those countries than in stable, consolidated democracies. For reasons that should by now be clear, the extent to which post-communist governments take the fight against corruption seriously will be a key indicator of their seriousness about consolidating not only the rule of law and democracy, but also the market economy.

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European Commission, 'Commission Opinion on Slovenia's Application for Membership of the European Union', *Bulletin of the European Union - Supplement 15* (Luxembourg: 1997), p.20.

<sup>101</sup> P. Zvagulis and J. Cleave, 'Corruption Remains Widespread in Latvia', *RFE/RL Daily Report*, 15 December 1998.

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<sup>102</sup> *Ibid.*; *RFE-RL Daily Report*, 2 February 1999; D. Silva, 'Latvia named top corruption fighter', *Baltic Times*, 8-14 April 1999.