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CORRUPTION PERCEPTIONS IN RUSSIA: ECONOMIC OR SOCIAL ISSUE?

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The efficiency of social reforms in different countries mostly depends on the extent to which they can be accepted by the population. However, even if problems are similar, the reasons may differ, which can make it difficult to apply existing laws of one state to another. Bribery is a typical problem for developing countries as shown in the Corruption Perception Index (calculated by Transparency International) and recent research (Levin and Satarov, 2000) (Ilzetzki, 2011). Corruption can have roots in socialist regimes as in recently established political stability instable economic situation may lead to growth in crime. The main challenge within the scope of this project is to identify the relation between corruption perception and levels of trust in society and to distinguish the differences in factors affecting these characteristics. The research reveals that distrust matters a lot for the problem in Russia and suggests further examination of the dynamics of trust between post Soviet countries and European countries.

JEL Classification: C35, D73, P37

Keywords: corruption perceptions, grassroots corruption, IV logit, Russia, RLMS, social capital

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1. Introduction

Anti-corruption policy aimed at fighting against large-scale bribery can be efficient only if the society where it happens has a negative attitude towards this phenomenon on the whole. The perception of grassroots corruption especially matters because if high-level corruption is excluded, in the case of loyalty it can grow again from the everyday interactions. Therefore, it is necessary to understand the roots of acceptance at the low levels to prevent the evolution and to adopt anticorruption legislation.

This project aims to analyze factors that stimulate loyalty towards bribery in Russia as a representative of a developing post Soviet country. Following the existing literature, one can derive several reasons for growing crime on the whole and, therefore, bribery. The first group contains economic factors, such as income inequality (Andrienko, 2001) because difference in wealth causes wish to redistribute it, even illegally. Another two groups – institutional factors (Caballero and Yared, 2010) (Ilzetzki, 2011) and sociological reasons (Treisman, 2000) (Luo, 2006) – are difficult to separate as they nearly always come together. When a country suffers from social demoralization or inaction, it is often the result of weak institutions. Levin and Satarov (Levin and Satarov, 2000) mention that transmission strengthens improperly organized relations, which means that weaknesses of the state in socialist regimes continue to grow, but after global changes these mechanisms can no longer function as they used to. Therefore, it is important to study corruption at the low-level, as it reflects the traditions in a society and cause increase in corruption.

Moreover, we suppose, that it is worth looking at the bribe-givers instead of bribe-takers. These individuals are partly forced to bribe by the bureaucrats – directly or indirectly – or by the environment, but in most cases it is a rational choice. For that reason, we can judge them as the force that stimulates corruption growth too, since if they did not accept the bribery institution it would vanish. Furthermore, contrary to most crime and corruption research, we suggest that this problem should be analyzed not on the aggregated level, but using micro-data, as the perception of bribery is an individual issue.

Consequently, the main question for this research is to define key factors which accommodate bribery in Russia and to compare the results with post Soviet and European countries. The questions we ask are the following. Does income inequality affect the willingness to pay bribes? If not, are there any other factors, for example are people brought up in the USSR more willing to pay bribes and why?

2. Data and methodology

2.1. The sample

To analyze corruption perception at micro-level we use the data from the 2006 "Russia Longitudinal Monitoring Survey, RLMS-HSE". This survey was conducted by the Higher School of Economics and JSC "Demoscope" in partnership with the Carolina Population Center, (University of North Carolina at Chapel Hill), the Institute of Sociology RAS (RLMS-HSE). There were 14690 observations in this wave of survey. We also use data from the European Social Survey (ESS), held by the Centre for Comparative Social Surveys at City University London, UK.

The explained variables are the following.

