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CORRUPTION AND RISKS

Anti-corruption: the indirect 'big bang' approach

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ABSTRACT

In policies for economic development, anti-corruption measures have received increased attention. The policy advice from the international "good governance regime", which is based on the principal-agent theory, is geared towards incremental change that will set in motion a "virtues circle". It is argued that this theory and the following incremental policy approach is dysfunctional for curbing corruption. It is unlikely that small institutional devices can set in motion a process towards establishing "good governance" in countries where corruption is systemic. Based on an understanding of corruption as an instance of the theory of collective action, it is argued that what is needed to establish a new equilibrium of social and economic exchange is a "big-bang" type of change. Incremental policies that are based on the principal-agent theory are likely to end in a "social trap" situation worsening the problem. The argument is illustrated by an historical case-study of how corruption was eradicated in 19th century Sweden.

KEY WORDS

Corruption; good governance; impartiality; efficient institutions; Sweden.

WHAT IS MISSING IN POLITICAL ECONOMY?

In the *Handbook of Political Economy*, one of the leading scholars in the new institutional economics approach, namely Douglass C. North, has a chapter titled 'What is missing from political economy'. Having been invited by the editors of the handbook to comment on what has been accomplished in this research area, he criticizes the political economy approach for missing 'a series of bigger questions'. The most important questions according to him are: 'why aren't all countries in the world advanced industrial nations? Why do legislatures produce secure property rights and the rule of law in the developed world but not in the developing world?' (North, 2006:

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1003). He also states that 'we have yet to figure out what makes the non-developing countries so stable'. In other words, why is the combination of severe poverty and dysfunctional institutions so difficult to change?

North's explanation for this 'black hole' in the political economy approach is twofold: first, current political economy approaches 'do not adequately address the problem of non-incremental change' (North, 2006: 1004); second, almost all analyses in political economy focus on the effects of formal institutions while excluding the informal ones, which to North are just as important. Since corruption is very much an informal institution, and since it is likely to be driven by agents' beliefs about other agents' beliefs, it is telling that there is no chapter on corruption or similar issues in this handbook. In fact, looking at the subject index of this 1100 page handbook, it is noteworthy that the issue seems to play a very minor role in the field of political economy. As Michael Johnston recently has argued, it is puzzling that 'American political science as an institutionalized discipline has remained steadfastly uninterested in corruption for generations' (Johnston, 2006: 809). An examination of a number of other recently published 'Handbooks' in political science and public administration shows that corruption is hardly ever mentioned (Dryzek *et al.*, 2006; Moran *et al.*, 2006; Peters and Pierre, 2002; Rhodes *et al.*, 2006).

This is peculiar since there is by now quite compelling empirical support for claiming that the quality of a country's political institutions determines its economic and social development (Acemoglu and Robinson, 2008; Holmberg *et al.*, 2009; Klitgaard, 1997; Rose-Ackerman, 2004). There is certainly a large discussion on what should count as 'high-quality' institutions, but in both political science and economics one can speak about an increased focus on the importance of quality of institutions. It seems also to be the case that corruption destroys a society's social capital (Dinesen, 2006; Rothstein and Eek, 2006). Moreover, together with 'subjective health conditions', corruption has a very negative impact on people's 'life satisfaction' (Helliwell, 2006). In the policy world of international aid as well as in academic research about third-world poverty and economic growth, the strictly market-oriented 'Washington consensus' of the early 1990s has to a large extent been replaced by what now can be called the international 'good governance regime' in which measures against corruption and similar practices play a dominant role (Rodrik, 2007; Smith, 2007).

The purpose here is to address corruption and anti-corruption policies from the two ideas launched by North above, namely 'non-incremental change' and the importance of 'informal institutions'. The organization of the article is as follows. The first part presents an approach to corruption and anti-corruption based on institutional theories. The main argument is that corruption should not be understood as a 'principal-agent' problem but instead as a 'social trap' (or 'collective action') problem. This argument

follows from an effort to try to synthesize insights about corruption (and similar practices) from three different theoretical approaches: new institutional economics, evolutionary game theory, and historical institutionalism. Based on this, the second part of the chapter contains a critique of the dominant incremental approach to anti-corruption policies. The third part develops an alternative approach to anti-corruption, what I call the *Indirect 'Big Bang' Approach* to anti-corruption. The relevance of this approach is illustrated by the successful anti-corruption policy in Sweden during the nineteenth century. The article ends with some reflections on how to understand the nature and possibility of such non-incremental change.

CORRUPTION: THE INSTITUTIONAL APPROACH

The standard definition of corruption in government nowadays seems to be 'the abuse of public office for private gain'. This is a problematic definition since it is incomplete because if something is 'abused', it is 'abused' against some kind of normative standard. An alternative definition has been suggested by Oscar Kurer (2005) as well as by Rothstein and Teorell (2008) and it has the advantage of being based on a specific norm for public officials, namely *impartiality* by which is meant non-discrimination in the exercise of public authority. Corruption then 'involves a holder of public office violating the impartiality principle in order to achieve a private gain' (Kurer, 2005: 230). Impartiality, in turn, can be defined in the following way: 'When implementing laws and policies, government officials shall not take anything about the citizen/case into consideration that is not beforehand stipulated in the policy or the law' (Strömberg, 2000: 16). As Cupit writes: 'To act impartially is to be unmoved by certain sorts of consideration – such as special relationships and personal preferences. It is to treat people alike irrespective of personal relationships and personal likes and dislikes' (Cupit, 2000). The advantage of this definition is that it can be traced back to normative theories about justice as well as democracy (Rothstein and Teorell, 2008).

