PERCEPTIONS AND REALITY OF CORRUPTION IN THE CZECH REPUBLIC:

NEW RESEARCH, METHODS AND APPROACHES

Introduction

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It is an indisputable truism that corruption is a fundamental problem facing Czech society and politics and that it needs concerted, effective solutions. Many of us probably have many ideas about what could be done. Widespread criticism of corruption in the Czech Republic can be seen as an asset for building public support for policies that not only address the problem of corruption directly, but perhaps also indirectly, by promoting public oversight of government, citizen participation in politics, the trustworthiness of institutions, and the streamlining of regulations. Yet unlike many other issues, corruption is unique in terms of its covertness, with the implication that much of what we know, or think we know, about corruption is based on our own opinions, experiences, media reports, rumors, allegations, and so on. Our passion for fighting corruption is also rooted in our beliefs. But what are our beliefs based upon, what shapes them, how accurate are they and what can they tell us about corruption and the prospects of anticorruption legislation? These are the questions that this book seeks to answer.

It is relatively difficult to gain empirical knowledge about corruption besides through our perceptions. Scholars have tried to estimate levels of corruption through objective measures of missing, unaccounted for expenditures in public projects, inferring that missing expenditures are funds siphoned off through some form of corrupt behavior (e.g. Reinikka and Svensson 2004; Olken 2007). Objective approaches to the study of corruption are often based on many assumptions between corruption and money that cannot be accounted for. In chapter 3 of this book, Hanousek and Palda also discuss how scholars have sought to measure tax evasion by comparing electricity consumption with what an economy 'really' consumes to maintain its growth, assuming that the difference between actual and expected consumption is been stolen off by evading consumers and businesses. Is this the only way we can gain reliable knowledge about corruption, and thus identify directions for anticorruption policy?

Some scholars researching *corruption* downplay the fact that their analyses are based largely on *public opinion about corruption*. Blurring the distinction between corruption perceptions and reality can be very misleading. Imagine, for example, if we commission an opinion poll and find that 85% of people believe that the Czech government is corrupt, but only 45% think that local governments are. What are we to conclude from this? *Certainly not* that the national government is more corrupt than local governments. Commissioning an opinion poll among politicians, police officers, and experts perhaps goes a step further, but those people are also only human, and are thus subject to biases, opinions, and misinformation just like the rest of us. The fact of the matter is that *we cannot learn much from opinion polls if we do not have data on what it is that shapes people's beliefs*. Maybe people think that the national government is corrupt because they don't trust it, because they don't like its policies, or because one member of government has been accused of corruption. We simply don't know.

This book takes a fresh step back from current debates about corruption and anticorruption policy in the Czech Republic in order to create a space for developing empirical knowledge about corruption and how Czechs perceive it. While we have an eye towards policy, our main task is create a set of empirical studies that can broaden the range of current knowledge. We do this not by ignoring corruption perceptions, but by analyzing perceptions directly and in depth, using the best international and domestic social surveys available and applying appropriate, and sometimes advanced, statistical methods of analysis.

Each of the chapters of this book has been written as an independent, stand-alone analysis. Yet they also hang together as a coherent unit, take a similar outlook towards the nature of corruption research and share a number of common themes. These themes can be summarized in the following three areas.

Understanding the Social Origins of Corruption Perceptions

Until recently, global research on corruption has been dominated by the use of aggregate measures, such as Transparency International's Corruption Perceptions Index (TI CPI).[1] Established in 1995, the CPI has been one of the most important tools for bringing corruption into the global policy agenda, above all because it enables cross-national comparisons based on expert assessments and the tracking of a country's performance over time (though comparisons across time using the CPI are quite problematic, as discussed in chapter 1). The CPI and other international surveys, such as

[1] CPI data is available at http://www.transparency.org/policy_research/surveys_indices/cpi

the World Bank's BEEPS survey,[2] have been useful for analyzing macro-level correlates of corruption between countries, such as in terms of their economic development, democratization, civil and political rights, and economic inequality, and social trust.