1. The answer to the question "Do you agree that the level of corruption is decreasing?" (see Chart 1)

Chart 1. Is the level of corruption decreasing?
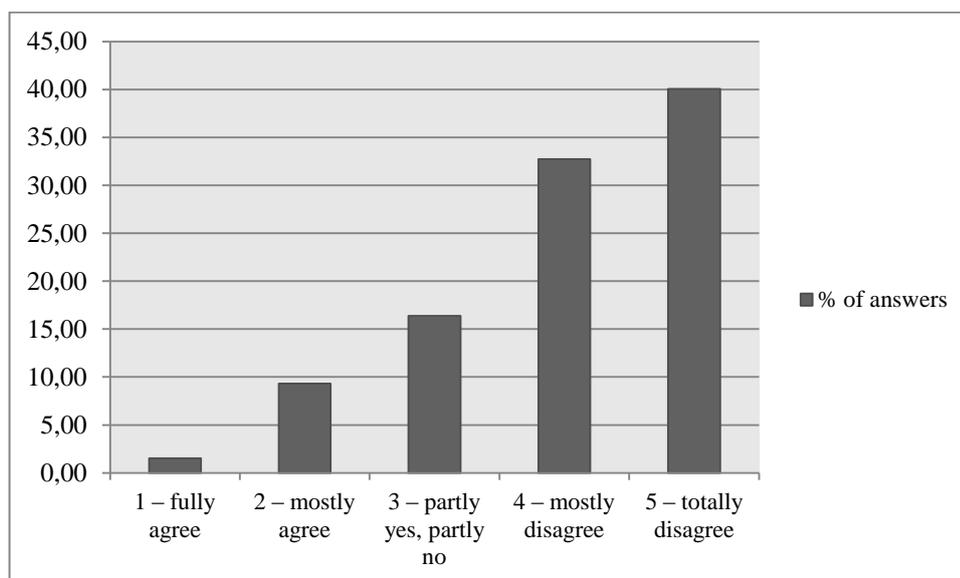
2. The answer to the question "Have you informally paid to an official for services in the last month?" (see Chart 2, Chart 3). The services mentioned in this question are: municipal services, property registration services, civil registration services, police, courts, road police and medical services (consultation, additional consultation, scheduled examination, treatment in hospital, medicine).

Chart 2. Informal payments in social services, % of answers

The sum of "didn't pay bribe" and "paid bribe" counts for the total percent of respondents who claimed to have interactions with a particular service. The remaining percent represents those who did not claim to have interactions.
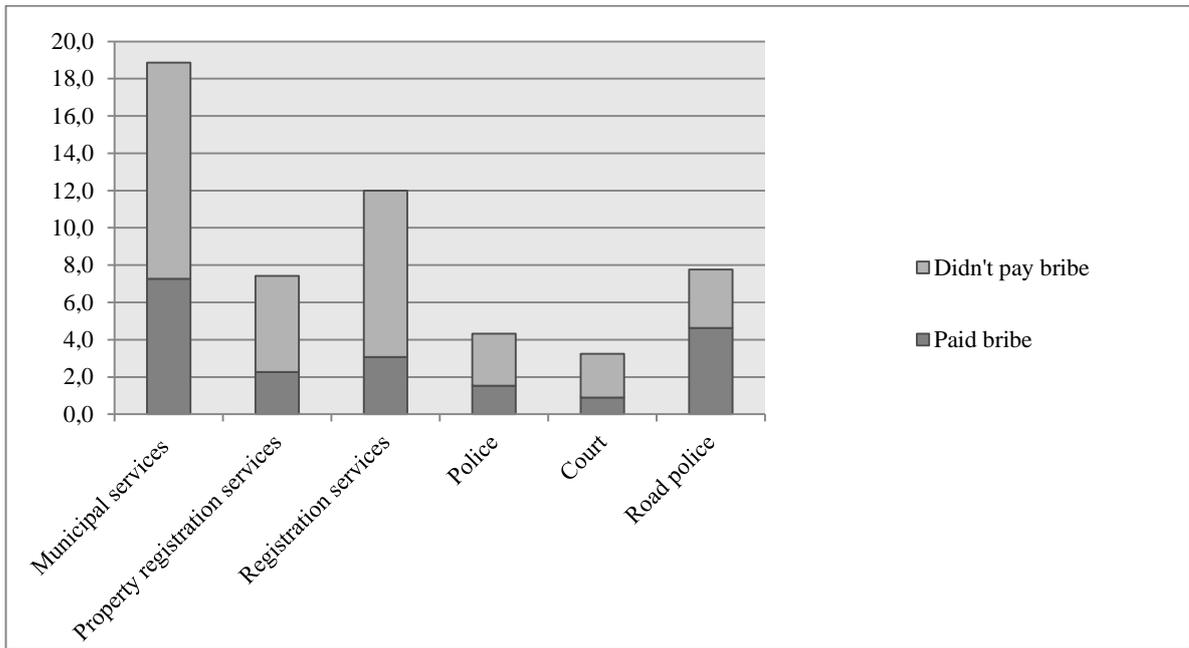
Chart 3. Informal payments in medical services, % of answers

