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Optimizing anticorruption:
the long arm of the law vs. the invisible hand of the market?

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Abstract

Over the past three decades, the study of corruption across several disciplines has greatly increased. Despite the progress on knowledge, anti-corruption scholars and practitioners deplore the lack of progress in the fight against corruption as measured by rankings such as the Corruption Perception Index (CPI). Mungiu-Pippidi (2015), for example, identifies a maximum of ten countries that have managed to reduce corruption significantly in the past 20 years. This leads to the question on whether there is a gap between corruption theory and practice, and if so, what can explain it? This chapter reviews the relevant literature to argue that what looks like a possible disconnect between theory and practice is the product of lack of conceptual clarity and insufficient cross-pollination between different strands of academic literature. It considers two of the main streams of literature, that in favor of less government intervention with anti-corruption policies based on incentive manipulation rather than repression and that in favor of government intervention and legal deterrence. It thus attempts to bring some clarity to the debate around the effectiveness of market and legal solutions for anti-corruption by combining the latest findings and lessons learned from the anti-corruption literature with the main theories of change originated from the economic literature. In addition to the theoretical discussion, I run a few tests of the theories I discuss to substantiate my argument[1].

Keywords: Corruption, Capitalism, Deterrence, Anti-Corruption legislation

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The market as anti-corruption tool

A long tradition of economists dating back to Adam Smith see government intervention in the economy as a source of inefficiency. Classical economists tend to argue in favor of "small" governments that limit themselves to guarantee the proper functioning of the market by administering justice, enforcing private property rights, defending the nation against aggression and providing the necessary infrastructure for trade to take place (Smith 1776). This idea, despite being over two centuries old, remains relevant today and has shaped the study of corruption. The theory of rent-seeking and of regulatory capture are just salient examples of economic theories that frame corruption as a product of government failure. The concept of the state as a source of market inefficiency and corruption is perhaps best captured by Shleifer and Vishny's (1998) concept of the "grabbing hand", i.e. the notion that government regulation tends to be introduced only to enrich and empower politicians or their close supporters.

The search for rents – defined as rewards not earned or not consistent with competitive market returns – was first analyzed in the context of social losses from public policies and monopolies. This strand of literature argues that the resources used to establish, maintain, or eliminate trade restrictions and monopolies should be considered a social cost. Tullock's (1967) paper "Welfare Costs of Tariffs, Monopolies, and Theft" is considered the foundation of the rent-seeking literature and argues that actors benefitting from inefficient policies have incentives to further influence the creation and assignment of resources and wealth created by political decisions. The quest for personal advantages, however, can be masked with the rhetoric of social advantage (Congleton et al. 2008).

These ideas took time to be integrated into new research. Only in the mid 70s other authors started using the concept of rent-seeking in their work. Krueger (1974) analyzed the effect of introducing import licenses in an economy and finds that that restricting imports leads to the creation of a "rent", which provides incentives for firms to compete to obtain it. She suggests that the value of rents associated with import licenses can be relatively large and that the welfare cost of such restrictions on trade comes with economic, social and political costs since: a) the same level of production can be achieved more efficiently without tariffs; b) competition for rents results in a welfare loss since resources can be used for other (more productive) activities that benefit society as a whole; and c) the presence of rent-seeking fuels the perception of favoritism and those without access to government rents may blame the economic system and the market mechanism for their situation (Krueger 1974). By the late 1970s, the idea that government intervention in the economy led to increased opportunities for corruption gained traction and other studies looking into the effects of specific government policies on the economy started to emerge. Posner (1975) and Cowling and Mueller (1978), for example, analyze the social costs of monopolies.

The theory of regulatory capture complements the theory of rent-seeking by arguing that government regulation, even when it is introduced to promote the general public interest, creates rents and distorts the market by benefitting pre-existing firms and increasing the entry barriers for new actors (Stigler 1971). The underlying assumption is that an industry has incentives to use (or abuse) the power of the state to establish rules to obtain private benefits. Since firms within an industry have more than the general population about the sector they operate in, they can more easily organize themselves to pressure governments for regulation that benefits them in detriment of the public interest. Whether constitutes corruption or not depends on the means used,

but Djankov et al. (2002) argue that politicians can also use regulation to trade rents for campaign contributions, votes, and bribes: public officials in charge of enforcing regulations can use their position to generate political support from the industry or develop personal relationships that lead to future employment prospects. Rose-Ackerman (1997) also argues that government regulation may introduce incentives for bribery since actors in the private sector are likely to pay bribes in order to profit from government benefits or avoid the additional costs of taxes and regulation. Similarly, public officials may use their discretionary power to extract bribes in exchange of certain benefits – due or undue – or to refrain from enforcing regulation.

