European Research Centre for Anti-Corruption and State-Building

ERCAS Working Papers

Working Paper No. 51

Can a civilization know its own institutional decline?

A tale of indicators

Alina Mungiu-Pippidi
Roberto Martínez Baranco Kukutschka

Hertie School of Governance

October 2017
www.againstcorruption.eu

Abstract

Long before the Panama leaks, nearly three quarters of Europeans (73%) had already endorsed the belief that bribery and connections are the easiest way to obtain public services in their respective countries. Furthermore, pan-European surveys revealed that nearly 7 out of 10 Europeans agreed that corruption was part of the business culture in their country (66% of respondents) and that favoritism and corruption hampered business competition (68% of respondents). But are such perceptions accurate, or do they reflect the general pessimism in times of austerity, uncertainty and growing inequality? This paper uses survey data to deconstruct perceptions of corruption, but also as a premiere uses fact-based data from new research projects on corruption and procurement to understand how much is real and how much is noise in the growing public perception of crony capitalism in Europe. The paper finds that individual perceptions are not disconnected with reality. Although people whose self-ascription places them in the lower part of a status scale are more inclined to perceive generalized corruption, most of the variance at both national and individual level is explained by fact based variables, for instance the number of non-competitive tenders per country.

1. Introduction

Starting with the financial crisis of 2008-2009, an increasing number of observers have warned that the Western civilization, whose superiority over the rest of the world had been explained previously by a vast literature, has de facto entered a stage of decay, or degeneration, or demise, in short, its final decline. Titles like “Are we the next Rome?” (41 million entries on Google by mid-2017) or “After the European Union” (50 million entries) have therefore multiplied, simultaneously with the business as usual literature, which still makes plans for global governance under Western leadership or an ever deeper and successful European Union. The new doom and gloom literature features equally top economists like Niall Ferguson who has earlier excelled at the business of explaining why the West is better than the rest, financiers like George Soros who has made the most to change the Rest on a Western model, and even thinkers like Francis Fukuyama, who has been branded for eternity by their earlier belief that the West managed to impose liberal capitalist democracy as the only acceptable universal model. The commonality of these approaches lies in the primacy of the political explanation versus the economical one– the decay is attributed to ‘institutional’ reasons, as the economists call it. In other words, what seems to be failing is what Baron de Montesquieu would have called ‘moeurs’, Machiavelli would have called ‘virtue’, and Cicero ‘moral duties’. The West, which has conquered the world due to its superior ‘inclusive institutions’, as Acemoglu and Robinson call them, is now losing on both these institutions and the social fabric which generated them in the first place, with rising inequality, distrust in government and the election of populists like Donald Trump or Theresa May, who espouse a completely different set of values than the one that we identify as Western universalism.

We do not ask, of course, in this chapter, if the Western civilization, and in particular the European one, which is set apart by its common political institutions in the form of the European Union, is declining or ‘degenerating’ due to moral causes. We ask instead the epistemological question- could such a decline due to corrupt institutions be observed and known by its contemporaries? Are our instruments, as social scientists, better in any way than the intellectual archeological tools used by historians when trying to decipher the decline of the Roman Empire due to corruption? In the latter endeavor, for instance, historian Ramsay MacMullen, in the Corruption and the Decline of Rome (MacMullen 1988) tried to assess with scarce statistical ‘hard’ evidence what the extent and scale of corruption was and what was its weight in the process of Roman decline and fall. Given that most testimonials are tendentious and therefore unreliable (also contradictory to a dazzling extent- in each and every period of the Roman Republic and Empire we seem to have had simultaneously some thinkers who explained the superiority of Roman institutions and others who deplored their degeneration and warned of the imminent demise), the most objective historian cannot but struggle with an evidence based diagnosis. MacMullen concludes that by the fourth and fifth centuries corruption had become the norm in Rome: no longer abuse of a system, but an alternative system in

itself. The evidence is, of course, incomplete, but the explanation is tempting: 'ghost' legions can, of course, explain why a defense which had held well the previous centuries no longer seemed to exist and function, although similar on paper, and the indicator of Rome's demise become its mere conquest by barbarians. Similarly, the cohorts of refugees and migrants besieging European Union by land and sea indicates its failure to stabilize neighborhood and secure its borders, in other words it might indicate a breakup of the European order. And what about the failure to collect sufficient taxes to pay for defense, is this not also a traditional indicator of a civilization's decline, currently being observed for EU, after having been a classic explanation for the Western Roman Empire failure (Cooper 2011)?

The presumed failure mechanism has corruption at its core, of course, not corruption in the narrow sense of individual monetary inducement, but corruption defined as the generalized deviation of rulers and elites from public welfare goals to seek their narrow profit and self preservation. As Fukuyama puts it: "Because Americans distrust government, they are generally unwilling to delegate to it the authority to make decisions, as happens in other democracies. … The government then doesn't perform well, which confirms people's lack of trust in it. [A major obstacle] … stands in the way of reversing the trend toward decay. Many political actors in the United States recognize that the system isn't working well but nonetheless have strong interests in keeping things as they are. Neither political party has an incentive to cut itself off from access to interest ¬group money, and the interest groups don't want a system in which money won't buy influence". (Fukuyama 2014: 17-18). And Ferguson approves: the West has entered what Adam Smith called "the stationary state" in the Wealth of Nations, whereby "a corrupt and monopolistic elite" exploits "the system of law and administration to their own advantage" (Ferguson 2014: 9). In this regard, traditional distinctions of the type of West versus the Rest have started to matter less and less, as the assumption that market based liberal democracies would become the template regime following the demise of Communism proved misplaced, the focus of indicators on nation states missed most of the negative effects of globalization (Heywood 2017:45), and the global trends across the world proved not so 'global', with some of the world being required to or actually converging with what used to be the Western governance standards, while the West itself was backsliding on them (Ferguson, 2014: 19).

Unlike historians, we are packed with governance indicators, statistics and public opinion polls. Yet, very much like them, we seem to be doing a rather poor job in using them to discern the deeper trends of our governance and their roots. For instance, how could American scholars have been so surprised by the election of Donald Trump when public opinion polls had been showing for a while a nearly general discontent with American elites, democracy and capitalism? In the past decade, the percentage of U.S. adults who see corruption as pervasive has never been less than a majority in Gallup polls, at the peak reaching 75% who saw widespread government corruption. During elections, Reuters/Ipsos polled more than 10,000 Americans who had already cast their ballots and found that

72 percent agreed that "the American economy is rigged to advantage the rich and powerful.", and 75 percent felt that "America needs a strong leader to take the country back from the rich and powerful." The trust failure seems to be complete, with an additional 68 percent distrusting "traditional parties and politicians" and 76 percent believing that "the mainstream media is more interested in making money than telling the truth. " In the EU also, except for the countries in Northern Europe, the feeling that the ruling governing elites collude with business interests to favor special interests versus merit have been endorsed by majorities for some years now (Mungiu-Pippidi et al. 2016). If public opinion is an indicator to go by, there is clearly a picture of moral decay strongly emerging from both the traditional Western civilization shores of the Atlantic.

But are such perceptions accurate, or do they reflect the general pessimism in times of austerity, uncertainty and growing inequality? How much can we trust public opinion governance indicators, versus expert surveys and fact based indicators, when available? This paper attempts to give an answer by analyzing how much of the widespread perceptions of corruption, state capture and government favouritism in the EU are based on facts, and how much on other factors. Despite imperfect data, we attempt to establish the merit of popular claims by both drawing on objective data and by deconstructing perceptions. Our sources are therefore based on subjective data (the 397 Eurobarometer survey fully dedicated to corruption conceived as governance norm) and the objective indicators generated in recent research on good governance and corruption (mostly ours, funded by EU). Our objective data sources are based on the European Tender Database (TED), the Foreign Corrupt Practices Litigations data and a collection of other sources including the World Bank Public Accountability Mechanisms data, the Ease of Doing Business Index and the Open Budget Index, among others.