The sum of "didn't pay bribe" and "paid bribe" counts for the total percent of respondents who claimed to have interactions with a particular service. The remaining percent represents those who did not claim to have interactions.
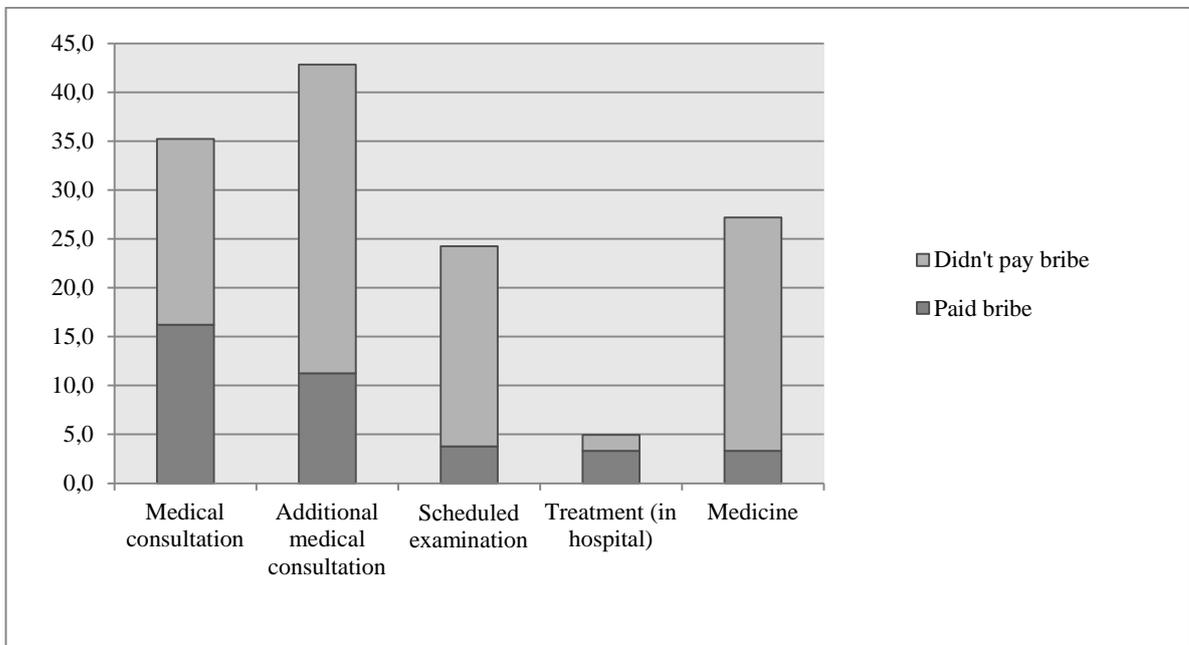
One can see in Chart 1 that more than 70% of the respondents mostly or totally disagree that the level of corruption is decreasing. We also cannot say that it is growing according to the data, since "I don't agree that it is decreasing" can be interpreted as "I think it is constant".

Nevertheless, if less than a third of the sample claim a decrease in corruption level in Russia, we can judge that the problem is still of high importance for this country. The Corruption Perception Index (CPI) also supports this claim. According to this index, before 2006 (the year of the survey) the absolute value of CPI slightly grew under several points, but on the whole the index remained almost the same as in 1996 (see Table 1). This confirms that RLMS individual data corresponds to the statistics calculated by experts.

Table 1. Corruption Perception Index for Russia, 1996-2013

Year	CPI	Rating	Countries included	Relative rating (rating / number of countries), %
1996	2.58	47	54	87
1997	2.27	49	52	94
1998	2.4	76	85	89
1999	2.4	82	99	83
2000	2.1	82	90	91
2001	2.3	79	91	87
2002	2.7	71	102	70
2003	2.7	86	133	65
2004	2.8	90	145	62
2005	2.4	126	158	80
2006	**2.5**	**121**	**163**	**74**
2007	2.3	143	179	80
2008	2.1	147	180	82
2009	2.2	146	180	81
2010	2.1	154	178	87
2011	2.4	143	182	79
2012	2.8	133	174	76
2013	2.8	127	177	72