The idea that regulation is a source of corruption and that free markets are the best solution was reinforced by the fall of communism in the late 1980s. WB economists with experience researching the centrally planned economies of the Eastern bloc documented the waste of resources and talent derived from overregulation and argued that these economies would benefit from simpler trade policies (see Djankov et al. 2002). The idea that reducing the involvement of the state in the market could help curb corruption started to be tested empirically. Goldsmith (1999: 878) finds a "solid relationship between greater economic liberalization… and less perceived corruption" when looking at a sample of 34 countries. Similarly, when looking at the levels of corruption between 1980 and 1983 in a sample of 52 countries, Ades and Di Tella (1999: 987-988) find that countries with higher shares of imports to GDP tend to have lower levels of corruption, thus concluding that "competition from foreign firms reduces the rents enjoyed by domestic firms, and this reduces the rewards from corruption". Using a sample of 60 countries for the 1996-1998 period, Treisman (2000) also suggests a relationship between exposure to imports and lower corruption, but the effect are rather small: increases of 10% in the share of imports in GNP yield only a decrease of 0.1 to 0.2 point on a country's corruption score. This result is largely supported by Paldam's (2002) multivariate analysis of a sample of 86 countries for the year 1999. Djankov, La Porta, López-de-Silanes and Vishny (2002) look at the number of procedures, time and costs that starting a company would imply in 85 different countries and find that countries with heavier regulation had higher levels of corruption and larger informal economies, but not better quality of public or private goods.

More recently, Gokcekus and Knörich (2006) show that higher ratios of total trade to GDP are linked to lower levels of corruption. These results were based on an analysis of 133 countries for the year 2003. Gerring and Thacker (2005) test the relationship between trade, investment, regulatory policies and the overall size of the public sector on corruption. Using a cross-national dataset for 181 countries covering the mid- to late 1990s, they conclude that market-oriented economic policies are associated with lower levels of corruption: open trade and investment policies and low regulatory burdens correlate with lower levels of corruption. Finally, Fazekas (2017) uses country-level panel regression analysis and finds evidence that deregulating the various channels through which governments and businesses interact often decreases the perception of bribery and petty corruption.

To summarize, different types of government intervention in the economy have been linked to higher levels of corruption and the literature identifies three mechanisms that explain this relationship. First, barriers to international trade can create incentives for corrupt behavior as argued by Krueger (1974): By raising the price of goods above their market price, trade barriers may induce businesspeople to bribe their way to exemptions or special treatment, including higher levels of market protection. Second, by limiting competition from foreign firms, protectionist trade policies incentivize businesspeople to look towards the government and compete to secure benefits rather than to create profits in a competitive manner. Under such circumstances, interest groups have more to gain from the political process and their political connections than from their economic productivity (Olson 1982). This situation also generates an atmosphere that is non-conducive to reducing corruption since groups benefitting from government regulation are likely

to seek broadening their government-granted advantages and will thus rarely speak up against corruption (Gerring and Thacker 2005). Finally, since trade barriers often involve an intricate set of rules and procedures, they are difficult to administer and provide bureaucrats with discretionary power to apply them unevenly and seek advantages for themselves by helping certain firms or individuals get around the regulation. The policy implications are clear: since protectionist policies dis-incentivize competition and foster rent-seeking, competition is key to reduce corruption. Thus, eliminating burdensome regulation and administrative barriers to trade, the incentives to engage in certain types of corruption will likely disappear.

Beyond the direct effects that reducing trade barriers may have on corruption, other studies suggest indirect benefits: Charron (2009) argues that by becoming part of the growing chain of interdependencies that sustain global trade, there is an increased chance that anti-corruption norms and better governance will spread and help counter corruption since foreign investors prefer transparent bureaucracies and strong rule of law. If firms show a preference for low corruption environments and they can move from one jurisdiction to another at a relatively low cost, corrupt governments may have to clean house if they wish to attract foreign capital (Gerring and Thacker 2005). Sandholtz and Koetzle (2000) find that lower degrees of integration in the world economy are associated with higher levels of corruption, but later studies fail to find a straight-forward relationship between these two variables (Lalountas et al. 2011).