The European Union is ideally suited for this test and such deconstruction of governance perceptions. The EU has long provided the modernity benchmark for the rest of the world and its historical capitalism was the model for the theory of rationalization of governance through inner-worldly asceticism, mostly Protestant Ethics (Weber 1968). Institutional decay, of course, as our authors cited above suggest, means a relapse into the non-modern, limited access order based on particularism - treating individuals or businesses by virtue of their status and connection to power rather than on a universal and impersonal basis (Parsons 1997; Mungiu-Pippidi 2006) - so it would be hardly conceivable to find it in the European Union. Furthermore, no other continent has sufficient variation in government effectiveness and corruption control across countries, while simultaneously enjoying (with the most open data and best statistics in the world) a common market and a rule of law based polity. Countries have common relevant legislation upholding a market based on fair competition and merit, such as the competition acquis, (articles 101 to 109 of the Treaty on the Functioning of the European Union, TFEU, see European Union 2016) with a national enforcement agency partly subordinated to Brussels. The European treaty and secondary legislation is mindful of cartels,

collusion and other anti-competitive practices, under article 101 of the TFEU; market dominance, or potential abuse of firms' dominant market positions (under article 102 TFEU); and also of government favouritism, for instance prohibiting state aid, direct or indirect (TFEU article 107). Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement, which replaced Directive 2004/18/EC, states that:

> The award of public contracts by or on behalf of Member States' authorities has to comply with the principles of the Treaty on the Functioning of the European Union (TFEU), and in particular the free movement of goods, freedom of establishment and the freedom to provide services, as well as the principles deriving from, such as equal treatment, non-discrimination, mutual recognition, proportionality and transparency. (European Union 2014).

By choosing the EU for this test, we therefore have the advantage to control for formal institutions, as competition law and most of the procurement regulations are similar across 28 member states. While keeping US in the discussion would have been tempting, it is practically impossible to control for all these elements across the entire West.

2. The perceived institutional decay

The dedicated survey of DG Home, and its correspondent, a business survey, seemed to descend directly from the Roman chronicle of Mac Mullen, showing that bad governance has pervasively become norm. The general sample showed that three in four Europeans (73%) believed that bribery and connections were the easiest way to obtain public services in their respective countries. Two out of three also thought that corruption was an intrinsic part of the business culture in their country (66% of respondents), while three of five Europeans identified political connections as the best way to succeed in business (58%). Except for the countries in Northern Europe (Denmark, Finland and Sweden), negative perceptions regarding the integrity of the public and private sectors in the European Union seem to be widespread (see Table 1). The Survey on Business Attitudes' towards Corruption also shows France and Germany, EU's 'motor' countries on the wrong side of the norm. In Germany, over half of businesses in the sample believed that procurement deals in Germany are either inside deals or pre-arranged as a rule. A similar percentage declared that favouritism towards friends and family was widespread in the German business community. Likewise, 50% of French businesses complained that favouritism of one's family is widespread in the public sector (and 52% found it in the business sector), 42% reported tax evasion and VAT fraud as very common, and 37% considered that the practice of granting favors to businesses in exchange for campaign contributions is rife. In the estimate of nepotism, French businessmen ranked France between Romania and Bulgaria, no less, so the 2017 Fillon affair and the revelation that only first degree relatives on the public payroll of French MPs are a fifth or more should not have come as a surprise.

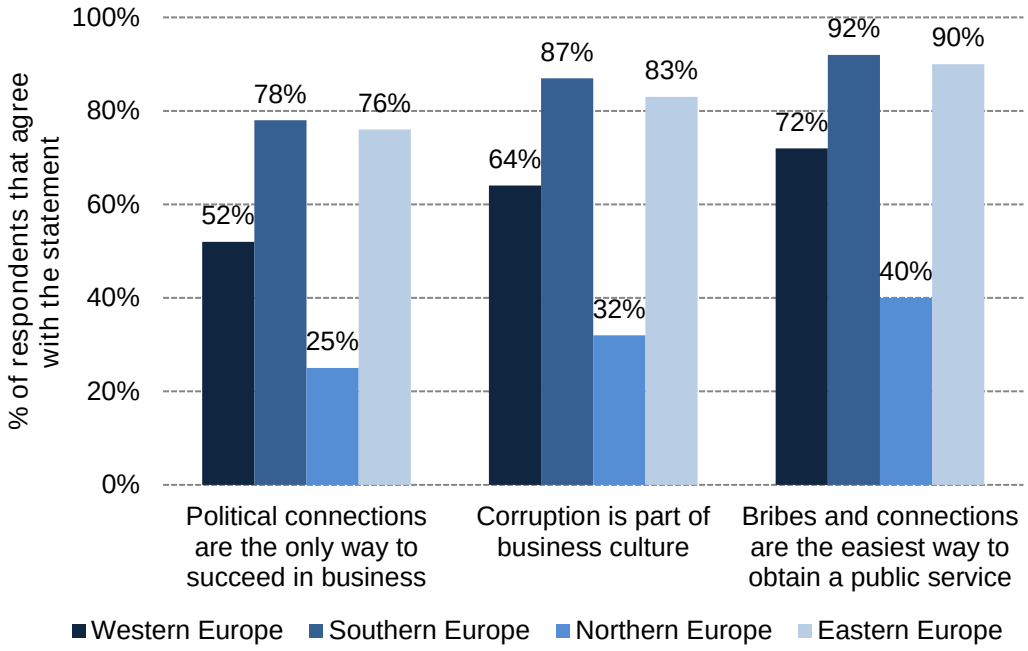

Figure 1: Selected Survey Results, Eurobarometer

These figures are closely correlated with public trust in government, Parliament and EU institutions (over 70%, with the correlation between business political connections and trust in national Parliament at 91%, see Mungiu-Pippidi 2016). If public trust figures have long been monitored by governments and pollsters alike, the monitoring of governance and corruption trends is of more recent date and of a less regular character. For this reason there is no time series on corruption perception in EU28 to match the trust data for the past decade, only occasional surveys like the one cited. There are, however, year based expert indicators that are widely used in the anti-corruption literature, i.e. the World Bank's Control of Corruption (CoC), Transparency International's Corruption Perception Index (CPI) and the World Economic Forum Government Favouritism. These former two measurements are statistical aggregates of country expert assessments (they use nearly the same sources) and they are available for all EU28 countries since 1998. Government Favouritism comes out of a business expert survey carried our yearly by World Economic Forum for the Global Competitiveness report.

The observance of these scores returns some interesting observations. First, expert scores of national corruption/particularism tend to be very stable across time because achieving change which is agreed on across different sources is quite difficult. This is why the CoC indicator, which unlike the CPI can be compared across years, is very resistant to change (Mungiu-Pippidi et al. 2016). Countries such as Italy, Spain and Greece, for instance, show no statistically significant change between 1996 and 2013. However, following the EU financial crisis these countries (and Cyprus) registered some worsening of their scores within the confidence error, but this could be a result of the crisis making some experts reassess the governance quality and retrospectively prime corruption

as a cause of the economic crisis. Among the newer EU members, only Croatia, Estonia and Latvia show some significant progress in the last decade, while headline-making Romania has changed only within its confidence error margin.

The EU28 shows a great variation of governance quality in the CPI/COC: While Sweden, Denmark, Finland, Netherlands and UK rank among the best performers in the continent and worldwide, thus embodying the idea of Western Europe as good governance benchmark, Southern and the Eastern European countries lag behind, with Romania and Bulgaria at the bottom closely followed by Greece and Italy. The big performer in the EU28, however, is Estonia, who has surpassed all Southern European countries and France over the last twenty years, partly due to Western European decline, but partly to its own exceptional progress. As the European Union enlarged, receiving countries such as Romania and Bulgaria which by all standards were “developing” and not developed, a new, more visible sort of corruption appeared. This consisted of a large spectrum of symptoms, from informal payments to poorly paid doctors or clerks to top-level undue profit owing to unregulated conflict of interest. The new member countries’ corruption captured most of the attention (and sanctions) of the European Union after the 2004-2006 enlargement. The ratings show many anomalies, though. CPI 2017 ranks Qatar better than Spain and Rwanda, where there is no pluralism, better than Romania and Bulgaria. Government favouritism, ranked 1 to 7, with Sweden best (less favouritism), shows a poor European average (under 4), confirming the critical judgment of businesspeople.

But all these remain inherently subjective. A critical businessman may compare Germany with his father’s generation standards, and not with standards in sub-Saharan Africa. Majorities complaining of corruption in the former and latter countries might not be comparable. At least the governments always claim that perception is not reliable, and is sometimes worsened by efforts to redress corruption. About here we would need a third set of indicators, fact based, to check against public opinion and expert scores. Corruption and favouritism are not however easily traceable in statistics, either because they are hidden, or because they are not collected, being surrounded by public hypocrisy. Most governments prefer to single them out as individual deviations instead of monitoring them as practices, through consumer surveys or other means.