The most established idea of how to understand corruption is the so-called 'principal-agent' model (Aidt, 2003; cf. Teorell, 2007). In this approach, corruption is seen as criminal behaviour by some agents entrusted to act on behalf of a (honest/benevolent) principal. For example, the benevolent principal can be a cabinet minister and the criminal/corrupt agents may be the civil servants. One problem with this approach is that in a thoroughly corrupt system, it is difficult to identify who such a benevolent principal might be. For example, the political elites are often the ones who stand to gain the most from rents in a corrupt system and they therefore have no incentive to change the system (Johnston, 2005; Teorell, 2007). Another idea in this approach is that 'the people' are the (honest and benevolent) principal and the political leaders are the corrupt agents. The

problem here is that, in a corrupt system, the evidence that democratic elections work against corruption is simply not at hand (Teorell, 2007). On the contrary, corrupt politicians often stand a good chance of getting re-elected. In general, agents at the bottom of a corrupt system, such as the 'street level' tax bureaucrats or policemen, have no incentive to refrain from corrupt practices because even if they as individuals start behaving honestly, nothing will change. As is well known, it makes no sense to be the only honest player in a 'rotten game' because benevolent behaviour by a single or a few agents will not lead to change. This implies that in a political system plagued by systemic corruption, we are not likely to find benevolent 'principals' at the bottom or at the top.

Moreover, if corruption did work according to the 'principal-agent' model, it would be easy to erase just by changing the incentives. Anti-corruption would be a simple thing: principals need to incrementally increase the negative pay-off for cheating and corruption (including the risk of being caught) to a point where the fear of being caught is higher than the greed that leads agents to engage in corruption. When a society is constructed so that fear is larger than greed, things would go well. The disadvantage with the incentive-based principal-agent approach is that it just forces the problem to what has been called 'a second-level' collective action problem (Rothstein, 2000; Teorell, 2007). All the agents may well understand that they would stand to gain from erasing corruption, but because they cannot trust that most other agents will refrain from corrupt practices, they have no reason to refrain from paying or demanding bribes. The only reason they would do so is if institutions could be established that would make them trust that most other agents would refrain from taking part in corrupt behaviour (Rawls, 1971: 240). However, establishing such credible institutions is in itself a collective action problem (Lichbach, 1997). From this institutional perspective, the problem with corruption is that it is a self-reinforcing phenomenon (Aidt, 2003; Karklins, 2005; Uslaner, 2008). In plain language, most empirical research shows that 'once the system gets there, it stays there'. To use Bardhan's expression: 'corruption represents an example of what are called frequency-dependent equilibria, and our expected gain from corruption depends crucially on the number of other people we expect to be corrupt' (Bardhan, 1997: 1331).

One more important factor needs to be mentioned. While the practice of corruption clearly has cultural traits, it should not be seen as culturally determined. As shown by for instance Hilton Root's (1996) studies of the successful anti-corruption policies launched in Hong Kong and Singapore, the quality of political and legal institutions is not culturally determined. As is well-known, these societies have experienced remarkable economic growth, and Root convincingly shows that the prerequisite for that growth was the successful fight against corruption that began in the 1970s. In a comparative perspective, Singapore and Hong Kong are distinguished by

a relatively low extent of corruption. In the latest measurement published by Transparency International, Singapore was rated 9.3 on their 0–10 scale, sharing fifth place with Sweden, while Hong Kong was in fourteenth place (index 8.2). The measure used by Transparency International shows that nearby countries, which reasonably can be placed in the same cultural sphere, are considerably more corrupt. China is in fifty-ninth place with an index of 3.5. Indonesia, Singapore's neighbour to the south, ended up far down the list in ninety-sixth place with an index of 1.9, and its northern neighbour Malaysia was ranked thirty-third (index 4.9).¹

We can conclude from these differences between nearby countries that the extent of corruption is not necessarily culturally determined (Hodess *et al.*, 2001). According to Karklins (2005) and Widmalm (2008), ordinary people in severely corrupt systems usually do not internalize corrupt practices as morally legitimate acts. Instead, they usually condemn corruption as morally wrong and put the blame on 'the system' for forcing them to take part in corruption, thus understanding that they are in a 'social trap' like situation. Given that they were confident that most other agents would not participate in corrupt practices, their main preference would be not to take or give bribes (Smith, 2007: 191). However, given the opposite, the interest that they *de facto* act upon, results in corrupt behaviour.