Despite all of these benefits, it is difficult to use aggregate measures without thinking that what they measure is corruption, not corruption perceptions. To its credit, Transparency International itself has been very clear that the CPI measures the perceptions of experts. Nonetheless, since we know nothing about who those experts are, what their backgrounds, beliefs and political orientations are, it is easy to forget that corruption perceptions are always perceptions of individual subjects (Thompson and Shah 2005). We forget about the subjectivity of perceptions because all the data the CPI gives us is a simple country score. One way of looking at the issue is that aggregate measures may be loaded with systemic bias (Knack 2006), because the effects of respondents' backgrounds on their perceptions are never taken into account in various analyses.

In recent years, however, there has been increased scholarly emphasis on using *social surveys* as ways to measure corruption perceptions, the main benefit being that it is possible to estimate the impact of how demographic factors, political beliefs and a range of other variables shape people's perceptions of corruption. One might object that experts are more qualified to assess a country's level of corruption, which is a complex phenomenon in its own right, than ordinary citizens. But as will be discussed in chapter 3, corruption perceptions of experts and ordinary people are very highly correlated – so much so that it is difficult to say if they are different at all.

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[2] The BEEPS dataset (Business Environment and Enterprise Performance Survey) is available at http://info.worldbank.org/governance/beeps/.

Most of the analyses in this book are based on social surveys, and innovative ones at that. Two of the chapters make use of the International Social Survey Programme (ISSP) *Role of Government Survey* from 2006, which is one of the first international surveys enabling a complex analysis of the determinants of citizens' corruption perceptions across dozens of countries, including the Czech Republic. The chapter on tax evasion is also based on a set of four Czech surveys from 2000 to 2006. These surveys enable us to understand the social origins of Czechs' corruption-related beliefs and behavior in ways that were not possible previously. Given that people's beliefs and values are fundamental to their willingness to engage in corruption or tax evasion, the analyses can be an important contribution to current debates on these topics.

Situating Perceptions in the Context of Corrupt Behavior

Another common theme of this book is to explain why and how perceptions matter. Numerous scholars have analyzed the degree to which the corruption perceptions of citizens and businesspeople are correlated to their reported experience with corruption (usually bribe-giving). The goal of such analyses is not simply to determine whether perceptions are accurate. Perceptions are important in their own right. If people perceive they are surrounded by corruption, they may feel that they have to accept and even participate in corruption as well. As corrupt practices spread and become habitual, the norm of corruption is formed and transmitted to future generations.

If it is the case that people are more likely to give bribes *if they think* that public officials expect them, then strategies aimed at changing people's perceptions may be an effective way to fight corruption itself. Similarly, if people engage in illicit behavior because they think they can get away with it, or because they think that it is morally acceptable, then strategies aimed at deterrence (e.g. large jail sentences combined with effective enforcement) and morality (e.g. advertisement campaigns) could be effective also.

One of the key arguments of this book is that citizens' sense of justice – such as whether or not they believe public officials deal with all people equally, or whether they think that the wealthiest Czechs got rich by playing by the rules – is one of the strongest determinants of people's perceptions of corruption. The fact of the matter is that many Czechs feel that people with money or with political connections can gain preferential treatment with the public administration. These kinds of beliefs can have significant consequences for citizens' trust in government, their support of democracy, and the legitimacy of the political system as a whole.

Importance of Indirect Policy Measures

Anticorruption policy can be divided into two sets of approaches. Direct policy measures aim specifically to tackle the problem of corruption, such as the laws on the conflict of interest, anti-corruption telephone hotlines, or attempts at increasing fines and prison terms for proven corruption. Direct policy measures tend to have a quick-fix bias, sometimes because governments or civil society actors need to be able to show the public that they are doing something to directly solve the problem or scandal. While a 'put-corrupt-officials-behind-bars' strategy may be compelling to ordinary people, it is usually very difficult to measure whether direct policy measures are effective, particularly in the long run.

Indirect measures involve a wider set of policies and laws the principle objective of which may not even be fighting corruption at all. Examples of indirect measures include the reform of the public finances and institutions; meritocratic principles in the hiring and promotion of public officials; broad support for the development of civil society and public participation; or the streamlining of financial regulations and the tax code. Generally, there is much stronger empirical evidence across a wide range of countries that indirect measures are effective in reducing corruption in the long run. This is because corrupt behavior is deeply rooted in the norms, beliefs and expectations of people. In this sense, corruption is like a weed: if you pull one out (i.e. put one person in jail), others will grow in its place. Indirect measures are thus intended to address the underlying social and institutional sources of corruption. While indirect measures have long been advocated by scholars and international organizations like the World Bank (Kaufmann 2005) and Transparency International, they have not been a major part of the public debate on corruption in the Czech Republic.