To answer this challenge, the EU FP7 ANTICORRP project developed direct and indirect measurements of governance quality at policy or sector level, based mostly on facts, not perceptions. The universe of observations is given by all the transactions that a government agency, a sector or indeed a state engages in (from regulation to spending). The measurement efforts at sector level aim at establishing the prevalence of favouritism, in other words at measuring how many of these transactions are “as they should be”, according to regulations and the norm of ethical universalism (treating citizens and businesses equally and impersonally). Alternatively, at national level (but also sub-national) one can design an indirect measurement based on factors enabling a good control of corruption, so statistically associated with less corrupt outcomes and/or processes

(The Index for Public Integrity, see Mungiu-Pippidi and Dadasov 2016). **This approach results from *a definition of governance conceptualized holistically as a set of formal and informal institutions determining who gets what from the allocation of public resources in any given society*. This allows for the majority of government transactions (or exchanges) to be placed on a continuum particularism-ethical universalism in any country where information can be collected.** The direct measurement approach has to determine if government transactions are of a universal or particular nature and what are the rules of the game in the allocation of public resources. The indirect measurement approach further looks at what institutional arrangements determine the respective rules of the game in order to know how they can be changed. This approach has important theoretical and practical advantages, as it allows more sensitivity towards change in governance and the impact of various policies. An outcome based definition of 'state capture' can be derived from here as the situation when significant numbers of government transactions (the threshold is debatable –50 per cent is the simplest to establish as majority norm, although of course very high) are particular, and a definition of 'government favouritism' as the administrative behavior by which such a preferential distributional outcome is reached. Such distributive behavior, both through its processes and its outcomes, is observable, and therefore likely to greatly influence public opinion.

The data needed for the direct measurement of corrupt practices can be collected and analyzed from a variety of sources, such as public procurement allocations and their degree of competitiveness and correctness, the distribution of subsidies, state loans and tax exemptions, the distribution of subnational cash transfers, the public and private employment practices (how much merit based versus nepotistic?), the financial and interest disclosures of public officials, some private market indicators at company and sector level (favorite companies versus average companies profit, turnout from competitive versus non-competitive contracts, market concentration.

An illustrative dataset, summing up over 6000 public construction contracts (all over one million euros) over seven years in Romania can be observed in Table 1 (data obtained by scrapping from public sources). Romania is of interest because it has the most intense judicial anticorruption in the world presently, comparable probably only to Brazil (18 ministers jailed in the past five years, and one former PM). It also presents a puzzle as its progress does not manage to evade from the margin of confidence error in CoC. The table presents a few indicators achieved by crosstabulation of procurement success. Although only open forms of favouritism can be traced, such as single bidding (just one competitor), capture of an agency (over 50% of allocation to one private contractor) and awards to politically connected companies (as identified in financial disclosures or by donations to parties), in the interval of seven years observed (the timing corresponds with Romania's own 'mani pulite', with eighteen ministers jailed for corruption in the interval, and several mayors), overt particular allocations decreased only by a fifth. There is no way of knowing if they were not replaced with more insidious and hard to trace connections. The decrease was mostly on behalf of openly

non-competitive tenders, due to intense media, civil society and EU pressure. The construction sector represents the highest expenditure within procurement and Romania has been for many years EU's number one per capita spender for public works, as well as a leading procurer amongst EU-28 (Doroftei 2016). **Table 1** shows a time series of particularism indicators in Romanian public procurement during intensive judicial anti-corruption, 2007-2013, resulting in a decrease by a fifth of problematic transactions, from the majority (52%), to "only" 42% by contracts value. This actually shows some effort to catch up with EU governance benchmarks, so convergence, rather than decay, seems to be the norm here.

Such indicators may look work intensive and difficult to compare across countries. But as procurement and spending are increasingly digitalized, and even France adopted some public version of financial disclosure for officials the data can increasingly be found, scrapped and patterns observed. Fact based evolution or lack of evolution from one year to another can easily be traced using such indicators.

Table 1: The decline of particularism in Romania during the anti-corruption campaign (2007-2015)

	2007	2008	2009	2010	2011	2012	2013	**2007-2013 change**
VALUE CONTRACTS								
Single bidder[1]	30,8%	24,1%	21,6%	26,4%	22,4%	12,9%	8,4%	↓↓
Political connection[2]	23,4%	31,3%	20,3%	16,4%	19,7%	16,5%	13,6%	↓
Agency capture[3]	18,5%	11,8%	17,3%	20,9%	21,7%	9,3%	18,6%	↔
Total particularism	51,7%	52,9%	43,9%	53,0%	49,1%	34,0%	39,4%	↓
Number	2007	2008	2009	2010	2011	2012	2013	
CONTRACTS								
Single bidder	30,1%	27,6%	20,3%	24,0%	24,2%	17,6%	12,2%	↓↓
Political connection	22,7%	21,5%	19,9%	19,3%	19,7%	17,7%	17,3%	↓
Agency capture	9,4%	8,5%	8,3%	7,4%	8,1%	7,5%	5,9%	↓
Total particularism	47,7%	45,3%	41,1%	42,7%	43,5%	37,2%	33,1%	↓

Legend: Time series of particularism indicators in Romanian public procurement during intensive judicial anticorruption, 2007-2013, resulting in a decrease by a fifth of problematic transactions; ↓ indicates small change; ↓↓ indicates change over 10%; ↔ indicates no significant change.

Source: Romanian Academic Society, www.sar.org.ro.

[1] Single bidding. i.e. only one bid is submitted to a tender on a competitive market.

[2] Political connection. Allocation to a company with political connections (politician shareholder, board member or party donor company, according to digital interest disclosures or donation reports)

[3] Agency capture. Public agency awards 51% contracts or value of total contracts to one bidder.

Unlike other areas of public sector, procurement is extensively regulated precisely to avoid rents and discriminative treatment of companies (Mungiu-Pippidi et al. 2016). Why the indicators presented here are not openly breaking rules, the resulted outcomes are corrupt. A company politically connected has higher chances of winning more tenders both from national and EU budget, for instance. Agency capture is abnormal if framework contracts are deducted, as it is the case with the Romanian data, and indicate the existence of favourite companies which extract rents versus regular kickbacks: several such cases have been meanwhile tried. Single bidding, i.e. only one bid is submitted to a tender on a competitive market, indicates the expectations of the market that the winner is already known. In frequently results in above market price contracts and corrupt rents. Clean single bidding is exceptionally possible for very specialized areas or restricted markets, but at the high contract values reported in the EU Tender Electronic Database it should be exceptional, as all tenders above four million Euros are supposed to be competitive.

The data presented in table 2 shows regional averages and some selected countries, confirming that trends can be opposite in the developing versus the developed Europe. Slovakia evolves, while Portugal, Spain and Cyprus involve, for instance, which seems at first sight to match perceptions from public opinion surveys. The data shows that some Southern and Eastern countries also have a high proportion of “favourite companies” which bid alone in many public tenders and win regularly a gross share of public funds. On the other end of the spectrum, we see countries where competition over public funds is usually the case and ‘dedicated’ tenders practically do not exist. UK and Ireland, for instance, have less than 5% of single bidding. Also Netherlands, Luxembourg and the Nordic countries show consistently low numbers of single bidding situations. The other Western European countries lie below the European average with 8% to 16% of public procurement being assigned to single bidders (see Table 2).

Table 2: Percentage of single bidder contracts in public procurement (2009-2013)

	2009	2010	2011	2012	2013
EU and regional averages	**19%**	**20%**	**20%**	**21%**	**21%**
Central & Eastern	**29%**	**31%**	**29%**	**26%**	**25%**
Romania	25%	23%	19%	19%	25%
Slovak Republic	61%	58%	48%	33%	12%
Northern	**5%**	**6%**	**7%**	**7%**	**7%**
Southern	**21%**	**23%**	**25%**	**26%**	**29%**
Cyprus	29%	28%	26%	33%	43%
Greece	13%	35%	16%	28%	31%
Portugal	11%	8%	12%	16%	25%
Spain	12%	14%	18%	18%	20%
Western	**8%**	**8%**	**8%**	**8%**	**10%**
United Kingdom	3%	3%	3%	4%	4%

Source: EU's Tenders Electronic Daily, data released by DG GROW of the European Commission, available under: http://ted.europa.eu/TED/main/HomePage.do.