Source: Transparency International, 2013. http://www.transparency.org.ru/indeks-vospriiatiia-korruptcii/blog

The presence of corruption activity can also be confirmed by the number of informal payments for social and medical services (Chart 2, Chart 3). The darker parts of the bars correspond to the share of informally paid services out of all interactions and show a high percentage of bribes: from 26% in registration services to 60% in road police, and from 12% in medicine buying to 67% in hospital treatment. Of course, we cannot definitely say paying informally, e.g. gifting sweets to the nurse, is the same as bribing. But, as we stated in the introductory part, if people are used to giving money or presents in everyday life for the services

they have to receive for official payments or ever for free, that can result in high-level corruption, which will not face deprecation.

The independent variables, according to the hypotheses tested, are divided into two groups: economic (log of real income) and social capital (fear to lose job, self-reported authority in society, self-estimated tolerance between people, self-reported distrusting colleagues and boss). We claim that if an individual has strong and healthy relations in society, i.e. high social capital, that can be represented by no fear of losing job, high authority in the society, high-level estimation of tolerance and high trust. And as corruption substitutes formal institutions, the quality of informal ones should affect the propensity to bribe. We also control for gender, age, occupation, marital status, having subordinates and working in the state organization.

2.2.   Research methodology

The hypotheses are tested using 3-step IV ordered logit regressions (conditional mixed processes). As we want to know, whether corruption in Russia is more an economic or a social phenomenon, first of all, we test for the relevance of income in the perception of corruption. Then we consider the effect of social capital. It seems to be endogenous to corruption perception because these variables may be determined simultaneously and influence each other and be influenced by the same parameters of the environment or the same latent characteristics of the respondent. Therefore, several instruments for distrust (and other self-reported variables) are suggested – according to Card (Card, 2001), Nye (Nye et al., 2012) and partly heuristically.

Self-reported distrusting colleagues and boss is instrumented according to Nye by education, which is in turn instrumented by biological traits (height). In Nye's research a significant relationship between distrust and human capital was revealed, and the use of height as an instrument is shown to be strong here. But as biological traits can only affect distrust through the instrumented variable, but not directly, the relationship become more complex. We had a model

$$
\begin{aligned}
y_i &= \beta_0 + \beta \cdot x_{1i} + \gamma \cdot x_{2i} + \varepsilon_i \\
y_i &= 1 \Leftrightarrow [y_i * > 0] \\
x_{1i} &= \theta_0 + \theta \cdot z_i + v_i,
\end{aligned}
\tag{1}
$$

where y_i* is a latent variable, y_i is the observed binary or ordered variable, x_{1i} is a vector of explaining variables, x_{2i} is a vector of controls, and z_i is a vector of instruments for x_{1i}. Then we come to the model like

$$y_i = \beta_0 + \beta \cdot x_{1i} + \gamma \cdot x_{2i} + \varepsilon_i$$
$$y_i = 1 \Leftrightarrow [y_i^* > 0]$$
$$x_{1i} = \theta_0 + \theta \cdot z_i + \nu_i \qquad (2)$$
$$z_{i\_sc} = \gamma_0 + \gamma \cdot u_i + \phi_i,$$

where z_{i_sc} (one of the social capital instruments) also appears to be endogenous and is treated with instruments u_i. Following Nye's suggestion to use an average grade as a proxy for human capital we use the level of education as a proxy. That is where the three stages of estimation come from. Education level is regressed on height in the first step, then the predicted value of education is used to predict distrust. Finally, the predicted distrust is put in the base model.

Other instruments tended to be the following. a) Fear of job loss is instrumented by unemployment in the region, which is exogenous to each particular individual. b) Self-reported authority in society is replaced by the presence of chronic diseases, as being bounded by some indispositions may make a person think that others rule the life more. c) Self-estimation of tolerance between people we instrument by membership in Communist Party before 1991 of family members since if parents or other relatives were communists that may result in the individual's belief that all people are equal and can equally take part in social life; and at the same time relatives' membership in the party is not correlated with characteristics of the respondent (for the use of family biography instruments see Card (Card, 2001)). However not all of the instruments proved to be inherently strong. In order to avoid extra bias, based on the contingency tables (see Appendix), the number of doubtful variables was reduced to two: distrusting boss and lack of fear about job loss. It is worth noticing that though horizontal and vertical trust should be distinguished (Wallis et al., 1998) (Anheier and Kendall, 2002) as the marks of bonding and bridging social capital, respectively, for this sample these variables are closely related, therefore, they do not reflect different characteristics.