While the research for this book was carried out without a particular policy objective in mind, the analyses as a whole emphasize the importance of indirect policy measures as a needed supplement to current strategies underway. There is strong evidence that high levels of generalized trust lead to lower levels of corruption. This is because if people have confidence in others, they are more likely to endorse strong standards of moral and legal behavior (Uslaner 2002; 2004). Further, people who perceive the legal system as fair and impartial are more likely to trust their own fellow citizens (Rothstein and Stolle 2002). Since many Czech respondents express the feeling of unequal treatment by public officials, a reform of the public administration aimed at transforming the way citizens and businesses interact with public officials and how information is exchanged between them. This could take the form of developing stricter rules on the transparency of public tenders and other administrative decisions, a streamlined tax code that reduces the number of loopholes, and a concerted effort at reducing 'red tape,' i.e. time costs, paperwork, and number of face-to-face encounters needed to do business with the public administration.

Of course, the problem of indirect measures is that they are indirect. Even if scholars have shown that the use of civil service examinations and other meritocratic procedures in the hiring of public officials is strongly correlated to lower levels of administrative corruption (Rauch and Evans 2000), few people would promote such reforms *merely* to fight corruption itself. Even if a strong civil society can act as a watchdog ensuring a degree of public oversight, politicians would be strained to convince voters that their strategy of fighting corruption is the promotion of civil society. However, looked at from another angle, indirect measures can also be seen as a way of mainstreaming anti-corruption policy across a wide range of policy areas. The conclusion of this book will provide a sketch of what this mainstreaming could look like.

Structure of the book

Chapter 1 sets the tone of the study by presenting a critical overview of the current state of knowledge about corruption in the Czech Republic. Far from being a traditional literature review, the chapter focuses on identifying a small set of strong *empirical generalizations* about Czech corruption from either a historical or cross-national point of view. Some of these generalizations are not widely understood by the

Czech media and others, and thus the chapter will likely be provocative to many readers unfamiliar with the international research on this topic.

Reading between the lines, the chapter hints at the fact that we know relatively little about the nature of corruption and its perceptions in the Czech Republic. This could be due to the relatively small number of sociologists and political scientists who do empirical corruption research. Another problem is that there have been a number of theories of how corruption develops in the Czech context, but those theories have not been tested in a robust manner. A last problem is that many studies are over-reliant on opinion polls; while such polls are very interesting, they do not enable us to make generalizations beyond the level of opinions, particularly if we have no information about citizens' backgrounds and other beliefs that may shape their perceptions. Since most opinion surveys cannot bridge the perception/reality gap, reporters, reporters and scholars who use them often conflate corruption perceptions with corruption reality, which may lead us to thinking that we know more about corruption than we really do.

Chapter 2 develops a theory of corruption as a form of social injustice, and then defends that theory on the basis of data from the International Social Survey Programme (ISSP), which the Czech Republic has participated in for many years. While corruption is often understood as a form of criminality (which it is of course as well), a form of deviance, or as a problem of economic development, ordinary citizens have long seen corruption as an issue of fairness or unjust treatment. This is because corruption has a moral dimension: corruption is seen to have taken place not only when a specific law has been broken, but also when public officials (and private citizens) are seen as breaking accepted norms of distributive justice for their own enrichment.

After briefly overviewing the literature on corruption and inequality, the chapter demonstrates that Czechs see corruption as a form of unfair distribution of advantages that it closely related to the immoral use of political connections and law evasion. The perception of unfair treatment by public institutions – i.e. the idea that the state does not give equal treatment to all citizens – is one of the strongest determinants of why Czechs see public officials as corrupt. Perhaps due to the heritage of mass privatization, the great majority of Czech respondents feel that those at the top of society – economic, political and social elites – reached their status positions through some form of corruption – that is, through a set of immoral practices that break established norms of distributive justice. As the chapter explains, these perceptions of injustice matter a great deal for the public legitimacy of economic and political system of the Czech Republic as a whole.