Note: Table shows the proportion of public procurement as part of the total amount of contracts. Numbers are aggregated based on the number of contracts.

The indirect public integrity indicator draws on the last twenty-five years of empirical evidence on causes of good governance, and can be better described through a model of control of corruption as an equilibrium between opportunities (or resources) for corruption such as natural resources, unconditional aid, lack of transparency, administrative discretion and obstacles to trade, and constraints, such as legal (an autonomous judiciary and audit) and normative (oversight on government exercised by the media and civil society) . Not only has each element high explanatory power on corruption, but the statistical interactions between resources and constraints, between red tape and independence of judiciary, between transparency in any form (fiscal, existence of freedom of information legislation, financial disclosures) and civil society activism or press freedom are highly significant. Using this model, we designed a parsimonious composite index for public integrity based on policy determinants of control of corruption (Mungiu-Pippidi et al. 2016; Mungiu-Pippidi and Dadasov 2016) . Table 3 shows a breakdown of this governance index across EU countries and regions. The institutional differences across EU are as expected, with the Northern countries doing well above EU average, and the Southern and new member countries well under. But the trend for

the first two years the index could be computed, and which corresponds with the research period of the EB special surveys (2013, 2014) are quite diverse, showing minor backsliding for some developed countries and some scattered progress across others, in particular Greece, Latvia, Lithuania, Slovakia, Ireland and Romania, a sign of some crisis related reforms. The index does not show at first sight indications of some dramatic institutional decay, and it correlates at over 90 per cent with expert corruption scores CoC and CPI.

Table 3: EU-28 by strength of integrity framework (2014)

	Index of public Integrity	Red Tape	Trade Barriers	Auditing Standards	Judicial Independence	E-Gov. Services	E-Gov. Users	Change IPI 2014-2012
EU Average	**5.71**	**6.33**	**5.86**	**5.90**	**5.00**	**5.76**	**5.45**	**0.29**
Central & Eastern	**4.27**	**5.31**	**3.86**	**3.86**	**3.76**	**4.38**	**4.46**	**0.40**
Bulgaria	2.38	2.75	3.20	1.15	3.83	1.00	2.38	-0.06
Croatia	2.64	4.04	1.00	2.87	1.26	3.69	3.00	0.18
Czech Republic	3.22	1.14	2.88	4.36	3.97	2.58	4.38	0.46
Estonia	7.83	9.98	9.24	8.12	6.45	7.31	5.88	0.05
Hungary	4.84	7.25	1.13	4.72	5.25	4.80	5.88	0.17
Latvia	5.93	7.71	5.30	4.65	4.94	6.47	6.50	1.26
Lithuania	5.78	8.59	6.37	3.90	3.84	7.12	4.88	0.97
Poland	3.71	2.44	4.13	4.86	3.84	4.62	2.38	0.15
Romania	2.60	2.70	3.68	3.51	1.27	3.41	1.00	0.77
Slovak Republic	3.84	3.21	3.25	1.00	5.26	3.97	6.38	0.93
Slovenia	4.19	8.61	2.25	3.28	1.40	3.23	6.38	-0.44
Northern	**8.60**	**9.50**	**8.45**	**9.36**	**8.02**	**6.60**	**9.71**	**-0.09**
Denmark	8.49	9.52	9.24	9.89	6.30	6.01	10.00	-0.09
Finland	8.88	9.67	6.92	10.00	10.00	7.31	9.38	0.22
Sweden	8.44	9.31	9.18	8.20	7.75	6.47	9.75	-0.39
Southern	**4.74**	**5.09**	**5.11**	**4.62**	**3.43**	**5.70**	**4.48**	**0.43**
Cyprus	4.77	4.46	5.60	5.60	4.16	3.78	5.00	-0.28
Greece	4.34	7.18	3.44	3.92	1.51	5.36	4.63	1.49
Italy	4.12	5.59	5.08	3.67	1.00	7.03	2.38	0.63
Malta	4.39	1.00	4.11	5.91	7.77	2.95	4.63	-0.30
Portugal	5.71	8.87	5.38	5.66	4.03	5.73	4.63	0.69
Spain	5.09	3.43	7.06	2.97	2.13	9.35	5.63	0.34

	Index of public Integrity	Red Tape	Trade Barriers	Auditing Standards	Judicial Independence	E-Gov. Services	E-Gov. Users	Change IPI 2014-2012
EU Average	**5.71**	**6.33**	**5.86**	**5.90**	**5.00**	**5.76**	**5.45**	**0.29**
Western	**7.35**	**7.49**	**8.19**	**8.36**	**6.76**	**7.38**	**5.94**	**0.17**
Austria	6.50	3.60	7.75	7.09	6.91	7.03	6.63	0.14
Belgium	7.16	9.72	7.43	8.12	6.13	6.20	5.38	0.46
France	7.89	9.05	9.44	6.66	6.33	10.00	5.88	0.38
Germany	6.60	4.37	7.61	8.57	6.57	6.10	6.38	-0.18
Ireland	7.39	9.71	10.00	9.39	3.67	6.20	5.38	0.89
Luxembourg	6.87	5.34	7.11	8.81	9.06	5.55	5.38	-0.2
Netherlands	8.66	10.00	8.17	9.00	7.99	9.16	7.63	-0.03
United Kingdom	7.74	8.13	7.99	9.23	7.45	8.79	4.88	-0.14

Source: Ease of Doing Business Index (Administrative Burden; Trade Openness), Global Competitiveness Report (Auditing Standards, Judicial Independence), UN E-Government survey 2012 (E-Gov Services), Internet World Stats (E-Gov Users); own calculation. Republished from Mungiu-Pippidi et al. 2016.

A third indicator of interest developed in recent years is the Public Administration Corruption Index (PACI), developed by Escressa and Picci (2015). PACI combines litigation data from Foreign Corrupt Practices Act, on the presumption that as companies' law suits against bribery can be filled in American courts, not the country where the alleged offense took place, it would capture the variation of extorted bribes across countries, therefore the quality of national governance. The official judicial statistics is only weighted by the amount of foreign business going to a country.

3. How evidence-based are governance perception indicators? The macro picture

These recently published objective indicators are all contemporary with the period of time that we look at in this chapter- after the economic crisis. Additionally, three of them- single bidding across EU 28, IPI and PACI exist for all EU 28 countries, so we can test our subjective indicators against them. But their greatest limitation is obvious: they are still quite recent, so it will take some years until longer time series exist –if, indeed, enough investment is made in publishing such data in open format. But presently they offer us, for a moment in time, a rare opportunity unavailable to historians, to test representative fact-based data (not archeological remains) against representative subjective data. We will try to make the most of it, being aware in the same time of the limitations of all our sets of data- subjective, general and expert, and fact-based.

From our subjective data, we select the perceptions of Europeans regarding the extent of corruption, particularism and political favouritism using the following Eurobarometer questions:

● **Extent of perceived corruption** is based on the question QB5 “How widespread do you think the problem of corruption is in the country?” and with answers ranging from 1 (very widespread) to 5 (there is no corruption in the country).

● **Favouritism in the public sector** was taken from the answers to the question QB15.10 “Do you agree or disagree with the following statement: bribery and the use of connections is often the easiest way to obtain certain public services in our country”, which are coded from 1 (totally agree) to 4 (totally disagree).

● **Favouritism in the private sector** was extracted from the question QB15.4 “Corruption is part of the business culture in the country”. The possible answers also range from 1 (totally agree) to 4 (totally disagree).

● **Political favouritism** was measured through the answers to question QB15.13, which follow the same coding as the previous two variables. This item in the survey asks whether political connections are the only way to succeed in business.

Aside the objective indicators, we sought of also using the experience with public sector reflected in the survey, although this is still subjective. These are the following:

● **Self-reported experience with bribing (individual level)** was extracted from the Eurobaorometer 397 QB9b question, worded as follows: “Thinking about these contacts in the past 12 months has anyone in (OUR COUNTRY) asked you or expected you to pay a bribe for his or her services?” This is generally used in what is called ‘victimization; surveys (see Seligson 2006)

● **Individual assessment of public procurement as being corrupt.** This measure was also extracted from the Eurobarometer results. The original question QB7 is phrased as follows: “In (OUR COUNTRY), do you think that the giving and taking of bribes and the abuse of power for personal gain are widespread among any of the following?” and one of the possible answers involves officials awarding public tenders.