This is important because it makes clear that while standard ideas of micro-level rationality is important for understanding the 'inner' self-perpetuating logic of a corrupt (and non-corrupt) equilibrium, it is of little help if we want to explain why different societies end up in such different equilibria (given that utility-based rationality is a concept with universal range) Moreover, standard conceptions of such utility-based rationality cannot be used to explain this type of systemic variation. In a critique of the 'good governance agenda' that has recently been launched by many international aid organizations, Bukovansky argues that if the anti-corruption debate remains 'dominated by a liberal, individualist rationalism, it fails to adequately articulate and fully explore the necessity of moral and political agency in the pursuit of collective good' (Bukovansky, 2006: 201). This certainly creates a problem: if variation in levels of corruption can neither be explained by standard type utility based notions of economic rationality, nor with reference to culture, then which type of ideas about what guides agency should we use? One way out of this dilemma has been shown by game-theorists Robert Aumann and Jacques Drèze who have made an important addition to how we can better understand the relation between rationality in n-person games and variations in aggregate outcomes. In a paper with the telling title 'When all is said and done: How should you play and what can you expect', they launch the concept of *interactive rationality*. Their major idea is that when analyzing situations of strategic interaction, one should take into account not only

that all agents may be rational, but that when deciding 'how to play', all agents must reason about what is the most likely strategy for all the other (rational) agents. This has the following implication: the strategic situation (game) does not give the agents the solution to what strategy they should opt for. Instead, when deciding their strategies, it is 'the real-life context' in which the game is situated that is important for how agents choose to play (Aumann and Dreze, 2005: 9). Such 'real-life contexts' is nothing but the institutional setting that surrounds the agents. Thus, in our case, behaviour depends on how the existing institutions inform the agents' 'mutual expectations', for example, the expectation of whether the other agents will take part in corrupt exchanges or not. Or as John Rawls formulated this in his 'modern classic' *A Theory of Justice*:

For although men know that they share a common sense of justice and that each wants to adhere to existing arrangements, they may nevertheless lack full confidence in one another. They may suspect that some are not doing their part, and so they may be tempted not to do theirs. The general awareness of these temptations may eventually cause the scheme to break down. The suspicion that others are not honoring their duties and obligations is increased by the fact that, in absence of the authoritative interpretation and enforcement of the rules, it is particularly easy to find excuses for breaking them. (Rawls, 1971: 240)

According to Rawls, what can solve this problem is the establishment of impartial institutions that ensures the agents that most of 'the others' will be 'honoring their duties'. The specific question is how we can perceive of the way a real-life agent in a society marked by systemic corruption makes up his or her mind about whether or not to participate in corrupt exchanges. We have to think of an agent who has lived her whole life in a society where corruption is 'systemic'. This is a system where the need to offer and demand bribes in order to maintain what is deemed as the necessary services and/or economic standard is ingrained in most agents' 'mental maps' so much that this has become an informal institution. When you go to the doctor, when you see your children's schoolteacher, when you put in a bid for a public contract, when you need a license for your restaurant, when you want to take an exam at the university, when you apply for a job in the public sector, when you are stopped by the police, then paying bribes or carrying out similar illegal actions is simply the 'standard operating procedure' (Jordan Smith, 2007; Wrong, 2009). You have done so all your life, as has everyone you know, and this way of doing things is 'common knowledge'. To give one example: in 2002, the United Nations Development Program, the organization responsible for the UN's yearly 'Human Development Reports', launched a 'regional

study' of Bosnia and Herzegovina. The report has a section about corruption in which results from a survey are presented showing that about 70 per cent of the population in Bosnia and Herzegovina believes that their local authorities are 'severely corrupt'. This was maybe not so surprising, but the fact is that an equal percentage believed that the international aid organizations working in the region, including the UN organizations, were as corrupt. The interpretation of the situation in the report reads as follows:

For the average citizen, therefore, it seems that corruption has broken down all barriers and dictates the rules of life. That is not very different from saying that *they interpret life in terms of corruption*. (UNDP, 2002)

If people 'interpret life in terms of corruption', this amounts to what reasonably can be called a *deeply held system of beliefs about what can be expected of other agents*. This, I argue, is generated by the historically established institutions under which the agents live. The ideas presented here about how corruption is reinforced by such beliefs and that we should understand rationality as 'interactive' have a number of implications for what can count as an anti-corruption strategy with a reasonable chance of success.

THE STATE OF ANTI-CORRUPTION RESEARCH AND POLICY – A CRITIQUE

A society faced with the task of addressing systemic corruption and establishing 'good governance' needs to ask itself two principal questions. First, what types of structural reforms are necessary in order to reduce corruption? Common suggestions are to create new or to change existing legal institutions in order to alter incentive structures for taking or offering bribes. Secondly, which types of *processes* are likely to be successful for enacting such reforms? Most research on corruption has mainly focused on the first, structural, question while the second one about the change of processes, strategies, and agents' cognition to a large extent has been ignored.

One case in point is Rod Alence's article *Political Institutions and Developmental Governance in sub-Saharan Africa*, which examines how different types of political institutions affect the degree of corruption in 38 African countries. The conclusion is that a combination of electoral competition and institutional checks and balances on executive power has a negative effect on the frequency of corruption. In other words, this strategy suggests that the idea and the practise of liberal democracy work counter to corruption (Alence, 2004: 163). Another example is the article *Seed of Corruption – Do Market Institutions Matter?* by Broadman and Recanatini in which they

identify that the establishment of a number of market economic institutions are key to change, among others 'clear and transparent rules . . . and a robust competitive environment' (Broadman and Recanatini, 2001: 359)

What these examples of the anti-corruption literature tell us is that, in line with the principal-agent theory, by 'fixing the incentives', the problem of corruption would be solved. There is just one problem left here, namely that constructing such institutions is in itself a collective action problem that is not likely to be solved within a society dominated by corrupt agents (Falaschetti and Miller, 2001). Or to use Elinor Ostrom's (1998) words, there exists a collective action problem of the second order. Why would agents that either stand to gain from corrupt practices or who can only lose by refraining from corruption at all be interested in creating such 'efficient' institutions?