The state as an anticorruption tool

The arguments and evidence in the previous section frame corruption as product of government regulation and highlight the importance of market-oriented solutions, but they make it easy to forget that corruption is a much more complex phenomenon with a multitude of causes and, more importantly, that markets are not perfect either. The Public Interest Theory (Pigou 1929) or what Shleifer and Vishny (1998) call the "helping hand" approach, sees the government as a more benign entity and regulation as an attempt to help the market achieve the best possible allocation of scarce resources for individual and collective goods and services in society. While this theory still acknowledges the importance of the market as the mechanism to allocate resources, it incorporates the idea that the conditions for markets to operate are not always met and thus government is needed to help markets reach a better equilibrium. This theory holds that unregulated markets will likely suffer from constant market failures, i.e. situations where scarce resources are not put to their highest valued uses (Bator 1958). This is attributed to a variety of factors that violate the pre-requisites of a proper functioning market, such as time-inconsistent preferences, monopolistic or oligopolistic practices, information asymmetries, principal agent problems or externalities (Stiglitz 1989).

The policy implications of this theory are simple: to prevent corruption from arising as the product of market failures, government intervention is required. At first glance, this recommendation might seem to contradict those in the previous section, but this is not necessarily the case given that the legislation required to control corruption focuses not on the economic role of the state, but rather on reducing the expected returns of corruption by increasing the probability of detection and prosecution. The work of Becker (1974) on deterrence proved particularly influential. Although originally developed to explain crime, the logic can be extrapolated to the study of corruption given that the pay-off in both cases depends mostly on not being caught. The essence of Becker's model is that, as rational individuals, offenders face a gamble when deciding whether to engage in illegal activities or not. As explained by Huther and Shah (2000), increasing the probability of penalties is a three-step process that involves improving detection, prosecution and punishment. Over the past 25 years, regulation to make government information more accessible

to the public and introducing registers of interest and finances for public officials have been popular approaches to increase the probability of detection of certain acts of corruption such as illicit enrichment, embezzlement, abuse of office, etc.

Early corruption scholars treated corruption as a deviation from an established norm of integrity, using micro-level models, which explained the incentives of individuals to engage in corruption or refrain from doing so. These models, such as the deterrence theory, view corruption as the result of a balance between resources and costs (Nye 1967; Rose-Ackerman 1999): when costs are low and resources/opportunities high, it is rational for an individual to be corrupt. Robert Klitgaard (1988) understands corruption as the result of an information and interest asymmetry between an agent (either in the form of a bureaucrat or a ruler) – assumed to act in his or her own self-interest – and a principal (either in the form of a ruler or citizens), typically assumed to embody the public interest. Klitgaard (1988) explains how the individual decision to engage in corruption is fueled by the presence of monopolistic power (M) and administrative discretion (D) and hindered by the presence of accountability mechanisms (A), in short:

Corruption = Monopoly + Discretion – Accountability

The main implication of this theory is that corruption can be reduced by negatively affecting the agent's motivations by increasing competition between agents and the likelihood of being held accountable for corrupt behavior, while decreasing the level of discretion in the decision-making power of the individual. The reason why these recommendations sound oddly familiar is that they are similar to those issued by economists dealing with rent-seeking and regulatory capture: they put the individual at the center on the equation and assume, even if not consciously, that the overall level of corruption in a society is the result of millions of rational actors facing the same dilemma and incentive structure on a daily basis.

The deterrence approach to anti-corruption is best exemplified by the emergence of international anti-corruption conventions such as the to the emergence of international anti-corruption conventions such as the United Nations Convention Against Corruption (UNCAC) or the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. These international legal instruments establish legally binding standards for the prevention, criminalization and prosecution of corruption. UNCAC, for example, recommends establishing Anti-Corruption Agencies (ACAs) (Articles 6 and 36), formulating domestic legislation against bribery (Article 15) and protecting whistleblowers (Article 33) with the expectation that these measures will "help prevent and combat corruption more efficiently and effectively" (Article 1).