Our preliminary test refers to checking the connection between self-reported experience with bribing and corruption perception. This is sometimes reported in literature as ‘perception-experience gap’, although bribe solicitation is only a part of the experience with corruption and the alignment of a fragment with the whole should be questioned from the start. Scholars have already investigated the ‘gap’ between the perception of corruption and experience (see Abramo 2008; Donchev and Ujhelyi, 2009; Rose and Mishler, 2010; Charron 2015). We find that people who report having been solicited a bribe are significantly more inclined to perceive higher levels of particularism in the public and private sector than non-bribe payers, even in complex regression multivariate models (ordered probit model, see Table 5). Also, when

explaining separately the most critical group (which selects the option with most corruption on all three dependents) we find that experience with bribery is a highly significant predictor, with all demographic controls.

90% of bribe payers agree that corruption is part of business culture, while only 72% of those who did not pay a bribe share this belief. 93% of bribe payers agree that bribery and connections are the easiest way to obtain a public service in the EU, compared to just 79% of non-bribe payers. Out of these 20,000 respondents, however, 94% report not having paid any bribes over the previous 12 months and only 6% of the whole sample report having some experience with corruption. Bribery seems on the most part confined to some poor post-communist countries, but it is quite an exceptional practice in the rest of Europe. The question therefore remains on what experiences the non-bribers ground their perceptions. We attempt to answer by correlating subjective and objective factors at country level, as well as across our public opinion survey and expert estimates, and we find impressive consistency throughout, as follows:

- **Consistency between Eurobarometer perceptions of crony capitalism and expert surveys that measure government favouritism,** from WEF and World Bank (all correlations are at over 80 per cent)

- **Consistency across Eurobarometer perceptions of public and private particularism and extent of corruption**- despite common talk of petty versus grand corruption, these perceptions seem to measure a governance order which is internally consistent, and rules of the game which cut across areas of experience, direct (as with bribing) and indirect (other observable phenomena), giving further justification to our particularism-universalism continuum.

- **Consistency across subjective indicators and objective indicators.** The Eurobarometer perceptions of particularism correlate at 80 per cent with the Index of public integrity, at around 60 per cent with single bidding and at around 50 per cent with PACI. The objective indexes, in particular IPI and single bidding also strongly correlate with expert scores from World Bank and WEF (over 70 per cent). As the public opinion data and the fact-based indicators are completely separately generated, their high consistency can only mean that facts of particularism that we measure are also observable by ordinary citizens, as well as by experts and considered as corrupt. Non-competitive tenders, impartiality of the judiciary and regulation, and favouritism in government spending are all observable phenomena.

On top of such simple bivariate correlations, we ran a series of multivariate linear regressions, comparing across fact-based determinants, expert scores and socio-economic (contextual)

variables that are often used in corruption literature. Here, we preferred not to combine the different types of indicators or include the contextual variables as controls in the models due to obvious endogeneity problems, as governance rules of game are captured by most corruption and development indicators. Instead, we simply used life expectancy as a development control.

Table 4: Explaining country-level perceptions of corruption

	Particularism in the Private Secto			Particularism in the Public Secto			Political Favoritism		
INDEPENDENT VARIABLES	Direction of the effect	Level of statistical signficance	Explanatory power	Direction of the effect	Level of statistical signficance	Explanatory power	Direction of the effect	Level of statistical signficance	Explanatory power
Fact-based (objective) corruption indicators									
Single bidding in Public Procurement (2009-2013)	+	***	Medium	+	**	Medium	+	***	Medium
Index of Public Integrity	-	***	**High**	-	***	**High**	-	***	**High**
Public Administration Corruption Index	+	**	Low	+	*	Low	+	***	Medium
Subjective corruption indicators									
WEF Government Favoritism	-	***	**High**	-	***	**High**	-	***	**High**
WGI Control of Corruption	-	***	**High**	-	***	**High**	-	***	**High**
National context									
Corruption experience (paid a bribe in the past 12 months)	+	**	Low	+	**	Low	+	**	Low
Tertiary Education enrollment	-		Low	-		Low	-	-	Low
Secondary Education attainment among 24-64 year olds	-	**	Low	-	***	Medium	-	*	Low
General government gross fixed capital formation	-	***	Low	-	**	Medium	-	*	Low
Total government expenditure (% of GDP)	-	-	Low	-	-	Low	-	-	Low
GINI coefficients (2013)	+	-	Low	+	*	Low	+	**	Medium

Legend: The table presents a simplified view of Appendix 1. All regressions were run with life expectancy as a control variable for the level of development.

Notes: The direction of the effect is coded as "+" for positive relationships between the independent and the dependent variable, i.e. higher values of the independent variable are associated with higher values in the dependent one, and "-" for negative relationships where lower values of the independent variable are associated with higher values in the dependent one / The level of statistical significance is coded as follows: *** p<0.01, ** p<0.05, * p<0.10 / The explanatory power of the regression is based on the values of the adjusted R^2 as follows: Low-

The results in Table 4 (also see Appendix for figures) show that citizens' perceptions are closely related to what scholars have been able to objectively measure through different methods from the objective reality of the country's governance regime in both the public and private sector. The explanatory power of the IPI, the PACI index and the single bidding indicators remains high and statistically significant, even when using life expectancy as a development control: the IPI explains between 61 and 66% of the variation in our perception-based variables, single bidding captures between 35 and 48% of the variation and the PACI index, despite showing the weakest explanatory power with values between 19 and 34%, remains statistically

significant. In none of these cases does the development control turn out to be statistically significant, or affect the significance of our objective indicators. Experience of bribery explains between 21 and 26% of the variation in corruption perceptions (see detailed results in Appendix), so well below IPI and single bidding, showing that observable phenomena might matter more than direct experience.

Finally, the socio-economic indicators have the lowest explanatory power. Out of the five variables chosen to capture the national context, only two appear to be statistically significant across all three dependent variables: secondary education attainment and government investment in gross fixed capital formation both have a negative effect on perceptions of corruption and particularism. The percentage of people with completed tertiary education and the total government expenditure, a measurement often used to capture the size of government, on the other hand, do not show a statistically significant effect. However, the perceptions of corruption are mostly shaped by the percentage of people with secondary school. Additionally, it is not the overall level of government spending, or the "size of government" that people consider when assessing the level of corruption in their countries. Rather, citizens seem to take cues from the particular ways in which the government budget is spent. This is in line with previous research showing that universalistic spending in areas such as health and education is often associated with less corruption, whereas spending in construction, for example, tends to be perceived as more corrupt (Tanzi and Davoodi 1998). The other factors often cited in the literature as possible sources of bias for perceptions, such as inequality, level of education and size of government (Inglehart 1999; Jong-Song and Khagram 2005; Rothstein and Uslaner 2005), show even lower explanatory power and in some cases, they are not even statistically significant at national level.

4. Mediators of individual perceptions

Having accomplished the first round of tests, and having shown that there are indeed strong and statistically significant relationships between the citizens' perceptions and objective measurements of corruption and particularism at national level, we will now attempt to shed some light on the determinants of these individual perceptions.

Despite the salience of these theories in corruption studies, the first piece of evidence suggesting that socio-economic variables might have less importance in driving the popular perceptions of corruption and particularism in the EU Member States can already be found in **Table 4**. As mentioned before, tertiary education enrolment and total government expenditure as a share of GDP are not statistically significant. Inequality, however, does show a positive and statistically significant relationship when regressed against two of our perception-based dependent variables: higher values of the GINI coefficient are indeed related to higher perceptions of corruption and the need for connections to

succeed in business. The explanatory power of this indicator (20-30%) and its statistical significance is still lower than that of two of our objective measurements and only comparable to our weakest one, i.e. the PACI index. This is worth exploring further, however, as it might be that for some individuals, their perceptions might indeed be less grounded in evidence and more in their personal situation.

To provide further evidence on this, we will now proceed to dissect these perceptions at the individual level. For evidence-based mechanisms of corruption, we use three variables: assessment of procurement, experience with bribing and perceived political favouritism. Seeing that in the Eurobarometer survey, politicians are blamed far more for corruption than civil servants (Mungiu-Pippidi et al. 2016), we will test political favouritism, the hypothesis that political connections provide the shortcut to success. Based on the results obtained in the previous section and considering the limited presence of bribery in the EU, we thus presume that particularism is attributed foremost to political connections, rather than other types of undue influence, and we use this survey question on political favouritism alongside **victimization**.

