Corruption as a Last Resort

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“Workers who gave money to the sovkhoz received goods,” Marzhan, the woman in the village in Kazakhstan, recounted to me.\(^1\) In the late 1990s when the sovkhoz (state farm) in the village collapsed, workers who gave bribes to the local authorities received goods from it, Marzhan and other village residents explained. Former sovkhoz workers needed these essential agricultural inputs for the new farms they were establishing; their limited income and access to credit made it difficult for them to obtain the goods elsewhere. Yet some villagers, like Marzhan and her family, opted not to pay bribes and thus not to receive the inputs.

This story underscores that not all individuals engage in corruption. Earlier studies of corruption have examined the puzzle of why it is more common in certain countries, but they have neglected the question of why some individuals in countries where corruption is rampant rarely or never engage in it.

The absence-of-alternatives explanation presented in this book solves both puzzles. First, it shows that corruption is more common in countries where alternative sources of essential goods and services are more limited. Second, even within a single country some individuals have greater access to alternative resources than others, and this enables them to avoid corruption. Market reform can account for individuals’ differing access to resources as well as the paucity of resources in a country. By enriching some families and impoverishing others, market reform leads individuals whose relatives have not prospered to engage in corruption to meet their everyday needs. When market reform limits the resources

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1. Author’s interview (#161), Kazakhstan, July 22, 2001.
that formal government programs, market actors, and societal groups can provide to individuals, it increases the prevalence of corruption in a country. To elaborate on these arguments and demonstrate the benefits of the absence-of-alternatives framework, I begin with some fundamental observations about seeking assistance.

**Seeking Assistance**

Central to the absence-of-alternatives framework are the ideas that individuals have basic needs to meet and that they prefer not to use illicit means to meet them. These *basic needs* include employment, credit, money, food, clothing, and shelter. Employment and credit both provide money—employment does so through income, and credit does so by enabling people to initiate profitable entrepreneurial ventures. Individuals may also receive money as a direct handout. Regardless of the source, money enables individuals to purchase food, clothing, and shelter. People may also receive these goods directly as charitable donations. This definition of basic needs is supported by the accounts given by Central Asians. As the data in chapter three reveal, Central Asians seek employment, credit, and money in order to ensure that they have food, clothing, and shelter.

The claim that individuals prefer to avoid illicit exchanges with government officials to meet these needs reflects reality: studies of countries in Africa, Eastern Europe, and Latin America, as well as my own research in Central Asia, have found that people consider it repugnant to offer bribes, use personal connections, and promise political support for necessities, even when they perceive the practices to be pervasive in their societies.\(^2\) Thus, the idea that people’s first preference is to avoid corruption is a sound assumption.

This book’s arguments, however, do not require a particular judgment as to whether corruption to meet basic needs is good or bad. As noted in the first chapter, petty corruption can have both benefits and drawbacks. It can enable people to survive difficult economic circumstances, but it also undermines regime legitimacy, fuels economic and political inequality, and increases economic inefficiencies.\(^3\) The arguments hold whether or not one finds corruption useful, harmful, or a mix of the two.

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In what ways can people meet their basic needs besides by engaging in illicit exchanges with government officials? Possible alternative sources of goods and services include formal government programs, markets, groups in society, and family members. Formal state assistance programs provide help to individuals based not on their particularistic characteristics, such as bureaucrat’s relatives, but based on their fit within a category, such as veterans. The programs may provide employment, credit, money, food, clothing, or shelter. Specific examples include public employment, subsidies to enterprises to help increase hiring, and welfare benefits to individuals. Market actors, including private banks and owners of private companies, are most likely to provide credit or employment, although some perform charitable acts that help meet the other needs. Societal groups and family members may assist people with employment, credit, money, food, clothing, or shelter. Societal groups include places of worship, religious organizations, and secular charities, and family members include kin both inside and outside of a household.