The empirical literature on the topic, however, suggests that the deterrence effect that Becker's theory would predict has not manifested itself for many of these policies. The number of ACAs with the mandate to investigate – and some even prosecute – allegations of corruption, for example, soared from just 12 in 1990 to almost 99 in 2010. Despite this increase, the levels of corruption according to the CPI or the CoC indicator, remained pretty much the same. Based on a sample of 99 countries, Dadasov and Mungiu-Pippidi (2017), report no significant improvement in averaged corruption scores when comparing the period of five years before the introduction of the ACA to the five years after. In short, while these bodies are often credited as drivers of change in Hong Kong and Singapore (see Quah 2004 and Heilbrunn 2004), their success has not been replicated elsewhere. Other legal mechanisms to fight corruption also seem to fall short: looking at the relationship between the extent of anti-corruption legislation and levels of corruption in a sample of 90 countries, Dadasov and Mungiu-Pippidi (2017) find a positive relationship between the extent of the anti-corruption legal and framework in a country and the level of corruption, i.e. the countries with the most laws seem to be the most corrupt ones. Similarly, Fazekas (2017) and Fazekas and Cingolani (2017) obtain similar findings when looking at the effects of conflict of interest,

political party finance or whistleblower protection on the levels of corruption. Transparency has a somewhat better, although mixed record than direct repression (Islam 2006; Mungiu-Pippidi 2013; Vargas and Schultz 2016), pointing to the idea that even straightforward tools like financial disclosures for public officials are more effective in some contexts versus others.

While the theory of change behind the legal solutions to corruption is pretty straight-forward, the empirical evidence has widely questioned its effectiveness. Buscaglia (1997) offers a potential explanation for this phenomenon. He suggests that laws will bring little change in a context where the main actors in charge of enforcing the law, i.e. the police forces, the prosecutors, and the judicial branch are weak or dysfunctional. Kugler et al. (2003) argue that in weak governance environments, increasing the traditional judicial sanctions can increase, rather than reduce corruption in the public sector because higher sanctions provide high level public officials with incentives to profit from expanding their protective corrupt networks and guarantee impunity to offenders thus reducing the likelihood of punishment.

The missing linkThe review of the literature in the previous section explains how the reduction of government intervention in the economy and the use of legislation as a deterrence mechanism, can help reduce corruption: limiting the intervention of the government in the economy reduces the incentives for rent-seeking, which leads to a drop in the levels of corruption and legislation that increases the likelihood (and the severity) of punishment help re-shape an actor's rational calculation on whether to engage in acts of corruption or not. The empirical literature, however, provided a more complicated picture of reality with often contradicting findings. Moreover, it seems at times that different definitions of the corruption concept are used and the level of analysis. The economic or legal literature has focused on corruption at individual level. This changed with the new wave of institutional quality literature, on the likes of Acemoglu and Robinson, which defined corruption as institutional frameworks (extractive or inclusive), and brought it closer to the original rent-seeking concept of Krueger. More recently, political science started to see corruption as broader particularism, i.e. the allocation of resources not based on merit or universal principles, but according to identity or other characteristics (see Mungiu-Pippidi 2015 and Rothstein 2011).

The reconciliation of micro and macro perspectives is possible, however. From an analytical perspective, the main distinction to keep in mind is not the many forms it can take or the level of public officials involved, but rather whether the problem is corruption with a small "c", (exceptional or isolated acts of corruption with a small or limited effect on quality of government and society) or with a big "c" (particularism or extractive institutions as rule rather than exception). While this might seem a merely theoretical issue, it might have deep practical consequences,given that the incentive structure behind each of these types of corruption is different. While small "c" corruption is likely to respond to targeted policies, big "c" corruption will likely emerge unscathed from the specific intervention, being grounder in a broader context.

If the broader context matters, the underlying assumptions of a principal-agent understanding of corruption are put into question. Two main points of criticism emerged in the literature: First, that corruption can be curbed simply by changing the incentive structure of individual agents by increasing the probability and the costs of getting caught. Second, that the principals, i.e. the top-level bureaucrats and/or politicians who hold the decision-making power over the bureaucracies, are mostly righteous actors with the best interest of society at heart. Johnston (2005), Teorell (2007) and Mungiu-Pippidi (2015) note, however, that this is not always the case since principals themselves are often the ones who stand to gain the most from corruption and thus have little to no incentive to change the system. For these reasons scholars started considering contextual factors and societal-level determinants of corruption. Mungiu-Pippidi (2015) suggests the following formula:

Corruption =
Constraints (Legal + Normative) – Opportunities (Power discretion + Material resources)

The level of corruption in a country is thus the equilibrium that emerges from the interaction between the opportunities to engage in corruption – i.e. power discretion (uneven political resources, monopolistic practices, red tape, etc.) and material resources (foreign aid, discretionary budget lines, natural resources, public sector employment, public contracting, etc.) – and constraints, which can either be legal (laws and regulation) or normative (media, civil society, public opinion, informed electorate, etc.) (Mungiu-Pippidi 2015). This understanding of corruption as a societal equilibrium explains the failure of policies targeted at individual behavior: when corruption is systemic, bureaucrats at the bottom of the chain have little incentive to refrain from soliciting bribes because "even if they as individuals start behaving honestly, nothing will change" (Rothstein 2011).