Further controls are needed. We therefore included basic controls for gender, type of community (urban or rural) and income (proxied by capacity to pay monthly bills). Furthermore, due to the uneven geographic distribution, we will add a control based on a simple **cultural-geographic hypothesis: that all other things being equal, individuals residing in Northern Europe will perceive less corruption than those in the remaining three regions (Western, Southern and the Eastern Europe)** – see Rothstein and Uslaner (2005) on the Scandinavian exception.

To test the above, we rely on the following questions from the survey:

- **For perceived inequality,** we use the respondents' self-assessment of their stand in society as an indicator of subjective social status, but also their inability to pay bills as an objective indicator of hardship.
- **For media exposure,** as media is often denounced as worsening corruption perception (Misher and Rose 2010; Rizzica and Tonnello 2015). We use Internet consumption; given that the Internet has evolved into a main source of news and information for many people, we use this as a way to indirectly test for media exposure.

A simple look at the breakdown of citizens' perceptions of corruption and particularism in the public and the private sector by social class and availability of internet access reveals some fascinating results. First, for all three dependent variables, people with regular access to the internet are less likely to believe that corruption and particularism are defining trends of their countries' governance regimes. This still means that where six Internet intensive consumers see corruption, seven or more complain of it from people with less Internet access and usage, depending of the question. The difference is consistent across all our dependent variables. The biggest difference between these two groups is with regards to the importance of political connections to succeed in business: while three

quarters of respondents without internet access believe that this is a problem, only 63% of respondents with access to the internet share this same opinion.

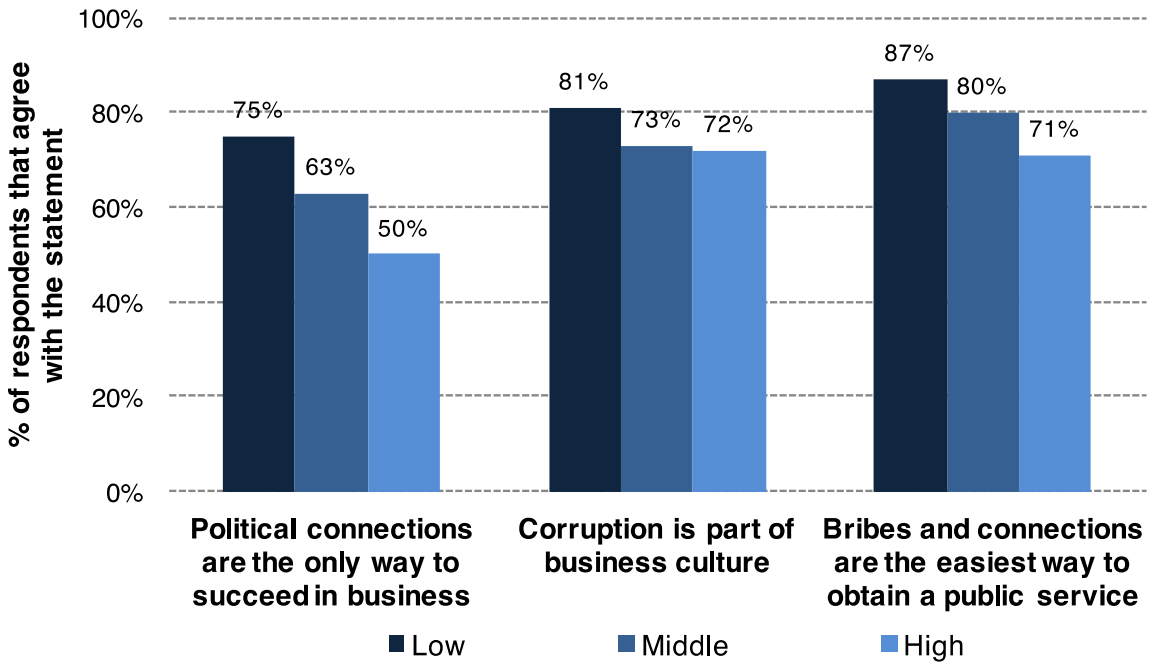

Figure 2: Perceptions of corruption and particularism by social class.

The inequality hypothesis, therefore the perception of belonging to an underprivileged social class might increase the likelihood of seeing the governance regime as rigged or designed to favor others, is illustrated in **Figure 2**. These results also show some interesting features. Firstly, the hypothesis seems to be generally true: respondents who identify themselves as belonging to a lower social class do exhibit higher perceptions of corruption and particularism. This group includes the highest proportion of respondents who believe that political connections are the only way to succeed in business, that corruption is part of the business culture and that bribes and connections are the easiest way to obtain public services. Yet again, while the differences between groups are statistically significant, we still have majorities which agree with the vision of the underprivileged class in the other groups as well. The biggest disparity between the perception of the lowest and highest social class is when it comes to the importance of political connections to succeed in business: 75% of the poorest respondents think this is true, while only half of the richest respondents hold the same opinion. It is interesting to see, however, that there is almost a consensus regarding corruption in the private sector. Eight out of ten respondents believe that corruption is part of the business culture and seven out of ten respondents from the middle and upper classes believe the same.

To gain more insights we also conducted an individual-level order probit analysis of the responses (see **Table 5**). We used three different models to explain each one of our dependent variables:

- The first model tries to explain different perceptions of corruption only through socio-economic variables often found in the literature, i.e. the type of residential community, the level of education, income and gender. This model also includes our hypotheses regarding internet access and social class.

- The second model incorporates three corruption "red flags" that are related to experiences or possible sources of information that a person can access to estimate the overall level of corruption, i.e their direct experience of bribery, assessment of how difficult it is to succeed in business by merit only (without the use of political connections) and the assessment of whether public tenders are corrupt. This last variable was included for two main reasons: firstly, public procurement can be a source of objective cues on which people can base their perceptions of corruption: if a highway, an airport or a hospital is being built, but is never finished or its quality is disputed, an individual might attribute this to corruption. Secondly, our country-level regressions in Table 4 show that there is a remarkable overlap between non-competitive tenders awarded by the government and the people's perception of corruption. This evidence also suggests that people do not simply make up their assessments of corruption or particularism based on their personal situation or their satisfaction with government, but that they rely on some cues, and procurement with public contract disbursal is one of the most visible areas of government.

- Finally, the third model includes regional dummy variables to account for the geographical-cultural control.

The explanatory power of personal factors such as income, education or gender is weaker than that of people's more direct encounters with corruption in the form of either bribery, expectation of the need for connections to succeed in business, or identification of corrupt public tenders. While the socio-economic factors show an adjusted R square of only two to three percent (see models 1,4 and 7), including encounters with corruption as explanatory variables increases the value of this measurement to a range of 14 to 16% (see models 2,5 and 8). Moreover, the corruption variables remain significant across all three dependent variables, while the statistical significance of the socio-economic indicators varies greatly: gender and the type of community where respondents live are only significant when explaining overall corruption perceptions, but they have no statistically significant effect when explaining the perceptions of crony capitalism (corruption is part of the business culture in this country) or particularism in the public sector (bribery and connections are the easiest way to get a public service).