In fact, the list of authors that are content with establishing that institutions which are characteristic for stable democracies with a well-functioning market economy show a relationship with low levels of corruption is very long. But as Blomkvist (2001), Grindle (2004), and also Bukovansky (2006) have asserted, much of the advice emanating from works like the ones mentioned above and from organizations like the United Nations Development Program, the International Monetary Fund, and the World Bank on how to curb corruption, is based on the presumption of access to the kind of administrative praxis and institutions that notoriously corrupt countries lack.

Instead of explaining the causes of corruption, what authors in this approach have produced are descriptions of how the institutional systems in corrupt and non-corrupt countries differ from one another. To offer transparency, democracy, independent judicial anti-corruption agencies, or 'good governance' as explanations and solutions to the issue of corruption, leaves, in the best-case scenario, many important questions unanswered. A more fundamental critique is that in many cases, what is produced are tautologies. In the language of causality, it could be formulated as if the dependent and independent variables become identical. In states that are blessed with an independent and honest judiciary, effective institutions for anti-corruption measures, effective audit systems, effective laws guaranteeing freedom of information and a free media, and where liberal and human rights are effectively protected, it is obviously quite right that these institutions facilitate political accountability and counteract corruption. However, in states that, on the contrary, suffer from systematically corrupt structures, it is likely that the causal mechanism works in the opposite direction, meaning that it is the corruption of precisely these types of institutions that are holding back development towards democratic governance (Diamond, 2008). In the search for universal theories on causes and solutions concerning corruption, many researchers do not recognize the inbuilt institutional inertia

(or path-dependency) of corrupt systems. With the wording of Harris Robert:

just as a predominantly non-corrupt system will self-correct to deal with corrupt individuals and the legislative or political flaws that facilitated their corruption, so will a predominantly corrupt system self-correct to maintain its corruption following a purge. (Robert, 2003: 63)

An example of this process is the recent development in Italian politics where despite strong efforts in the early 1990s to eradicate political corruption, the current situation is described in some areas as worse than before the 'clean hands' operation (della Porta and Vannucci, 2007). As Claus Offe has argued, questions remain on what brings countries into a vicious circle with corrupt institutions and also, in a corrupt context: 'which motives, values, and political forces would actually push forward the reform project ... what are the incentives to introduce incentives designed to control corruption or to redesign opportunity structures?' (Offe, 2004: 91).

In addition, if new institutions have to be created, the questions about agency become central. The central problem with establishing impartial and universal political institutions is that by their very nature they are to serve 'the common good' and the production of such institutions is difficult since interest-based actors have no reason to support the creation of such institutions (Bukovansky, 2006; Falaschetti and Miller, 2001). It seems as if the search for structures that co-vary with low levels of corruption has taken place at the expense of the attention assigned to what agents there are that could possibly overcome the collective action problem in establishing 'good governance'. If we are to establish a thorough picture of what can become a successful reform process, research should start to identify different agents' roles and interests. Essential questions are, for example, what groups can be expected to oppose reforms and how this resistance should be dealt with? Who are likely to support change, what strategies can they use and how can they best be involved in the struggle against corruption?

In addition, there is not much that speaks in favour of the neoliberal argument put forward by for example Tanzi (2000) or Alesina and Angeletos (2005) that it is the size of government that causes corruption. For example, when the latter concludes that 'a large government increases corruption and rent-seeking' (Alesina and Angeletos, 2005: 1241), this is not at all supported by empirical research. For example, the Nordic countries are generally considered the least corrupt, but they all have 'large governments' (Gerring and Thacker, 2005; Hopkin and Rodríguez-Pose, 2007).

Many social scientists are nowadays inclined to understand social changes in a path-dependent and incremental way. The current situation is explained by going back to some kind of 'critical juncture' or 'formative

moment' when an often minor institutional change has set in motion a 'feed-back mechanism' that has led to a virtuous (or vicious) causal circulation between two or more variables so that they reinforce one another over time and keep the society spinning along a 'chosen path'. As Paul Pierson puts it, 'as feedback loops become central to the process that follows a critical juncture, it becomes impossible to delineate clear causes and effects; instead, a set of factors mutually reinforce one another' (Pierson, 2004: 95).

In this line of thinking, analyses about curbing corruption and establishing 'quality of government' are geared towards finding those 'initial steps' serving as a 'magical key' in the form of a small device that will make a country start spinning on a new path that leads out of systemic corruption. This idea can, for example, be found in the World Bank's report about policy measures to combat corruption. For the successful implementation of anti-corruption policies, the report states that the challenge is to find 'an appropriate *entry point* for anticorruption work'. Further on, the report states that 'it is critical to begin at a point where the goals are feasible and tangible results can be realized within a time frame that builds support for further reforms. Small gains can provide essential levers to sway public and official opinion' (World Bank, 2000: 75). Similarly, the UN 'Global Program Against Corruption' describes the best strategy as 'a long-term process whereby corrupt values and practices are gradually identified and eliminated' (UN, 2004: 17). Thus, if we could only find the magic key (the 'entry point') and change this institutional device, we would be able to advise policy-makers on this important topic. If large differences start out with small changes, we need to find this small thing because huge (society wide) things like systemic corruption are otherwise hard to change.