Differences among Countries: Market Reform, Legacies, and Institutions

Under certain conditions, market reform can limit these alternatives and thus account for why corruption is more common in some countries. Market reform refers to efforts in the late twentieth and early twenty-first centuries to decrease state economic intervention through policies, such as privatization of state property, deregulation of industries, liberalization of trade, reduction of welfare expenditures, and increases in labor market flexibility. Market reform’s promotion of corruption is ironic because the set of policies is designed to reduce the resources government officials have and expand opportunities for individuals to obtain assistance from private actors. For example, farmers should be able to secure credit from private banks instead of government programs. Moreover, individuals should obtain those limited goods and services that remain available from the state based on their membership in certain categories, such as “farmers eligible for credit,” not based on their particularistic traits, such as their ability to exploit personal connections. In practice, however, people do take part in illicit exchanges in order to obtain assistance from government officials. And the

greater the number of people who lack substitute resources in a country, the more common corruption is.

Of the different market reform policies, the reduction of welfare expenditures has the greatest influence on citizens’ abilities to meet their basic needs. A reduction in welfare expenditures can include a cutback in public employment and diminution of some benefit payments and an end to others. As a result, individuals have fewer formal government programs that they can turn to for assistance. Those government programs that do exist formally restrict the distribution of resources to individuals who meet narrow requirements in order to manage their scarcity. As a result, competition for these resources increases. At the same time, price liberalization can reduce the relative size of citizens’ incomes, and privatization and reforms to increase labor market flexibility can result in layoffs and thus loss of income. Consequently, people’s needs grow as government assistance shrinks.

Market reform can further undercut citizens’ welfare by limiting resources from markets, societal groups, and extended family. This occurs when two conditions hold: (1) state involvement in the economy has been historically significant, and (2) market-enhancing institutions are weak or absent.

The first condition, a legacy of significant state economic intervention, historically created a scarcity of resources provided by nonstate individuals and organizations. The resources included employment, credit, and welfare assistance, for example. The scarcity existed because the government granted monopoly or near-monopoly rights to businesses, allowing only one or a few to provide each good or service. This limited the production of goods and services because few entrepreneurs had the rights and other entrepreneurs expended time and capital on lobbying for the rights instead of on production. Some governments also outright prohibited anyone other than the state from providing particular goods and services. Even in the absence of a formal ban, entrepreneurs had little incentive to produce goods and services that the government was already providing.

States’ attempts to control their countries’ economies also limited the resources that societal groups could provide to individuals. State economic intervention resulted in a crowding out or banning of societal groups. In particular, governments that provided extensive welfare benefits reduced the need for secular and religious groups to provide charitable assistance. When states actually prohibited the creation of societal groups or severely limited their activities, these groups were even less likely to offer substitute resources.

The breadth, length, and immediacy of state economic intervention vary across countries. The more goods and services that the state controls for a longer time closer to the onset of market reform, the more the legacy of the intervention will limit nonstate resources once market policies are adopted.

By reducing state economic intervention, market reform spurs the emergence of private businesses and societal groups; however, these new entities have difficulty immediately meeting people’s basic needs. Market reform ends prohibitions on private market and charitable activities, and economic and social entrepreneurs have incentives to create private businesses and charitable organizations now that the state no longer provides extensive goods and services. These new businesses and charities, however, face obstacles in meeting people’s needs for employment, credit, money, and other goods and services. The businesses and charities are beginning from scratch with few resources to distribute and little knowledge of how to distribute them. The broader, longer, and more recent the state economic intervention of the past, the fewer resources and less experience businesses and charities have when market reform is introduced.

Market-enhancing institutions are critical to helping these new businesses and charities to thrive, yet they have rarely been part of market reforms. Market-enhancing institutions are “[r]ules, enforcement mechanisms, and organizations . . . [that] help transmit information, enforce property rights and contracts, and manage competition in markets.” Credit registries, accounting firms, constitutions, judicial systems, and antimonopoly policies are some of the many rules, organizations, and enforcement mechanisms that count as market-enhancing institutions. By providing information about potential partners and by defining and enforcing property rights, market-enhancing institutions encourage market transactions and investment. By stimulating competition, they give new businesses the opportunity to prove their mettle and they help to ensure reasonable prices for inputs.

States must create, or at least encourage, the development of market-enhancing institutions. These institutions are public goods and, in some cases, represent constraints on market actors. Market competitors have little or no incentive to overcome the collective action problem in order to establish these public goods or to constrain their own profit-seeking behavior.