Table 5: Ordered Probit models of explaining individual corruption perceptions

	Particularism in the Private Sector			Extent of Perceived Corruption			Particularism in the Public Sector		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
SOCIOECONOMIC VARIABLES									
Age when education was terminated (in years)	-0.0201***	-0.0149***	-0.00287	-0.0207***	-0.0180***	-0.00626***	-0.0188***	-0.0131***	-0.00370**
	(0.00164)	(0.00173)	(0.00181)	(0.00171)	(0.00184)	(0.00194)	(0.00164)	(0.00174)	(0.00182)
Urban community (1= urban; 0= rural)	-0.0156	0.00313	0.0173	-0.0721***	-0.0643***	-0.0547***	-0.0359**	-0.0150	-0.00329
	(0.0153)	(0.0161)	(0.0161)	(0.0162)	(0.0172)	(0.0176)	(0.0155)	(0.0164)	(0.0165)
Gender (1= female; 0= male)	-0.000180	0.0134	0.00260	0.0161	0.0349**	0.0168	-0.0233	-0.0200	-0.0349**
	(0.0147)	(0.0154)	(0.0155)	(0.0156)	(0.0165)	(0.0168)	(0.0149)	(0.0157)	(0.0158)
Level in society (1- lowest to 3- highest)	-0.100***	-0.0573***	-0.0657***	-0.115***	-0.0923***	-0.0893***	-0.116***	-0.0698***	-0.0694***
	(0.0150)	(0.0158)	(0.0159)	(0.0159)	(0.0169)	(0.0173)	(0.0153)	(0.0161)	(0.0162)
Difficulties paying bills (1- Most of the time to 3- Never)	-0.256***	-0.142***	-0.0560***	-0.271***	-0.184***	-0.0673***	-0.237***	-0.113***	-0.0297**
	(0.0107)	(0.0115)	(0.0118)	(0.0114)	(0.0123)	(0.0128)	(0.0109)	(0.0117)	(0.0121)
Employment status (1= employed; 0= unemployed/ other)	0.0618***	0.0459***	-0.00558	0.0123	-0.00526	-0.0807***	0.0392**	0.0216	-0.0370**
	(0.0161)	(0.0169)	(0.0171)	(0.0171)	(0.0181)	(0.0186)	(0.0163)	(0.0172)	(0.0174)
Frequency of internet usage (0- never to 3- every day)	-0.0412***	-0.0176**	0.00533	-0.0278***	-0.0171*	0.0238***	-0.0420***	-0.0153*	0.0111
	(0.00776)	(0.00822)	(0.00833)	(0.00817)	(0.00878)	(0.00901)	(0.00788)	(0.00840)	(0.00850)
CORRUPTION AND PARTICULARISM									
Paid a bribe to at least one organization in the past 12 months (1= yes; 0= no)		0.423***	0.381***		0.406***	0.322***		0.325***	0.235***
		(0.0362)	(0.0367)		(0.0388)	(0.0396)		(0.0370)	(0.0374)
Political favoritism (1- totally disagree to 4- totally agree)		0.547***	0.471***		0.377***	0.272***		0.612***	0.535***
		(0.00889)	(0.00928)		(0.00933)	(0.00988)		(0.00917)	(0.00953)
Corruption in public tenders (1= yes; 0= no)		0.388***	0.354***		0.426***	0.397***		0.398***	0.368***
		(0.0155)	(0.0156)		(0.0168)	(0.0171)		(0.0158)	(0.0159)
REGIONAL CONTROLS									
Southern Europe			0.440***			0.747***			0.395***
			(0.0229)			(0.0251)			(0.0234)
Northern Europe			-0.586***			-0.547***			-0.498***
			(0.0277)			(0.0307)			(0.0279)
Eastern Europe			0.228***			0.501***			0.352***
			(0.0198)			(0.0218)			(0.0203)
Constant cut1	-2.622***	-0.628***	-0.356***	-3.888***	-2.605***	-2.262***	-2.780***	-0.632***	-0.377***
	(0.0403)	(0.0523)	(0.0544)	(0.0508)	(0.0636)	(0.0665)	(0.0412)	(0.0534)	(0.0556)
Constant cut2	-1.861***	0.273***	0.590***	-2.995***	-1.580***	-1.193***	-2.082***	0.225***	0.528***
	(0.0387)	(0.0518)	(0.0540)	(0.0435)	(0.0565)	(0.0594)	(0.0393)	(0.0527)	(0.0550)
Constant cut3	-0.647***	1.650***	2.006***	-1.013***	0.603***	1.163***	-0.847***	1.653***	2.001***
	(0.0375)	(0.0526)	(0.0551)	(0.0395)	(0.0554)	(0.0589)	(0.0378)	(0.0533)	(0.0560)
Observations	22,218	21,118	21,118	23,233	21,691	21,691	22,336	21,276	21,276
Adj. R-squared	0.0240	0.121	0.142	0.0337	0.109	0.155	0.0234	0.139	0.159

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.10

The statistical models also confirm the descriptive evidence linking the frequency of internet access to lower perceptions of corruption, crony capitalism and particularism. The statistical significance of internet access, however, disappears once we introduce the control for regional dummies. The self-assessed level in society, as well as the objective level of income (measured through the difficulty to pay bills every month), on the other hand, remain statistically significant even when we introduce the regional controls (see models 3, 6 and 9).

Although the number of respondents who have a direct experience with bribery across the EU is limited, we consistently find that it is a significant determinant in shaping people's perceptions. Alongside this direct kind of experience, though, the most powerful explanatory variables are the beliefs that public tenders are corrupt - and in particular, that political favouritism (political connections) is responsible for

business success. Perceptions of governance thus draw on a larger pool of experiences with business and government, subjectively interpreted, but observation based, where the distortion by media does not seem not to be significant.

Can we tell apart the most from the least subjective respondents in the sample? We can. The percentage of people who self-identify as low class in the survey is 27%. When looking at how the group who perceive high corruption is formed, 30% come from the lowest group, 49% from the middle category and 22 from the highest, with the poor are slightly over-represented in this group and the rich slightly underrepresented. It's also worth noting that these values remain unchanged across our 3 dependent variables (particularism in the public sector, particularism in the private sector and overall perception of corruption). When conducting the same exercise with the difficulty of paying bills, we see that 15% of respondents have difficulties paying bills most of the time. Almost a quarter of the participants (24%) find it hard to pay their bills from time to time and a majority (57%) almost never or never experience this problem. In this case, the composition of the group perceiving high levels of corruption and particularism are slightly different from the demographic breakdown, but the numbers also remain largely consistent across our dependent variables: 17% have difficulties paying bills most of the time, 31% have the same problem from time to time and the remaining 52% belong to those that can always or almost always pay their bills (see Table 6). In other words, the noise due to inequality and poverty is no more than a fifth of the sample, and at least three quarters of respondents perceive corruption independent of their own material situation.

Table 6: Breakdown of high perception of corruption by difficulty to pay bills.

		Particularism in the private sector is widespread	Particularism in the public sector is widespread	Corruption is widespread
Difficulties paying bills	Most of the time	17.5%	17.1%	17.5%
	From time to time	30.9%	30.7%	31.0%
	Almost never/never	51.6%	52.2%	51.6%

5. Conclusions

We have started by asking if our indicators of low trust and moral decay in the third decade of the third millennium can in any way be better verified than similar perceptions on record from the Western Roman Empire in the fourth century A.D. Our individual level analysis complements the national level one, leading to three brief conclusions with serious policy implications:

The first finding is the main contribution to the question and offers a general validation of public perception by more objective indicators, which is a premiere (it generally works the other way around).

In most EU countries people perceive that government is a source of business favouritism and unable to uphold merit as the main source of advancement. Most individuals seem to report what they observe and experience, uninfluenced by media or social status, so these negative perceptions are likely to reflect the overall practices, as well as the integrity policy framework. We do not have one objective measure to capture all forms and varieties of corruption, but triangulating from three sources we find enough evidence to argue that there is an objective basis to the widespread feelings that institutions of European capitalism and democracy have fallen below the standards that they espouse. In other words, in the countries where we have a perception of institutional decay some objective grounds exist which should be a source of policy concern. We show at country level, but are not able to provide cross country comparative data yet, that digital procurement could provide us with time series of public resource allocation allowing tracing change across years. Had this paper been about comparing one given country with the Roman Empire we are confident that using such methods and data we would be able to give more ample validation to people's perception- to the extent that all perceptions are objectively grounded.

Our second finding, however, is a qualification as it shows that a more subjective group exists within the majority of Europeans perceiving institutional decay, a minority who feels the most economically disadvantaged, between a fifth and a quarter on the average, but with great variation within countries, which blames politicians and politics disproportionately and which turns against the political system. The feeling of being cheated on the part of this objectively disadvantaged group requires a policy if they are not to be left prey to radical populist movements. As we have seen with Brexit and the election of Donald Trump, pocket groups that lose out because of globalization develop anti-status and anti-elite narratives and attitudes, which may play a large role in turning a popular vote against the system. Anticorruption apart, these groups need some better targeted policies to adjust to new realities in the labour or housing markets.

Finally, it may be worth noting that Scandinavia alone, of all Europe, seems to have succeeded in successfully addressing both problems, inequality and corruption, although other countries, such as the UK or the Netherlands, seem to have high integrity capitalism and public sector both. The policy implication is that some sort of optimal mix might exist between addressing social alienation to avoid people blaming it on political corruption, and controlling corruption itself. While the main response should be directed to what people consider corruption – addressing government favouritism, the fairness and integrity of taxation, public tenders and public services, as well as perceived privileges of the political elite - a successful dual approach on the lines suggested here should be sought for the particular European model. This ideal mix might come close to what Emmanuel Macron is already trying in France- combining deeper reforms with the removal of very visible forms of favouritism, like nepotism in the Parliament, to offer a redress alternative solution of perceived institutional decay to the anti-system one promoted by populists.