3. Results

Analysis of corruption dynamics estimation by the respondents shows that real wage is not relevant to the attitude towards corruption changes in Russia. The same result remains for bribing, though following the existing literature and heuristic assumptions we expect income to determine willingness to pay (see Table 2, 3 and 4). Only for paying informally to the road police income is significant (with 90% confidence interval), which can result from that respondents were asked whether they *addressed* a particular service, so it is highly probable that only income-correlated road police services are counted here.

To check the robustness of income insignificancy we excluded the impact of endogenous variables on the coefficient sign (as we are interested not in the extent, but only in the direction of influence). We also excluded and included endogenous variables one by one, and the coefficient retained the same sign, considering 95% confidence interval. Moreover, both linear and U-shaped specifications on income were tested and it was not significant in any case (results omitted). Thus, though corruption is an economic crime, in Russia's example we can judge that it is not an economic problem.

Table 2. Results for the attitude towards corruption changes in Russia

Explaining variable / Control	Coefficient
Real wage	-0.087
Distrust boss	**0.156****
Lack of fear to lose job	**0.200*****
Gender (female)	**0.078***
Single	-0.029
Subordinates	**-0.082+**
State organization	0.025

*Probability: ~ p<.2, + p<.1, * p<.05, ** p<.01, *** p<.001*

The summarized results of the IV estimation are presented in Tables 2, 3 and 4, and the intermediate stages can be seen in the Appendix. Contrary to income, social capital variables are significant for both view on corruption dynamics and informal payments in most part of the presented services. The less trust an individual feels to the boss the more likely he or she is to disagree with the statement on corruption decrease. That tells about the low level of bridging social capital: lack of vertical relations is compensated by grafts. And the same remains for the exact loyalty if we interpret paying informally as being loyal to corruption. It is notable, though, that distrusting boss has a robust through changing the service impact sign, whereas the direction of fear to lose job influence is different for different services. We suggest that as fear of job loss reflects the presence of social links that can help to find a new one, the type of social capital significant for paying informally for social and medical services is different: particularly, bonding for the latter and bridging for the first.

Table 3. Results for informal payments to social services

	Municipal services	Housing	Passport	Police	Courts	Road police
Real wage	0.005	-0.327	-0.142	-0.311	-0.413	-0.874+
Distrust boss	0.184~	**0.335***	**0.282***	-0.185	0.117	0.015
Lack of fear to lose job	-0.066	-0.256~	**-0.429***	**-0.475****	**-0.604***	0.184~
Gender (female)	-0.105	0.009	-0.069	**-0.557****	0.058	0.053
Single	0.098	-0.188~	-0.004	-0.101	-0.150~	0.010
Subordinates	0.021	-0.195~	-0.087	0.309+	0.107	0.067
State organization	-0.019	-0.168~	-0.019	0.105	**0.205***	0.116

*Probability: ~ p<.2, + p<.1, * p<.05, ** p<.01, *** p<.001*

The estimation shows that income as the indicator of different ability to pay or as an inequality factor does not influence the esteem of corruption level in Russia or the act of bribery in which the respondent has been involved. At the same time, social capital matters for both aspects under research, which means that corruption loyalty in Russia can be a matter of trust that comes from Soviet times, when the social capital was built.

Some useful conclusions can also be made from the significance of control variables; however they are not related to the hypotheses tested. For the first dependent variable women are less willing to agree with the statement. Perhaps, women are more suspicious, more frequently face bribery, or are more likely to trust common beliefs and judge from mass media information about growing number of bribery trials that it comes from growing bribery cases – not from better regulatory performance. Gender is significant for paying police informally, but not significant for other services. The same happens to other controls: they are not robust through services. As the sample is balanced, self-selection bias is excluded here. Therefore we can conclude that in Russia when making a decision to bribe, people face different types of discrimination, probably coming from a tradition in this or that particular municipal organization.