Testing both types of intervention within their context

The literature stressing the importance of national context was advanced by the work of authors such as North, Wallis, and Weingast (2009), who argue that social orders in poorly performing societies are based on personal connections and favorable treatment of individuals who have accumulated power rather than on the rule of law. Similarly, Acemoglu and Robinson (2012: 144) advance the idea that economic and political institutions can determine a country's economic success as they can either promote competition and support the market (inclusive institutions) or restrict the access to power and resources to an elite group that, instead of creating new opportunities, uses its position to extract wealth from one subset of society to benefit a different subset (extractive institutions). On a similar line, Bueno de Mesquita et al. (2003) and Niskanen (2003) analyze political institutions in which political power and survival depends on the support cronies. These authors claim that entrepreneurial activity under such conditions will be hindered given that individuals have incentives to work toward obtaining positions in which they can benefit from political favoritism rather than toward engaging in economically productive activity.

Mungiu-Pippidi (2015) linked the discussion of national governance contexts to the validation of anti-corruption policies. She argues that under different governance regimes (placed on a continuum of social allocation distribution with particularism at an end and ethical universalism at another) corruption should be interpreted differently. In regimes where universalism has succeeded in becoming the norm, corruption should indeed be seen as individual cases of infringement of the norm of integrity. Under such circumstancesprincipal-agent approaches could deliver results. In particularistic democracies and autocracies, in contrast, corruption is "a mode of social organization characterized by the regular distribution of public goods on a non-universalistic basis that mirrors the vicious distribution of power within such societies" (Mungiu-Pippidi 2006). Changing the incentives for corruption in this context thus requires efforts to reset the whole governance equilibrium. Contextual factors might thus make or break an intervention. For example, the anticipated deterrence effect of legal interventions is more likely to appear if they are accompanied by relatively strong public sector governance framework (Buscaglia 1997). Similarly, trade liberalization can fail to deliver the promised anti-corruption effects in a context of weak governance where de-regulation and privatizations could be designed to favor only a few privileged groups, rather than society as a whole.

This chapter argues that, by themselves, neither deterrence strategies, nor market liberalization are capable of controlling corruption and in line with the new theoretical and empirical literature anti-corruption interventions can only be effective if sensitive to the context where they are implemented. To conclude the argument, I will test if *anti-corruption effects of legal and economic reforms depend on institutional context* by creating an interaction between the context component and the two different anti-corruption strategies of interest.

I use multivariate cross-sectional OLS models with interaction terms will be used to test my hypothesis. The reason behind this methodological choice is that many of the variables necessary for the analysis, particularly the dependent one, show little change within cases over time. This is a known issue with the composite corruption indicators (Kaufmann and Kraay 2002; Kaufmann, Kraay, and Mastruzzi 2005). The lack of change over time is also a problem for institutional variables. North (1990) argues that change in institutions is fundamentally gradual and incremental because long standing beliefs and conventions are usually slow to change even when formal institutions change rapidly. North, Wallis, and Weingast (2009) also suggest that institutional change results from a long process of incremental changes. Due to this lack of change "within cases", a panel regression was not deemed appropriate for the analysis. Instead, a time dimension will be incorporated to the OLS analysis.

I use data for over 170 The dependent variable is measured using the WB's Control of Corruption indicator. This measure captures "perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests" (Kaufmann, Kraay and Mastruzzi 2010). This indicator was chosen for its geographical coverage, comparability across time, which makes it possible to track long-term changes in corruption, and its methodological consistency. For ease of interpretation, the indicator was transformed from its original scale (-2.5 to 2.5) to a scale of one to ten, where lower values imply better control of corruption.