Consider in greater detail two market-enhancing institutions, credit registries and antimonopoly policies, that can be especially important to citizens’ welfare. Credit registries, as well as credit bureaus, are databases that have information about the creditworthiness of individuals. Without this information, banks must

demand significant collateral to reduce the likelihood that clients will default and to reduce the losses to the banks if the clients do fail to repay their loans. In rural areas throughout much of the world, it is difficult for banks to collect this information on their own. Population density is low, so it is not profitable for banks to establish branches, which could collect the necessary information. Banks could share credit information with one another, but they have little incentive to do this because they are competitors. Governments or entrepreneurs responding to government incentives typically create public credit registries or private credit bureaus, respectively. Credit registries or credit bureaus that cover much of the population enable banks to acquire credit information about potential borrowers without the cost of building branches in less populated areas. With this information, private banks can better determine which potential borrowers pose a sufficiently low risk that it would be profitable to lend to them. Improved coverage does not mean that all people become eligible to obtain credit—some individuals may be too risky—but it typically expands the pool of eligible borrowers.

Governments also play an important role in encouraging market competition by developing and enforcing antimonopoly policies. When businesspeople are forced to buy from a monopoly provider, it is difficult for them to expand their businesses. Money paid for inflated electricity or agricultural processing prices cannot be reinvested to hire additional employees, for example.

Despite the importance of market-enhancing institutions, they were generally not part of market reforms for twenty years. Only in the early twenty-first century did market reform advocates, such as the World Bank, acknowledge that state withdrawal from the economy did not guarantee strong markets. Instead, along with liberalization, privatization, and deregulation, governments must actively develop market-enhancing institutions.

As a result of this oversight, market and societal actors, particularly in countries with a legacy of significant state economic intervention, cannot meet individuals’ needs for employment, income, and credit. Fewer private businesses exist and those that do are less likely to expand and employ more people. As a result fewer people can earn income in private business. Similarly, fewer private banks


7. As formal models of credit rationing indicate, banks may consider certain groups of individuals too risky to lend to even when the individuals are willing to pay higher rates and provide more valuable collateral. Most likely, these individuals would have no or poor credit histories. Joseph E. Stiglitz and Andrew Weiss, “Credit Rationing in Markets with Imperfect Information,” *American Economic Review* 71, no. 3 (1981), 393–410.
exist and their credit-lending is more limited. When private firms are less profitable they engage in less charitable giving as well.

The lack of market-enhancing institutions as well as the legacy of significant state economic intervention limit the resources of groups in society too. The effect is both indirect and direct. Charitable organizations rely on membership dues and donations. To the extent that market actors are not prospering, individuals give less to places of worship, religious organizations, secular charities, and other societal groups. Furthermore, societal groups may also have the legal right to obtain credit or engage in business ventures in order to earn revenue to use toward their missions. So, societal groups can also be directly harmed by weak credit markets.

In sum, market reform in countries that have a legacy of significant state economic intervention and no or weak market-enhancing institutions not only reduces assistance from formal government programs but also limits help from markets, charities, and kin. The more extensive, lengthy, and recent the state economic intervention and the weaker the market-enhancing institutions, the more limited the assistance.

**Individuals’ Decisions: Market Reform’s Differential Effect on Families**

When resources citizens need are no longer available through formal state programs and are also not obtainable from outside the government, individuals engage in corruption. However, because market reform has a differential effect on families, some individuals have kin who can help them and some do not. This differential effect accounts for why some individuals, even in countries

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8. The order in which citizens approach formal government programs, market actors, societal groups, and kin depends on ease of access and cultural characteristics, such as strength of family ties. Yet, eventually, they will either secure assistance from one of these individuals or groups and thus not need to engage in corruption or they will not secure assistance and thus need to engage in corruption.

where corruption is pervasive, avoid engaging in corruption to meet their every-
day needs.


This book’s arguments explain that those individuals whose relatives have not prospered in the new market economy use bribes, personal connections, and promises of political support to try to obtain state resources. Those individuals whose relatives have prospered can avoid corruption. Initially, under market reform the economic situation of many families worsens; family members may lose state jobs and welfare benefits; however, some families also manage to enrich themselves.\footnote{The differential effect of market reform has been well documented in terms of increased inequality. Gourdon, Maystre, and de Melo, “Openness, Inequality, and Poverty,” 24; Luo and Zhu, “Rising Income Inequality in China,” 20; Taylor and Vós, “Balance of Payments Liberalization in Latin America.”} In countries with a legacy of significant state economic intervention and lack of market-enhancing institutions, the long-term prospects for
initially impoverished families are gloomy because market and societal actors cannot provide money, employment, and credit for families to escape the dire economic circumstances. To meet their basic needs, members of these families turn to government officials.