With reference to the situation in Romania, the opposite line of thinking has been launched by Alina Mungiu-Pippidi. She has stated that although international donor organizations put great effort on anti-corruption policies, there seems to be little evidence that this has accomplished much and there are few success stories to tell. She warns that the many campaigns and efforts that turn out to be ineffective 'renders voters extremely cynical and threatens to subvert public trust in emerging democracies' (Mungiu-Pippidi, 2006: 82). The problem is that these campaigns fail to take into consideration that corruption in a country like Romania is rooted in a *particularistic* political culture in which almost all public goods are distributed on a 'nonuniversalist basis that mirrors the vicious distribution of power'. The risk is therefore that the anti-corruption measures that are put in place with support from international organizations, such as a special anti-corruption agency, will be taken over by corrupt or semi-corrupt networks. Mungiu-Pippidi argues that the root of systemic corruption is a particularistic political culture, which is defined as a system in which the

government's treatment of citizens 'depends on their status or position in society, and people do not even expect to be treated fairly by the state; what they expect is similar treatment to everybody with the same status' (Mungiu-Pippidi, 2006: 82).

In such a particularistic political culture, what you get from the public sector depends on your connections, your ability to bribe, or your participation in various corrupt networks. In this state of affairs, the establishment of a few new 'western style' benevolent 'principals' will not help against corruption because they will become impregnated by the dominating particularistic political culture (*cf.* Doig *et al.*, 2007). According to Mungiu-Pippidi even the most famous of Swedish anti-corruption institutions, 'the ombudsman', which has been reproduced in many emerging democracies 'has been largely unsuccessful, as the historical process that promoted universalism at the expense of particularism in the Scandinavian countries has not been replicated as well' (Mungiu-Pippidi, 2006: 96).

This conceptual division between universal and particularistic political cultures is in line with North *et al.*'s idea of a distinguishing between 'limited access social orders' and 'open access social orders'. In this typology, the former is characterized by privileged access to valuable rights and activities which are built on *personal* relationships (North *et al.*, 2009). Examples are aristocratic-feudal states, third world 'crony-capitalist' autocracies, or the former Soviet style states. In contrast, the 'open access social order' (mainly the advanced OECD countries) is according to North *et al.* characterized by free access to political and economic arenas of competition based on *impersonal* contractual forms (2009: 40). North *et al.* make a convincing case that, seen in a historical and comparative perspective, what they call 'limited access orders' and what here is called 'corruption and similar practices' is the natural state of affairs that should be expected. It is thus not the existence of corruption that needs to be explained but the relatively few cases that in modern history have been able to take the step from high corruption ('limited access order') to low corruption ('open access order').

Both North *et al.* and Mungiu-Pippidi argue convincingly that corruption and similar practices are rooted in deeply held beliefs about the proper order of exchange in a society – personal-particularistic versus impersonal-universalistic. The implication is that to effectively curb corruption and establish 'good governance', the whole political culture has to move from the 'limited access' or 'particularistic' equilibrium to the very different equilibrium characterized by 'impersonal' and/or 'universal' forms of exchange. Accepting their approaches implies that corrupt and non-corrupt societies are seen as two different 'states' or 'equilibria'. This can certainly be questioned as, according to several empirical studies, many contemporary societies are in between systemic corruption and being (almost)

non-corrupt. However, the arguments presented by these authors for understanding the problem as different 'states' are both empirically convincing and theoretically illuminating.

The implication from this perspective is that taking small steps by installing a few specific institutions, such as the Swedish type of 'ombudsman' or a 'anti-corruption commission', to induce change from one political culture/social order to the other, is in all likelihood a policy in vain. As North and his colleagues argue, history 'does not seem to present us with a wide spectrum of societies gradually making a transition from old to new political and economic institutions' (North *et al.*, 2009: 33). Unfortunately, we know very little about how such a transition can be made. The establishment of universal, impersonal and impartial political institutions that make 'credible commitments' between competing actors possible remains something of a mystery, at least from a rational choice perspective (Falaschetti and Miller, 2001; Hechter, 1992; Lichbach, 1997). Or as it is stated in the 'handbook chapter', the puzzle is that such 'efficient' institutions 'operate in a few advanced contemporary countries and only in recent times. We know surprisingly little, however, about the institutional developments that led to these modern successes' (Greif, 2005: 773).

The problem is not confined to changes in formal institutions but includes the role of informal institutions as well. The operation of such institutions is of course difficult to detect, but one clue may be found in the strong correlation that exists between high levels of social trust and high levels of trust in the legal system and low levels of corruption. There is a vast discussion on how the standard general trust question can be interpreted and I agree with Delhey and Newton that when people answer the survey question of whether they believe that 'most other people can be trusted', this can be interpreted as their evaluation of the moral standard of the society in which they live, that is the quality of the informal institutions in their society (Delhey and Newton, 2004). Following the 'interactive rationality' logic described above, if most people think that most people in their society will behave in an honest way, the individual agents who enter into a transaction with someone that for them is unknown have less reason to fear becoming a victim of treacherous or exploitative behaviour. Therefore, cooperation between people who do not have personalized knowledge about one another will be more common in a society with a high level of social trust. If we follow the idea of 'interactive rationality' as stated above, the outcome of social and economic interactions depends on how the 'real-life context' somehow has constructed the 'mutual expectations', for example, the expectation of whether the other players can be trusted or not.