6. Bibliography

Abramo, C. W. (2007). How much do perceptions of corruption really tell us. Economics Discussion Papers, 19.

Charron, N. (2016). Do corruption measures have a perception problem? Assessing the relationship between experiences and perceptions of corruption among citizens and experts. European Political Science Review, 8(01), 147-171.

Cooper, R. (2011). The breaking of nations. Atlantic Books Ltd.

Donchev, D. and G. Ujhelyi (2014). What do Corruption Indices Measure? Economics & Politics 26(2):309-31.

Escresa, L. and L. Picci (2015). A New Cross-National Measure of Corruption. Forthcoming: World Bank Economic Review, DOI: 10.1093/wber/lhv031.

European Commission (2013). Special Eurobarometer 397. Attitude of Europeans towards

corruption. Accessible at http://ec.europa.eu/public_opinion/archives/eb_special_379_360_en.htm#374

European Commission (2013a). Flash Eurobarometer 374 BUSINESSES' ATTITUDES TOWARDS CORRUPTION IN THE EU, http://ec.europa.eu/commfrontoffice/publicopinion/flash/fl_374_en.pdf

European Union (2014). Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC. Available online at: http://data.europa.eu/eli/dir/2014/24/oj

European Union (2016). Treaty of the European Union and the Treaty on the Functioning of the European Union (consolidated version). EUR-Lex "Official Journal of the European Union" vol. 59 (2016). Available online at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:C:2016:202:TOC

Ferguson, N. (2014). The great degeneration: How institutions decay and economies die. Penguin.

Fukuyama, F. (2014). America in decay: The sources of political dysfunction. Foreign Aff., 93, 5, http://socialmachines.media.mit.edu/wp-content/uploads/sites/27/2015/02/Fukuyama-America-in-Decay.pdf

Inglehart, R. (1999). Post modernization Brings Declining Respect For Authority But Rising Support For Democracy. Forthcoming in Pippa Norris (ed.), Critical Citizens: Global Support for Democratic Government. Oxford University Press. Oxford.

Jong-Sung, You, and Sanjeev Khagram. "A comparative study of inequality and corruption." American Sociological Review 70, no. 1 (2005): 136-157.

Mungiu-Pippidi, A. 2006. “Corruption. Diagnosis, and Treatment.” Journal of Democracy 17 (3): 86–99.

Mungiu-Pippidi, A. (2015). The quest for good governance: how societies develop control of corruption. London: Cambridge University Press.

Olken, B. A. (2009). Corruption perceptions vs. corruption reality. Journal of Public economics, 93(7), 950-964.

Parsons, T. 1997. Introduction to Max Weber. The Theory of Social and Economic Organization. New York: The Free Press.

Razafindrakoto, M., & Roubaud, F. (2010). Are international databases on corruption reliable? A comparison of expert opinion surveys and household surveys in Sub-Saharan Africa. World development, 38(8), 1057-1069.

Rizzica, L., & Tonello, M. (2015). Exposure to media and corruption perceptions. Bank of Italy Temi di Discussione (Working Paper) No, 1043.

Rose, R., & Mishler, W. (2010). Experience versus perception of corruption: Russia as a test case. Global Crime, 11(2), 145-163.

Rothstein, Bo, and Eric M. Uslaner. "All for all: Equality, corruption, and social trust." World politics 58, no. 01 (2005): 41-72.

Seligson, M. A. (2006). The measurement and impact of corruption victimization: Survey evidence from Latin America. World Development, 34(2), 381-404.

Tanzi, V., & Davoodi, H. (1998). Corruption, public investment, and growth. In The Welfare State, Public Investment, and Growth (pp. 41-60). Springer Japan.

Wedel, J. (2014). Unaccountable: How elite power brokers corrupt our finances, freedom, and security. Pegasus Books.

Weber, M. (1968) "Asceticism, Mysticism and Salvation." In Economy and society; an outline of interpretive sociology. New York: Bedminster Press.

Appendix 1 Explaining country-level perceptions of corruption

	Perception of Private Corruption						Perception of Public Corruption						Political Favoritism					
INDEPENDENT VARIABLES (β1)	β_1 (IV)	β_2 (LifeExp)	Constant	N	R-squared	Adj. R-squared	β_1 (IV)	β_2 (LifeExp)	Constant	N	R-squared	Adj. R-squared	β_1 (IV)	β_2 (LifeExp)	Constant	N	R-squared	Adj. R-squared
Fact-based (objective) corruption indicators																		
Single bidding in Public Procurement (2009-2013)	1.15*** (0.401)	0.00 (0.763)	51.62 (64.526)	26	0.41	0.35	1.02** (0.415)	-0.97 (0.915)	137.13* (76.142)	26	0.35	0.29	1.22*** (0.377)	-0.55 (0.914)	85.80 (76.158)	26	0.48	0.43
Index of Public Integrity	-8.02*** (1.391)	0.44 (0.749)	83.86 (57.233)	28	0.66	0.63	-8.10*** (1.582)	-0.18 (0.936)	139.56* (72.153)	28	0.61	0.58	-7.67*** (1.517)	-0.49 (0.876)	146.73** (65.199)	28	0.63	0.61
Public Administration Corruption Index	0.04** (0.020)	-0.81 (1.228)	131.52 (99.334)	25	0.23	0.16	0.04* (0.023)	-1.27 (1.281)	173.83 (102.992)	25	0.25	0.18	0.05*** (0.015)	-0.95 (1.167)	131.68 (93.904)	25	0.34	0.28
Subjective corruption indicators																		
WEF Government Favoritism	-18.24*** (2.128)	0.38 (0.437)	105.36*** (32.752)	26	0.76	0.74	-19.64*** (3.011)	0.15 (0.597)	135.31*** (45.180)	26	0.72	0.70	-17.47*** (2.344)	-0.57 (0.703)	169.29*** (52.193)	26	0.75	0.73
WGI Control of Corruption	-7.18*** (1.014)	2.12** (0.792)	-59.05 (58.910)	28	0.79	0.78	-7.73*** (1.168)	1.80* (0.890)	-24.30 (66.496)	28	0.81	0.79	-6.75*** (1.055)	1.06 (0.908)	14.84 (68.256)	28	0.72	0.70
National context																		
Corruption experience (paid a bribe in the past 12 months)	2.11** (0.91)	0.84 (1.30)	-3.93 (106.25)	28	0.21	0.15	2.00** (0.92)	0.06 (1.45)	64.8 (119.19)	28	0.22	0.16	1.97** (0.87)	-0.17 (1.41)	68.32 (115.63)	28	0.26	0.20
Tertiary Education enrollment	-0.05 (0.271)	-1.98** (0.912)	234.53*** (72.968)	28	0.09	0.02	0.02 (0.310)	-2.64*** (0.903)	288.12*** (74.306)	28	0.13	0.06	-0.08 (0.224)	-2.79** (1.011)	292.44*** (80.354)	28	0.17	0.10
Secondary Education attainment among 24-64 year olds	-0.44** (0.213)	-3.04*** (1.044)	350.76*** (91.768)	28	0.17	0.10	-0.74*** (0.218)	-4.40*** (0.964)	488.21*** (86.179)	28	0.32	0.26	-0.45* (0.250)	-3.88*** (1.181)	409.06*** (104.973)	28	0.24	0.18
General government gross fixed capital formation	-11.10*** (3.831)	-3.98*** (1.108)	429.50*** (96.874)	28	0.30	0.24	-10.74** (4.204)	-4.56*** (1.199)	480.33*** (105.046)	28	0.29	0.24	-8.76* (4.404)	-4.38*** (1.277)	444.22*** (111.396)	28	0.28	0.22
Total government expenditure (% of GDP)	-0.68 (0.708)	-0.96 (1.262)	181.83** (79.462)	28	0.14	0.07	-0.58 (0.601)	-1.76 (1.322)	246.62*** (80.587)	28	0.16	0.09	-0.33 (0.668)	-2.31 (1.415)	263.88*** (92.797)	28	0.17	0.11
GINI coefficients (2013)	1.91 (1.147)	-1.20 (1.041)	112.28 (107.154)	28	0.21	0.15	2.09* (1.144)	-1.77* (0.983)	158.27 (101.017)	28	0.25	0.19	2.47** (1.056)	-1.80* (1.018)	133.85 (98.099)	28	0.35	0.30

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.10