**Table 4. Results for informal payments to medical services**

	Consultation	Additional consultation	Examination
Real wage	0.237	3.180~	-0.025
Distrust boss	0.067	-0.041	0.090
Lack of fear to lose job	**0.559*****	**0.440***	**-0.523*****
Gender (female)	0.105	0.206	-0.281~
Single	-0.121	-0.446+	0.170
Subordinates	0.097	-0.126	-0.139
State organization	-0.190~	-0.207	0.319+

*Probability: ~ p<.2, + p<.1, * p<.05, ** p<.01, *** p<.001*

A large part of the existing research sees the nature of corruption growth in post Soviet countries in their institutional history (Murphy, 2003) (Lindbeck, 1998). From this sample it has been discovered that for Russia corruption perception is not a matter of money, but a social issue. Therefore, we can share the point of view that corruption loyalty can be a feature of post-socialistic nations.

In order to reveal the effect of Soviet-born respondents we have tested for differences in model between people who were born before and after 1977, as it is suggested by the survey. No significant difference between these two groups has been revealed, therefore results are omitted. Still, we suppose that lack of trust, that influences corruption perception, comes from Soviet times. To check this, we used data from the European Social Survey (ESS) of the same year. The chart below shows the distribution of answers to the question "Do you think that most people should be trusted or you should you always be suspicious to them?" for Russia, Ukraine, Estonia and all other European countries included in ESS (aggregated).

Chart 4. Trust density for ESS survey

kernel = epanechnikov, bandwidth = 0.5249

kernel = epanechnikov, bandwidth = 0.5399

kernel = epanechnikov, bandwidth = 0.4642

kernel = epanechnikov, bandwidth = 0.2693
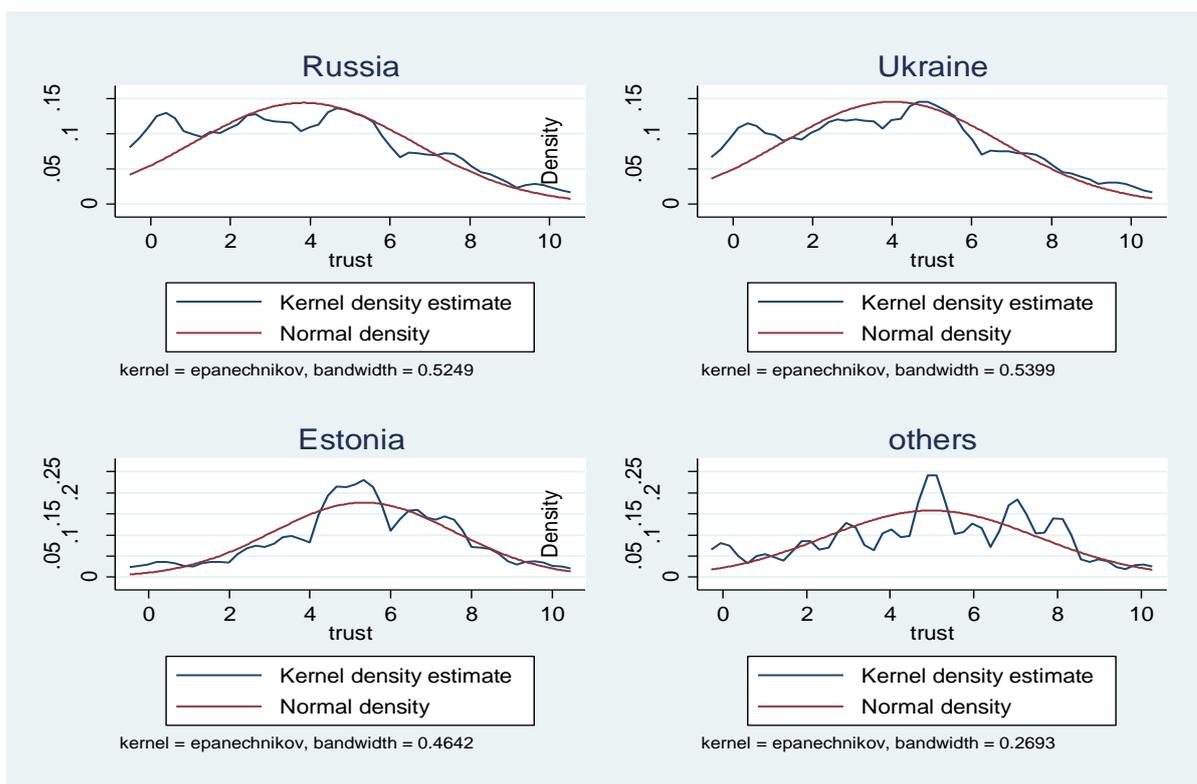
One can see that for former USSR members, Russia and Estonia, there is a peak at low trust. For Estonia, which in 2004 became a European Union member, the density looks similar to the distribution of answers for all other European countries: higher percentage near the mean value of trust and several peaks on the right comparing to the normal distribution. From this brief comparative analysis we cannot judge that there are indeed dissimilarities between social capital in transition countries and developed European countries, but still some interesting patterns have been revealed. Thus further research may aim to deepen the background of differences in trust and consequently corruption perception in countries with different history.