The implication so far of this analysis is quite negative. First, corruption is driven by the workings of a large set of historically rooted formal and

informal institutions in a society. Secondly, neither the formal nor the informal institutions are easily changed since they constitute 'self-reinforcing' equilibria. If an agent tries to reform a single or a small set of the institutions in a corrupt-particularistic-limited access political culture, it will in all likelihood backfire since the new institutions will be overtaken by the corrupt/clientelistic networks and dominated by such practices that, in its turn, will increase cynicism among the population and serve to delegitimize future efforts to increase the quality of government institutions (*cf.* Doig *et al.*, 2007).

THE TRANSITION OF NINETEENTH CENTURY SWEDEN

Sweden as well as the other Nordic countries seem to present a puzzle in this discussion. On the one hand they are characterized by most of the features that according to standard economic theory should make them corrupt beyond repair (Alesina and Angeletos, 2005). For example, they have very large public sectors, interventionist governments, and large bureaucracies with lots of discretionary power over many various types of regulations. Yet, the most commonly used comparative measures of national levels of corruption show precisely the opposite to be the case, namely that the Scandinavian countries have the lowest levels of corruption (Hopkin and Rodríguez-Pose, 2007; Uslaner, 2008). However, contrary to what is often believed, during the eighteenth and early nineteenth century the Scandinavian states were by today's standards thoroughly corrupt (Frisk Jensen, 2008; Rothstein, 1998). This changed dramatically during the latter part of the nineteenth century. Understanding corruption as a universal (and not culturally specific) problem, the question of how nineteenth century Sweden managed to overcome corruption could contain some important insights.

To give some examples: in the early nineteenth century Swedish civil service, it was common that one and the same civil servant held five–six full-time positions. Personal contact with the king's court was more important than impersonal laws. The nobility had precedence to positions in the courts and the civil service. Obedience to laws was seen as a more or less voluntary thing compared to personal instructions from the king's court. The *accord system* allowed civil servants and military officers to buy and sell paid positions within their corps (Frohnert, 1993: 287). No age limit was established for when a civil servant or military officer could be forced to leave his position thus indicating a pre-modern view of public positions as feudal property. Neither severe forms of illness nor any other gross inability to carry out ones duties were valid grounds for removing someone from public office. During the eighteenth and nineteenth century a number of royal prohibitions were issued that addressed this position-purchasing system. The fact that these hardly made an impact provides

insight into the legislative system of a particularistic limited access type of society (Myrberg, 1922).

Another example is requirements for education and skills. In a Weberian type of bureaucracy, civil servants have to have a certain degree of specific knowledge about the legal and administrative systems of the state, and recruitment has to be meritocratic. In the early nineteenth century Sweden, the opposite was the case. The education in law at the universities during this period has been characterized as being in a veritable intellectual as well as organizational morass that lasted into the first decades of the nineteenth century (Gierow, 1971: 224; Lindroth, 1976). For example, in 1797 there were complaints from the chancellery college to the governing board of the University of Lund:

at times we must understand that the young men who seek entrance to the chancellery offices have not possessed the knowledge in science and language necessary for a chancery subject, notwithstanding they were furnished with academic qualifications. (Gierow, 1971: 224)

This slump pertained, not least of all, to the so-called *ämbetsexamina* (the degree qualifying for higher civil service posts) which served as the foremost recruitment instrument for employment in the central administration. In 1859 the Law Professor Olivecrona writes the following in his historical account of the legal education at the Uppsala University School 1785–1823:

during the long period when Hernberg, Lundström and Drissel occupied the prominent *juris patrii* profession, the purely legal studies sank to their lowest point of ruin. The so-called *Hofrättsexamen* became insignificant, the Bachelor of Law degree was implemented with the highest degree of ease, and in the study of Roman jurisprudence, even the most cursory knowledge was not required. (Olivecrona, 1859: 14)

Legal exams during this period have been described as pure parody (Lindroth, 1976: 165).

In 1797, in response to the criticism against the low quality of education of its graduates, the University Chancellor explained that the one factor primarily responsible for the unfavourable conditions was that students who were still small children were being enrolled in the universities. He was referring to adolescents in their early teens, who for understandable reasons could not benefit from the education they were being offered. This in turn was a consequence of the fact that

parents and relatives, whose main goal is only to hasten the early entrance of their children to a civil service career, either out of conceit or ignorance . . . build their hopes of future advancement more

on wealth and privileged connections than on duly founded ability through hard-earned requisite learning. (Gierow, 1971: 238)

Since the principle of seniority was the most important for competitive advancement, it was a matter of gaining entrance for one's offspring to a department where he could be employed already as a two-year old child (naturally without being required to work or receive compensation)

Eventually rules were introduced that established guidelines for the minimum time of study, as well as age limit requirements for employment in the civil service departments. Nevertheless, in response to a letter regarding the education of future civil servants, Law Professor Holmbergsson at Lund University stated in 1831 that education was not going to be improved by establishing minimum time of study regulations and age limit requirements. Holmbergsson proposed that what instead needed to be done was to change the promotion system of governmental departments so that actual merits and years of service, rather than personal relationships, were the deciding factors for career advancement (Gierow, 1971: 244).