The main independent variables capture the trade liberalization and the adoption of special anti-corruption legal instruments. The economic globalization component of the KOF Globalization Index (Dreher 2006) is used to capture the former. This index incorporates several dimensions often cited in the literature for influencing the levels of corruption in a country, including: trade in goods and services as share of GDP, trade partner diversification and absence of tariffs and other barriers to trade. The latest version covers over 200 countries and territories and is coded in a scale from 0 to 100, where higher values indicate more integration to the global market. For the legal anti-corruption interventions, the extent of specialized regulation was calculated using data from the WB's Public Accountability Mechanisms (PAM) database by simply adding up the scores for political finance, financial disclosure and conflict of interest legislation. The values of dummy variables representing the presence of ACAs were also considered. The index ranges from 0 (lowest extent of anti-corruption legislation) to 5 (highest coverage of anti-corruption legislation).

Finally, independence of the judiciary is used as a proxy for institutional setting given that it signals the strength of checks and balances on the executive. Judicial independence is deemed relevant for the effectiveness of both market and legal anti-corruption policies for two reasons (see Hayek 1960): First, while legislatures are in charge of the law-making process, it takes independent judges to enforce them without interference from other interests or branches of government. Second, the judiciary serves as a review mechanism for law- and policy-making. For these reasons, the independence of the judiciary is expected to play a role in determining the success of anti-corruption interventions. The data comes from the World Economic Forum's Global Competitiveness Report, which is based on a business survey conducted in over 150 countries. The average scores for the period 2006-2017 were used to reduce measurement error from potential peaks and dips in the data. The indicator runs from a scale of 1 (least independent) to 7 (most independent). To account for other factors such as level of development, GDP per capita is used as control variable.

The models in **Table 1** test whether the impact of legal reforms on corruption depends on context factors. Model I tests the relationship between the extent of the legal anti-corruption legislation, and corruption with GDP per capita as a control. Surprisingly, the relationship does not prove not statistically significant. This indicates that, at a global level, countries with more extensive anti-corruption legal frameworks do not necessarily do better in controlling corruption. In contrast, the level of judicial independence on control of corruption is positive and highly significant (see

Model II). As expected, this institutional factor is a powerful predictor of the variation in control of corruption across countries.

Table 1. Impact of legal anti-corruption interventions on Control of Corruption 2016.

VARIABLES	(1) Model I	(2) Model II	(3) Model III	(4) Model IV
Extent legal AC framework	0.12		0.29**	0.68*
	(0.142)		(0.134)	(0.393)
Judicial Independence (2007-2015)		0.78***	0.86***	1.09***
		(0.115)	(0.120)	(0.262)
Extent of legal AC framework x Judicial Independence				-0.12
				(0.110)
GDP per capita (2015)	0.00001***	0.00001***	0.00001***	0.00006***
	(0.000)	(0.000)	(0.000)	(0.000)
Constant	3.27***	1.15***	0.26	-0.54
	(0.355)	(0.361)	(0.562)	(0.991)
Observations	86	76	76	76
R-squared	0.63	0.77	0.79	0.79
Adj. R-squared	0.63	0.77	0.78	0.78

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

These findings suggest that more stringent anti-corruption laws do not translate into better control of corruption, thus questioning the deterrence effect of such laws. When combined in a single statistical model, however, judicial independence and the extent of the legal anti-corruption framework both turn out to be statistically significant (Model III). While this could point at an issue of multicollinearity an analysis of the correlations shows that the two independent variables in model three are not significantly correlated, neither do they help predict one another. This points at the fact that when combined in a single regression the extent of anti-corruption legislation, which on its own is not statistically significant to explain the variation in control of corruption across countries, absorbs some of the residual variability not captured by the independence of the judiciary. *In short, while the extent of legislation by itself is a poor predictor of the variation in the levels of corruption across countries, it adds explanatory power to the effects of judicial independence.* Moreover, the direction of the effect is positive for both variables, meaning that anti-corruption legislation does have a statistically significant deterrence effect controlling for the judicial independence. In other words, if two countries have similar levels of judicial independence the ones with stricter anticorruption legislation is likely to do better on control of corruption. Finally, Model IV, tests whether the deterrence effect of a stricter anti-corruption legal framework is strengthened by the presence of an independent judiciary. This is tested by including an interaction effect between these two variables in the model. The results, however, do not turn out to be significant.

The results of the analysis of market-oriented reforms are displayed in **Table 2**. The independent variable, i.e. level of integration to the market economy, is first tested in isolation controlling only for the level of development (Model V). The results reveal a positive and statistically significant relationship between economic globalization and control of corruption. As predicted by economic theory, countries with higher levels of integration to the global economy have lower levels of corruption. This effect remains statistically significant when the institutional element is added to the regression (Model VI). When combined, both the level of judicial independence and of economic globalization show positive statistically significant effects on the dependent variable. Moreover, the explanatory power of the model also increases from an R-square of 0.70 to 0.85.