Chapter 3 is among the first studies in the corruption literature to analyze the determinants of corruption perceptions across a large range of countries, thus situating the Czech data in an international context. The analysis was carried out by first identifying a structural equation model with the best fit with the combined dataset, and then comparing the role of social status, trust, bribery experience, contacts, political beliefs and other factors in each of the 30 countries studied. The analysis is able to show how the degree of determination of corruption perceptions by these factors varies by country, implying, for example, that the connection between trust and corruption is somewhat context-sensitive. One of the main benefits of the analysis is that it enables putting into perspective one-size-fits-all anti-corruption policies, pointing how the importance of government fairness, trust, economic inequality and other conditions affect corruption perceptions somewhat differently by country and region.

Chapter 4, written by Jan Hanousek and Filip Palda, examines the problem of tax evasion in the Czech Republic using four surveys between 2000-2006, which asked respondents about their current and past tax evasion practices. On the basis of that data, they measure how tax evasion evolved from 1995 to 2006, arguing that there has been a decline in tax evasion during much of the 2000s. That argument closely matches the discussion in chapter 1 about the decline in corruption in the Czech Republic since 2001 as measured by a number of international surveys. Hanousek and Palda also analyze the average individual's transitions in both directions between evading and not evading and use this to predict the evolution of tax evasion at the individual level.

By identifying parameters that influence evasion, they at the same time point to suggestions about how the Czech government might be able to change some of these parameters to reduce evasive practices. However, the challenge of identifying credible estimates of the evolution of tax evasion lies in dealing with changing demographics and policy. As a population grows rich it will change the way it evades. As government cracks down on evasion or changes the quality of services it provides to its citizens, people will make new decisions about whether to evade or not evade.

Chapter 5, written by Charles Kenny, a senior economist at the World Bank, examines what we can say about the extent and impact of corruption in infrastructure in developing countries using existing evidence. The findings apply to the Czech Republic as well. The chapter looks at different approaches to estimating the extent of corruption and reports on the results of such studies. It suggests that there is considerable evidence that most existing measures of perceptions appear to be very weak proxies for the actual extent of corruption in the infrastructure sector, largely (but inaccurately) measuring petty rather than grand corruption.

The chapter discusses evidence for the relative costs of corruption impacts and suggests that a focus on bribe payments as the indicator of the costs of corruption in infrastructure may be misplaced. Kenny instead argues that macro approaches would be more appropriate to measure the damages caused by corruption. By focusing on the overall budgeting of projects and auditing physical capital, it should be possible to observe whether budgets are adequate for operations and maintenance, and if the process for selecting projects picks those with a high economic return. If these kinds of conditions are met, it would be possible to infer that the impact of corruption will be relatively small. In other words, Kenny advocates a strategy of fighting corruption based on measurements of its observable impact, which involves a degree of toleration towards forms of corruption with low economic costs but the elimination of corrupt projects when the costs are high.

Chapter 6 takes an entirely different approach to measuring corruption – through the use of media analysis. The chapter first takes issue with the so-called "corruption eruption hypothesis," the idea that there has been a dramatic surge in discourse about corruption in Central and Eastern Europe but not in other parts of the world. In reanalyzing the data behind the corruption eruption hypothesis, the chapter demonstrates that the degree of media reporting on corruption has actually corresponded to perceived corruption levels – thus indicating a degree of 'accuracy' in media reporting - but that in recent years economic inequality and restrictions on civil liberties have been strong predictors of corruption discourse.

The chapter then goes beyond the frequency of media reporting to analyze the specific content of reports on corruption in leading Czech newspapers in recent years. By focusing on newspaper articles dealing with accusations of corruption, it is possible to count the number of corruption cases discussed in the press, other characteristics of those cases, and whether the number of corruption cases has increased or decreased over time. While the analysis is less sophisticated than others in the book, it also points to a very practical and innovative way to measure changes in the incidence of corruption over time.

Finally, chapter 7 briefly overviews current anti-corruption strategies and legislation in the Czech Republic. Highlighting some of the findings of this study, the chapter defends the need for taking seriously indirect strategies of fighting corruption. The chapter elaborates on what some of those strategies could be, as well as how they could be promoted by means of mainstreaming anti-corruption legislation.