In addition, the system of pay was far from being universal and impersonal during the first half of the nineteenth century. Even though pay in kind was the most common way of compensation, monetary remuneration did exist. Perquisites and fees for job-related services (henceforth, service fees), or bribes by today's standards, were abundant (Westerhult, 1965). It was also common for the civil servant to receive income from land and residences that belonged to the position. Civil servants were often appointed, especially within the higher administration and the universities, in the absence of sufficient funds with which to pay them, and without the expectation that they were going to perform any work (Gierow, 1971: 25-7). In the local government administration, for example, income for the very same job was 'so varying that many of the best-paid civil servants had twice the pay of their less fortunate colleagues' (Westerhult, 1965: 167). A study of local bailiffs during the eighteenth century shows that 'a large portion of wage income was ... tied to individual peasants who were obliged to deliver grain, money or other goods' (Frohnert, 1993: 367). In a letter to his majesty the king in 1811, the directors of the Exchequer Board pointed out that since the pay had fallen to such a low level, a large number of civil servants had taken work in other national boards, agencies, or with county governments (all the while retaining their old positions, of course), and that this had considerably complicated and delayed work within the central part of the national civil service (Edén *et al.*, 1941: 278). The holding of several positions in this way was very common and the system was not prohibited until 1879. In a report from 1822, the government departmental committee appointed in 1819, declared that due to the poor pay those civil servants who did not have private fortunes were forced

to either look for other posts and public offices or gain their livelihood through private business affairs (Rothstein, 1998). In sum, as stated by one of Sweden's foremost political scientist, Gunnar Heckscher, in his landmark book about the Swedish civil service from 1956, in the beginning of the nineteenth century the public administration in Sweden was 'pretty bad' (Heckscher, 1952).

The change towards a Weberian style civil service came between 1860 and 1875 and was both 'non-incremental' and dramatic. Most important, the whole idea of what it meant to be a civil servant changed. The idea of seeing a public position as equivalent to a feudal type of enfeoffment that the 'owner' could use for extracting rents pretty much according to his own will was abandoned. It was replaced with the view that a full-time position with a fixed wage could only be offered in an open, meritocratic competition that was carried out according to a set of stipulated universal rules and laws. In his book about the Swedish public administration published in 1896, the historian and head of the Swedish National Archives Emil Hildebrand stated that 'the old view of an administrative office as property was beginning to disappear' (1896: 653). Corruption and similar practices did of course still occur to some extent, but they were no longer seen as 'standard operating procedure'. Maybe the most telling evidence for this is the novel *The Red Room* published in 1879 by Sweden's still most famous author – August Strindberg. In this novel, Strindberg (who was a leftist radical) gave a very vivid and negative description of a prototypical civil service administration (the fictitious National Board for the Payment of Wages for the Civil Service). The bureaucrats were described as utterly conservative, lazy and ineffective (this still makes a good read). However, he did not portray them as corrupt. A fair guess is that if civil servants would have been generally considered corrupt at this time, Strindberg the radical would have added this to his long list of faults in their behaviour. But he did not do so and a fair guess is that the reason was that it would not have had broad resonance in the public opinion at this point in time. In any case, what is remarkable for this period is the many and dramatic institutional changes towards establishing 'good governance' that took place during a fairly short period of time. Below is just a partial list.

- 1840–62: Several new public boards/agencies were established for carrying out large investments in communication infrastructure (National Railway Board 1862, National Board for Telegraphic Communication 1856, National Board for Roads and Canals 1841). This brought in a whole new cadre of more professionally trained civil servants. Technical skills and merits became important.
- 1842–62: Major reforms of the public school system – mandatory and free basic education for everyone was established and implemented during the 1860s together with the National Board of School Inspectors.

- 1845: The right for the government to confiscate newspapers was abolished (which led to the *de facto* establishment of a newspaper driven debate about public affairs from the 1850s).
- 1845: The last formal aristocratic prerogative for higher positions in the state was abolished. In practice, the nobilities privileged rights to top positions is *de facto* implemented during the mid 1860s.
- 1845: Law about the right to equal inheritance between men and women.
- 1846: The guild system was abolished.
- 1848: Introduction of the joint-stock company law.
- 1855–60: Major revision of the wage system in the civil service to create a Weberian system of pay.
- 1858: Freedom of religion was established.
- 1860: The right to leave the State Church for other congregations.
- 1862: New local government law and new law about regional authorities establishing new regional and local self-government bodies.
- 1862: New general criminal code which included a new law on misconduct in public office.
- 1862: New laws for cities, county councils and local municipalities greatly increased political decentralization.
- 1863. New rules for university educations established higher standards for degrees.
- 1864: Freedom of trade was established.
- 1866. Major reform of the Parliament – the four estate system was abolished and a ‘modern’ bicameral Parliament established.
- 1868: Parliament decided to start abolishing direct payments for services to individual civil servants. The fees paid by citizens for various services should no longer belong to the individual civil servant but be state property.
- 1869: Parliament decides that taxes had to be paid in money instead of in goods.²
- 1870: Jews could become Representatives in the Swedish Parliament and civil servants.
- 1876: Major reorganization of the national bureaucracies from collegial decision-making (the court model) to the modern bureau-system with hierarchical structure.
- 1878: Abolishment of the ‘accord system’ and introduction of a working pension system for civil servants. The ‘accord system’ seems to have finally been abolished during 1886.