Turning to a downsized state for material assistance is not the paradox that it might seem to be at first glance. How do government officials have resources to give in illicit exchanges if the state has been downsized by market reform? First of all, the state is still resource-rich relative to other institutions and groups. This is especially true in cases where the state historically had significant control of the economy, and reform did not establish effective market-enhancing institutions. Second, the resources individuals are seeking to meet basic needs are comparatively insignificant for the state to provide. Even in a downsized state, government officials can find some money, jobs, or credit for illicit exchanges.

In sum, citizens use bribes, personal connections, and promises of political support to try to obtain state resources when formal state assistance programs, market actors, societal groups, and family members do not have the means to meet their basic needs. The more extensive state economic intervention has been historically and the weaker the market enhancing-institutions in a country, the more individuals market reform causes to engage in petty corruption and the more corruption in the country.

A Parsimonious, Causal, Generalizable Explanation

This explanation for corruption is parsimonious, causal, and generalizable. Earlier corruption studies have provided valuable insights, but their explanations tend to take the form of a long list of possible causal factors, correlative statements, or conclusions limited to a particular location. Studies of a small number of countries have often resulted in long lists of causes of corruption. For example, Leslie Holmes identifies eighteen factors that have contributed to corruption in just one region of the world—the former Eastern bloc.14 Statistical studies of many countries, or large-n analyses, have provided useful clues, but no causal explanations with compelling empirical support.15 Field experiments avoid these

15. A key problem is that these studies often rely on data that measure the perception of corruption, instead of corruption itself. See, for example: Uslaner, *Corruption, Inequality, and the Rule of Law*; Jong-Sung You and Sanjeev Khagram, “A Comparative Study of Inequality and Corruption,” *American Sociological Review* 70, no. 1 (2005), 136–57. For a review of large-n analyses, see Daniel
problems, but their findings are less generalizable than those from this book, which combines comparative case study and large-n designs.\textsuperscript{16}

The absence-of-alternatives approach provides a general, causal framework for understanding and combating corruption. An absence of alternatives to illicit exchanges with government officials is a necessary and sufficient condition for petty corruption. When can an absence of alternatives occur? Together the two conditions—a legacy of significant state economic involvement and poor or absent market-enhancing institutions—are sufficient for the causal factor, market reform, to result in an absence of alternatives and, subsequently, citizens’ use of illicit means. Market reform is not the only factor that promotes petty corruption, and research has shown that market reform can decrease grand corruption by reducing government officials’ responsibilities. However, considering its spread in the 1980s and 1990s, and the frequency of the conditions under which it encourages petty corruption, market reform is worthy of focus.

The direction of the causal relationship between market reform under the two conditions and corruption is clear. Logic and evidence indicate that corruption to meet everyday needs is unlikely to have caused market reform, weak or absent market-enhancing institutions, or a legacy of significant state economic intervention. Studies have suggested that grand corruption can result in market reform with weak or absent market-enhancing institutions, as government officials avoid creating market-enhancing institutions that would limit their ability to reap personal benefits from policies such as privatization. How ordinary citizens’ illicit efforts to obtain basic goods and services would lead to market reform under the two conditions is neither evident nor supported by prior studies. Ordinary citizens are not likely to have such influence, nor would it be in their interest to support policies that ultimately limit their means of obtaining essential goods and services.\textsuperscript{17}

Evidence from Central Asia supports the idea that market reform under the two conditions has resulted in petty corruption, not the reverse. Corruption to obtain basic goods and services developed after market reform began and after the period of significant state economic intervention, as described in chapter four. Corruption did exist in the Soviet era, prior to market reform; however, evidence in chapter four shows that the individuals who engage in illicit practices, the targets of their requests, and the goods and services sought have changed since

\textsuperscript{16} For a review of field experiments, see Benjamin A. Olken and Rohini Pande, “Corruption in Developing Countries,” \textit{Annual Review of Economics} 4 (2012), 479–509.