Table 2. Impact of economic anti-corruption interventions on Control of Corruption 2016.

VARIABLES	(1) Model V	(2) Model VI	(3) Model VII
Economic globalization (2015)	0.03***	0.03***	0.00
	(0.005)	(0.005)	(0.013)
Judicial Independence (2007-2015)		0.97***	0.61**
		(0.088)	(0.235)
Economicglobaization x Judicial independence			0.01*
			(0.004)
GDP per capita (2015)	0.00007***	0.00***	0.00***
	(0.000)	(0.000)	(0.000)
Constant	2.1***	-0.68*	0.56
	(0.268)	(0.346)	(0.828)
Observations	146	146	146
R-squared	0.70	0.85	0.85
Adj. R-squared	0.67	0.84	0.84

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

Model VII exemplifies the relevance of the interaction mechanism. While the interaction between legal reforms and judicial independence was not statistically significant, the interaction term between economic globalization and judicial independence is significant and positive. This means that the positive effects of economic globalization on control of corruption are strengthened in an environment where the judiciary is independent.

The final test in this chapter endorse my theoretical argument and that of other governance scholars, i.e. that context can validate both market and deterrence approaches. The index constructed based on the extent of a country's specialized anti-corruption legal framework – including conflict of interest, political finance and financial disclosure – proved not to be a statistically significant predictor of control of corruption on its own. When combined in a single model with institutional variables such as judicial independence, however, these tools proved to have a statistically significant, albeit small, effect on control of corruption. This seems to suggest that anti-corruption legislation on its own does not explain the variation in levels of corruption across countries and that the institutional component in the regression, i.e. judicial independence, is thus a key determinant to make them work.

The statistical models showed a strong, positive and statistically significant relationship between economic globalization and control of corruption. While this effect was not dependent on the level of judicial independence, the interaction between these two variables proved to be statistically significant and higher levels of judicial independence can help increase the positive impact of trade liberalization on control of corruption. The importance of a country's institutional setting thus also proved to be significant to trigger the anti-corruption effects of economic policies. The findings in this paper could thus help manage expectations when introducing new anti-corruption interventions and stress the importance of having clarity around the type of corruption one is trying to target with a specific intervention. While both legal and economic interventions might be effective in the long run, their short-term effect is heavily reliant on the existing governance equilibrium in a society, which in this papered was captured by using a key political variable, i.e. judicial independence.

Future challenges

This paper showed that judicial independence is a central element that enhances the anti-corruption effect of both market-oriented policies and legal constraints. Building up the independence of the judiciary or of any other institution meant to serve as an anti-corruption watchdog, however, is no easy feat. In countries where corruption is systemic and where those benefitting from it depend on the lack of checks and balances to continue extracting rents and other benefits for themselves and their supporters, efforts to establish rule of law and curb impunity culture will likely encounter a lack of "political will". Since building "political will" would be equivalent to asking the winners of corruption to voluntarily renounce to their gains, the political nature of efficient anti-corruption must be acknowledged. This might mean limited influence for external actors and the expectations from the international normative anticorruption framework created should be moderated.

Beyond policy limitations, it is worth acknowledging that the world has changed considerably from the advent of globalization, blurring distinctions between the classic jurisdiction of states and national rule of law contexts (Heywood 2016: 45). Since the global financial crisis, increasing levels of inequality and unprecedented levels of wealth accumulation by the wealthiest 1% has made economists, sociologists, anthropologists and political scientists alike to suggest that the so-called "invisible hand of the market" is broken and that corruption might be the culprit. Stiglitz (2013) argues that the rising levels of inequality and the 2008 financial crisis are the outcome of rent-seeking, political connections and pressure from corporations to restrict competition. Similarly, Reich (2015) attributes the growing levels of inequality to a departure from the strong antitrust laws and a concentration of market power that allows private companies to amass and exercise political power to remain above the law. According to Wedel (2009) , private actors have managed to blur the previously clear divide between the public and the private realms even in Western democracies. This continuous shifting of practices even in times when the norms of good governance seemed to have gained universal recognition might likely lead the research and policy agenda in the coming decade to more sophisticated arenas than the classic nation state and its institutional context.

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