A look at this list of institutional changes reveals three things. First, although some of the reforms started in the 1840s, their lagged effect (especially the school reform and the establishment of a free popular press) shows that there is a stark concentration in time, with the 1860s as the main decade. Second, the time frame of the Swedish case is consistent

with the analysis the periods of transition from 'limited' to 'open access' orders in Britain, France and the United States carried out by North *et al.* (2009: 27). If anything, the time frame in the transition in Sweden is a bit shorter than the 'about 50 years' they portray for their three cases. The third thing to notice is that few of these changes were intended towards directly targeting corruption. Instead, what this case reveals is that a more *indirect approach* was used which was directed not at corrupt practices in particular but at the general framework of what seems to be the full set of political institutions in the country. Instead of just attacking corruption and clientelism directly, this indirect approach served to change the political culture from a particularistic understanding of *what politics is* to a universalistic one. This has a clear parallel to Basil Liddell Hart's famous 'indirect approach' in military strategy. If the enemy was attacked directly, he would easily reinforce his strength at the position attacked and so be very difficult to defeat. Against this, Liddell Hart's famous 'second principle' reads: '*To defeat the enemy one must first upset his equilibrium, which is not accomplished by the main attack, but must be done before the main attack can succeed*' (Danchev, 1999: 318).

Forth, one can clearly characterize this period as a non-incremental, indirect 'big bang' change. Not a few, but almost all major political, social and economic formal institutions were transformed during a relatively short period of time with the 1860s as the central decade. The well-known Swedish historian of this period, Sten Carlsson, speaks of the years between 1856 and 1886 as 'Liberalism's high tide' (cited in Nilsson, 2001: 258). Politically, the old corporative feudal order was replaced by a new dominant principle that put the individual at centre stage (Nilsson, 2001).

Space permitting, a detailed explanation for each of these reforms could be provided. However, to explain why so many reforms, pointing in the same direction, took place under this relatively short period is more difficult. Nevertheless, as with neighbouring Denmark, these reforms started after the countries had experienced crushing military defeats (and ruined state finances as a consequence) that threatened the very existence of both states. Faced with such a severe threat to the very existence of the Swedish (and Danish) state, it seems as if the elites in both countries realized the importance of genuine institutional change (cf. Frisk-Jensen, 2008). As is known from research about group behaviour, a severe external threat usually increases internal cooperation (Hardin, 1985).

As stated above, not only formal but also informal institutions (such as generalized trust) should be important drivers behind this development. Changes back in time of informal institutions are by their very nature more difficult to research, but in one important area there are some indicators that this period also saw changes in this respect. The mid-nineteenth century in Sweden was also a period of dramatic increase in the number and activity of voluntary associations. What is important is that they were not

closed 'guild-like' organizations but usually stressed that they were open to people from all social classes. Secondly, there was a strong emphasis on 'the common good', 'communality' and 'to serve the nation' in their discourse as well as in the written goals, rules and regulations that many of these organizations established (Jansson, 1985: 241). According to the most detailed historical study of this process, the latter phenomenon was so strong that one could speak of it as a 'meta-ideology' (Jansson, 1985: 242) and their way to achieve respectability (Pettersson, 1995). Strong support for the 'free associations' came also from important members of the new capitalist class, not least from the founder of the famous Swedish Wallenberg dynasty (Nilsson, 2001: 123).

CONCLUSION: THE INDIRECT 'BIG BANG' APPROACH

In a thoroughly corrupt setting, even people that think corruption is morally wrong are usually likely to take part because they see no point in doing otherwise since 'all' other agents take part in the corrupt game (della Porta and Vannucci, 1999). For change to occur, this has importance implications. Changing norms about what is good or bad is of little relevance since most people already know this. The important thing will be to change agents' beliefs about what 'all' the other agents are likely to do when it comes to corrupt practices.

From a policy perspective, this has some important implications. First, this approach does not point out any single set of institutions as the most important one for change. The courts are not more or less important than the civil service, the integrity of the politically elected leaders, civil society or the mass media. Secondly, targeting corruption directly is probably not going to lead to change if it is not accompanied by an 'indirect' strategy in which many, if not most, other public institutions are changed from adhering to particularistic practices to universalism and impartiality. One can think of this as the need to reach a Schelling-type 'tipping point' in order to reach a new equilibrium (Schelling, 1996). If the anti-corruption policy measures are limited to the introduction of small measures ('entry points'), they will not convince enough agents that continuing their corrupt practices are no longer a viable option and the likely result is that the system will not reach the crucial 'tipping point' but slide back into its old practices of systemic corruption. As Larry Diamond, one of the most renowned scholars in democratization recently has argued: 'Endemic corruption is not some flaw that can be corrected with a technical fix or a political push. It is the way that the system works, and it is deeply embedded in the norms and expectations of political and social life. Reducing it to less destructive levels – and keeping it there – requires revolutionary change in institutions' (Diamond, 2007: 119).

NOTES

- 1 www.transparency.org/policy_research/surveys_indices/cpi/2008 – Corruption Perceptions Index 2008.
- 2 Thanks to Dr Maria Cavallin Ajmer for providing me with most of this information.

NOTES ON CONTRIBUTOR

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