\textsuperscript{17} Why market-enhancing institutions are weak and how corruption may play a role are important issues, but not the puzzles this book aims to solve.
the Soviet era. So today’s petty corruption did not cause market reform, the weakness or absence of market-enhancing institutions, or the significant state economic intervention historically. Evidence in chapter four also demonstrates that the needs citizens seek to meet through corrupt practices developed in large part directly from market reform under the two conditions. This further supports the proposed causal relationship.

These same pieces of evidence about timing and needs and the analysis of the ninety-two countries suggest that the causal factor, conditions, and corruption are not all caused by something else. We know that market reform, not economic reform in general, is influential because the evidence shows that market reform under the two conditions created the needs that prompted the illicit behavior. The statistical analysis demonstrates that leading alternative explanations cannot account for market reform, the two conditions, and corruption. The fact that corruption to meet everyday needs has been less common in Uzbekistan further casts doubt on another factor causing all components of the argument. Uzbekistan shares many characteristics with Kazakhstan and Kyrgyzstan, including economic upheaval, which, in theory, could cause market reform, the conditions, and the corruption. Yet, even though it, too, experienced the economic chaos of the collapse of the Soviet Union, Uzbekistan has neither undertaken market reform nor exhibited the corruption for basic goods and services that Kazakhstan and Kyrgyzstan do.

The contrast with Uzbekistan also challenges the alternative explanation that a legacy of significant state economic intervention causes market reform and corruption. Uzbekistan experienced significant state economic intervention but neither market reform nor significant corruption to meet essential needs. Chapter four presents evidence from Central Asia that challenges all of these alternative explanations as well as a host of others and supports the causal argument proposed by this book.

The causal argument is parsimonious in the sense that this single idea that people engage in corruption when alternatives are not available is a framework that can explain multiple types of corruption in different settings. It is useful to identify varied proximate causes of different forms of corruption, but it is also helpful to have a framework with which to understand corruption generally. Earlier frameworks have considered only government officials’ roles in corruption, and neglected citizens’ roles. The absence-of-alternatives framework rectifies this problem.

Moreover, the absence-of-alternatives approach expands the study of corruption by examining nonstate and nonmarket resources. Most studies of corruption, especially those in the overbearing state school of thought, are based on the idea of a state monopoly of resources. A few others consider the influence of
scarce market resources as well, contending that the state’s monopoly on resources creates scarcity in the market, which encourages corruption. However, their focus overlooks the possibility that nonmarket actors, such as kin, may be able to offer substitute resources. This insight has two important implications. Most broadly, resource scarcity in a territory affects individuals differently. Equally important, those individuals with resource-rich kin can avoid engaging in corruption by obtaining needed goods from family members. By examining the availability of resources from not only government officials and markets but also family members, this study acknowledges that resource scarcity has varied effects on individuals and that some individuals can avoid engaging in corruption even in countries where it is pervasive.

While expanding the focus to citizens and family and societal resources, the absence-of-alternatives approach remains parsimonious. With the basic idea that individuals consider alternatives before engaging in corruption, this framework can likely illuminate not only petty but also grand corruption. Petty and grand corruption are distinct phenomena, but the underlying dynamics may be similar enough for the framework to apply. In grand corruption, instead of average citizens meeting basic needs, the focus is on owners of large businesses seeking additional profit. If no alternatives other than illicit exchanges with government officials exist for earning additional profit, we would expect the business owners to offer bribes, use connections, and promise political support. While average citizens consider the availability of resources from market actors, societal groups, and family, large-scale business owners would be most affected by the resources of market actors. For example, if private banks did not provide credit, corrupt practices could be more appealing as a means to expand one’s business. The applicability of this framework to grand corruption relies on the assumption that large-scale business owners, like average citizens, prefer not to engage in corruption. This is an empirical question that requires investigation.

The framework also allows for other possible causes of limited alternatives. Most boldly, a reversal of market reform, or the introduction of socialism, could limit alternatives and encourage corruption to meet everyday needs. Hypothetically, a state could circumscribe market activities, for example, through nation-

alization and price controls, while also abandoning government assistance programs and banning or severely restricting the activities of societal groups. In practice, these two measures have not typically accompanied the introduction of socialism—rather socialist policies tend to include an expansion of government assistance, and contemporary socialist governments, even if not all of their historical counterparts, have allowed societal groups to continue to assist citizens. Research on other eras, including the future, is likely to reveal other factors that limit alternatives and thus promote corruption. Although it is a simple framework, the absence-of-alternatives approach has the potential to explain a lot.