4. Conclusion

The research shows that income inequality does not influence either attitude towards corruption or facts of bribe giving from the respondent. On the other hand, the hypothesis about the relation between social distrust and corruption perception has not been rejected. Moreover, it has been discovered that facts of bribe giving seem to reflect discrimination towards typical groups of people in each particular organization, which, in our opinion, prove the idea that grassroots bribery exists in Russia by force of habit coming from Soviet times.

Consequently, we turn to the comparison of trust determinants in post Soviet countries: Russia, Ukraine, Estonia – and other European countries, using ESS. We discover that even the level and distribution of trust in Russia and Ukraine differs from EU and Estonia.. In further research, except for the dynamics in general, it would also be relevant to explore the existence of structural break for Estonia after 2004 – when it joined the EU. If the hypothesis is not rejected, that will mean that socialist regimes influence corruption progress whereas membership to the EU positively influences social capital and therefore corruption perception. That may lead to decisions about the needs of policy changes in Russia: probably not directly in anti-corruption root, but targeting overall social health.

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Appendix

Table A1. Contingency table of endogenous variables*

	Distrust boss	Distrust colleagues	Distrust generally	Lack of fear to lose job	Personal authority in the society	Tolerance between more and less influential society members
Distrust boss	1					
Distrust colleagues	**0.6376*** (3.7e+03)	1				
Distrust generally	**0.0825*** (49.5688)	**0.1421*** (100.4116)	1			
Lack of fear to lose job	-0.0102* (190.5143)	-0.0546* (171.8413)	0.0077 (14.7241)	1		
Personal authority in the society	**-0.1653*** (299.4077)	-0.0649* (123.1939)	-0.0392* (75.1240)	**0.0846*** (104.7577)	1	
Tolerance between more and less influential society members	**0.1277*** (221.2846)	0.0628* (134.0842)	**0.1008*** (117.5036)	-0.0668* (56.1110)	**-0.3259*** (1.6e+03)	1

γ-coefficients of Goodman and Kruskal in the first line, Pearson's χ2in parentheses, significant relations marked with a star.

Table A2. Intermediate estimations (corruption changes)

	Corruption changes
1st stage (dependent variable - education)	
height	0.013***
Log likelihood	-29696.8
χ2	2639.7
2nd stage (dependent variable – distrust boss)	
education	0.066+

*Probability: ~ p<.2, + p<.1, * p<.05, ** p<.01, *** p<.001.*

Table A2.2 Intermediate estimations (informal payments)

	Municipal services	Housing	Passport	Police	Courts	Road police
1st stage (dependent variable - education)						
height	0.032***	0.009**	0.057***	0.019*	0.086**	0.051*
Log likelihood	-24123.7	-23418.8	-23554.2	-23209.2	-23142.3	-23652.9
χ2	2550.7	2572.3	2643.8	2598.8	2826.0	2562.8
2nd stage (dependent variable – distrust boss)						
education	0.102+	0.102	0.110+	0.098	0.109	0.117

	Consultation		Additional consultation		Examination	
1st stage (dependent variable - education)						
height	0.038*		0.088*		0.046**	
Log likelihood	-23106.1		-23066.8		-23091.7	
χ2	2661.7		2561.1		2584.2	
2nd stage (dependent variable – distrust boss)						
education	0.105		0.113		0.109+	

*Probability: ~ p<.2, + p<.1, * p<.05, ** p<.01, *** p<.001.*

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