An Absence of Alternatives versus Economic Development and Poverty

At first glance, the absence-of-alternatives approach may resemble economic development or poverty theories, but it is, in fact, distinct from them in crucial ways and offers advantages over them. An absence of alternatives to illicit means to obtain essential goods and services does not necessarily result from economic underdevelopment or poverty. This is evident in the Central Asian cases; seeking assistance illicitly from the state to meet basic needs has not been common in Uzbekistan even though it exhibits levels of economic development and poverty similar to those in Kyrgyzstan. Instead, market reform under the two conditions is the cause. Unlike economic development studies, the absence-of-alternatives theory offers a causal account and an explanation for individual variation; unlike poverty theories, this approach takes into account not only individuals but also societal actors who may help them, and thus more accurately depicts individuals’ decisions about engaging in corruption.

Economic development explanations are based on large-n analyses. Many of these studies have found correlations between economic development and perceived or “experienced” corruption.\(^{19}\) They have found that higher levels of economic development coincide with lower levels of perceived or experienced corruption. The studies typically use per capita gross domestic product at purchasing power parity as a measure of economic development and one or more existing corruption data sets, such as Transparency International’s Corruption Perception Index and Global Corruption Barometer or the World Bank’s World Business Environment Survey and World Governance indicators. These data sets collect information about petty corruption and, in some cases, also grand

\(^{19}\) Surveys claiming to measure corruption that people have experienced are often instead only measuring corruption that people perceive.
corruption.\textsuperscript{20} The relationship between economic development and corruption is robust; the relationship cannot be explained by influences such as inequality, trade, inflation, religion, ethnic heterogeneity, and region, as measured by a variety of control variables in these studies.\textsuperscript{21}

The first weakness of these studies, however, is that, although they propose a causal explanation, they demonstrate only a correlation between economic development and corruption.\textsuperscript{22} In fact, one review of these studies found that two common components of economic development—urbanization and greater average educational attainment—did not affect corruption levels,\textsuperscript{23} suggesting that the relationship is at least poorly understood, if not spurious. Furthermore, these studies cannot explain variation among people in a country. They use country-level measures of corruption and economic development, overlooking the fact that within a country some individuals engage in corruption more than others do.

Explanations of corruption that focus on poverty avoid these two weaknesses; however, the absence-of-alternatives approach offers advantages. Poverty studies do provide helpful causal explanations, which clearly link poverty to corrupt actions: as James Scott wrote in 1969, “Poverty shortens a man’s time horizons and maximizes the effectiveness of short-run material inducements. Quite rationally he is willing to accept a job, cash, or simply the promise of assistance when he needs it, in return for his vote and that of his family.”\textsuperscript{24} Compared to my approach, these theories are rather limited in scope because they focus on one type


\textsuperscript{21} Treisman finds that the inclusion of variables for democratic institutions and free media does affect the relationship, suggesting that it may, in fact, be these aspects of highly economically developed countries that explain their lower levels of perceived and experienced corruption. However, this is only a preliminary finding. Treisman, “What Have We Learned About the Causes of Corruption,” 225.

\textsuperscript{22} See the Alternative Explanations section of chapter four for a description of these theories and tests of them with the Central Asian cases.

\textsuperscript{23} Treisman, “What Have We Learned About the Causes of Corruption,” 225.

of corruption—vote-selling or exchanging one’s vote for a material good. More critically, they assume that only authorities, in this case party machines, are resource-rich. They overlook the possibility that there may be societal actors or kin who can help poor individuals meet their basic needs.

The absence-of-alternatives approach offers advantages over other corruption explanations. It accounts for differences in corruption among countries and among individuals, and it offers a parsimonious, generalizable, causal explanation for why people engage in corruption. These theoretical contributions translate into concrete policy recommendations, which are the focus of the concluding chapter of the book. The next chapter begins the process of illustrating the applicability of the theory to Central Asia and other regions of the world by describing corruption to meet basic needs in Kazakhstan and Kyrgyzstan.